Deutsche Bank AG

Deutsche Bank Q4/FY 2024 Fixed Income Conference Call

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Transcript

Speakers:
James von Moltke, Chief Financial Officer
Richard Stewart, Group Treasurer
Philip Teuchner, Investor Relations

Slide 2 – Resilient full-year results reflecting ongoing strong operating performance

- Thank you, Philip, and welcome from me
- 2024 was a vital transition year for us. We have moved past a number of legacy items, absorbing a series of nonoperating costs, predominantly litigation matters, which have masked the underlying strength of our business
- However, we are now set for a clean and significantly more profitable year in 2025, with the foundation now built for further improvements in the years beyond
- Let me discuss our operating momentum on slide 2
- We increased 2024 pre-provision profit by 19% compared to 2023 if adjusted for three specific litigation items, as well as the goodwill impairment in 2023
- The specific litigation items in 2024 comprised the Postbank takeover litigation matter, elevated provisions for Polish FX mortgages and the de-recognition of the reimbursement asset for the RusChemAlliance litigation matter
- Growth was driven by both revenue momentum and cost discipline
- Revenues grew by 4% year on year with around 75% coming from more predictable revenue streams
- Adjusted costs decreased 1% year on year to 20.4 billion euros, or 20.2 billion euros excluding the pre-guided real estate measures and UK bank levy true-up in the fourth quarter
- Excluding these items, we delivered four quarters of adjusted costs of around 5 billion euros, in line with our plan
- Let us now look at the momentum we have created in each of our businesses, against the goals set in 2022 on slide 3

Slide 3 – Clear traction across divisions set to deliver sustainable growth and higher profitability

- At our investor day in March 2022, we set ambitious objectives for 2025
- With twelve months to go, our business-growth-focused strategies are delivering strong results against these objectives
- The Corporate Bank remains at the core of the Deutsche Bank franchise since our transformation and we have further enhanced its value

proposition through a strengthened client franchise and investments in technology, supported by our global network

- The division outperformed its revenue growth ambitions despite normalizing interest rates and delivered a return on tangible equity of 13% in 2024, three times its 2021 level
- The Investment Bank is outperforming its revenue growth target and delivered a RoTE of 9% in 2024, cementing its position as a leading investment bank
- In Fixed Income & Currencies, we have built strong market share and demonstrated sustained growth in Financing, which is up 12% year on year in 2024
- We achieved significant year-on-year growth of over 60% in O&A in 2024 through considerable market share increases in a growing fee pool
- The Private Bank continues to leverage its leading market position with net inflows of 29 billion euros, supporting noninterest revenue growth of 5% last year, in line with our strategy, and the division grew revenues in line with target since 2021
- Asset Management again grew assets under management in 2024, by 115 billion euros, and surpassed 1 trillion euros for the first time, boosted by net inflows of 42 billion euros into passive investments
- Let me now turn to the question why we feel confident in reaching our 2025 revenue growth ambitions, on slide 4
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Slide 4 – Strong execution and demonstrated tailwinds underpin confidence in revenue trajectory

- Since 2021, we have delivered a compound annual growth rate of 5.8%, in line with our upgraded target range
- In 2025, we expect continued franchise momentum and our capital-light businesses to drive further growth supported by our investments, increasing the revenue CAGR to around 5.9%
- We have a clear roadmap towards our 2025 target
- In the Corporate Bank, we expect revenues to grow by around 5.5% or 400 million euros largely from scaling of commissions and fee income, predominantly in Trade Finance and fee-based institutional business. Resilient net interest income will provide further support

- Investment Bank revenues are expected to grow by around 8% as we see encouraging trends in the market, good levels of corporate activity and confidence, solid financing conditions and pent-up private equity demand
- In the Private Bank, we expect revenue growth of around 400 million euros or 4% driven by higher NII from continued business volume growth and the deposit hedge rollover. This will be further complemented by growing noninterest income, harvesting benefits from higher assets under management and growth in Investment Solutions
- Finally, we expect Asset Management to grow revenues by around 300 million euros or 12.5%. We expect the business to benefit from the growth in assets under management during 2024 and a strong equity market development this year, which should boost management fees in 2025. We furthermore expect continued growth in Passive, including X-trackers and in Alternatives
- These drivers underline our confidence in achieving our revenue goal of around 32 billion euros in 2025 before FX benefits. At year-end FX rates, we expect this number to be around 32.8 billion euros
- Let us now look at the path to our RoTE target, on slide 5

Slide 5 – Set to achieve >10% RoTE target via positive operating leverage

- We remain on a clear path to achieve our RoTE target of above 10% in 2025 driven by focused execution across all three delivery pillars of our *Global Hausbank* strategy
- As you saw, we have a business-by-business roadmap to grow revenues to around 32 billion euros in 2025, in line with our target compound annual growth rate of 5.5 to 6.5%
- Operational efficiencies play a key role in keeping adjusted costs flat in 2025, and thereby reducing total noninterest expenses as nonoperating costs normalize
- Capital efficiencies have delivered cumulative RWA equivalent reductions of 24 billion euros, close to our end-2025 goal of 25 to 30 billion euros. In the fourth quarter alone, we delivered 2 billion euros of RWA equivalent reductions driven by data and process improvements
- We are confident we will reach the upper end of our target range by year-end 2025 through further securitizations and data and process improvements

- Delivery on these pillars gives us a clear path to a RoTE above 10% in 2025
- Firstly, the non-repeat of significant litigation items in 2024 gives us a starting point of an adjusted RoTE above 7%. Reaching our 32-billion-euro revenue target is expected to add more than 2 percentage points to our 2025 RoTE
- Secondly, we expect an additional contribution of around 60 basis points from the reduction in noninterest expenses
- Together, this would bring us already to our targeted RoTE level
- And finally, we expect a contribution of around 40 basis points from the reduction of provisions in 2025 towards more normalized levels, in line with our guidance with our third-quarter results
- Let us now look a bit closer into some Treasury-specific items over the next pages

Slide 7 – Banking book NII above prior guidance in 2024

- As we said before, we remain well positioned to continue delivering strong net interest income over the coming years, so let me start with a review of our fourth quarter on slide 7
- NII across key banking book segments and other funding was strong at 3.3 billion euros, up sequentially and broadly flat on the prior year quarter
- Compared to the third quarter, slightly higher deposit volumes, in particular overnight deposits, offset the expected beta convergence in the Corporate Bank
- Private Bank NII was up sequentially as we guided before, and FIC Financing continued to grow its loan portfolio with a corresponding increase in quarterly revenues
- With that, let me turn to the full year NII trends and the outlook for 2025 on the next page

Slide 8 – NII expected to further grow in 2025

- Given the stronger NII in the fourth quarter we outperformed our prior 2024 full-year guidance of 13.1 billion euros, reporting 13.3 billion euros across our key banking book segments and other funding

- This is about 100 million euros higher than 2023, reflecting the resilience of our NII, even during an environment of falling rates and beta convergence
- For 2025, we expect NII yet again to increase to around 13.6 billion euros, a sequential increase of around 400 million euros
- This is in line with our guidance provided last quarter, but reflective of the outperformance in the fourth quarter
- The key drivers are the rollover effect from our hedges, supported by portfolio growth in Private Bank, Corporate Bank and FIC Financing
- Let us now look a bit closer into the contribution of the long-term interest rate hedge portfolio on slide 9

Slide 9 – Long-term hedge contribution shields NII against lower policy rates

- Based on forward rates at year-end, we expect the net interest income from the hedge book to grow by several hundred million euros each year as we roll maturing hedges
- On the chart, for simplicity, we have included the average fixed rate for Euro hedges maturing in each year, as well as the current market implied replacement rate
- The shaded area indicates the roll-over benefit, and as we have discussed before, the majority of our hedges are 10 year swaps, which gives an indication of the volume to be replaced each year
- It is important to note that we also have roughly 10% of our hedges in other currencies, notably in US-Dollar, which positively impacts the overall hedge income
- The currency mix as well as hedges executed at higher rates indicate that the hedge income will increase more steadily than the simple rate differential
- With respect to 2025, that increase is around 300 million euros, with more than 90% of the income locked in with existing positions
- In current rate conditions, we are more sensitive to the long-term rate development and less sensitive to short-term movements in policy rates

Slide 10 – Resilient lending while deposit growth continues

- Moving now to the development in our loan and deposit books on slide 10
- All figures in the commentary are adjusted for FX effects
- Overall, loans have remained stable during the fourth quarter as lending activities remain subdued in some of our client segments
- Against these headwinds, our Investment Bank loan book strongly increased by 5 billion euros in 2024, supported by strategic initiatives to grow FIC Financing
- While we expect this trend in FIC to continue, we also see encouraging growth potential in Wealth Management
- Moving to deposits, where our well-diversified portfolio grew by 5 billion euros compared to the previous quarter
- Within that, we have seen substantial growth from German Retail clients driven by our deposit campaigns
- Based on this encouraging momentum, we see opportunities to further grow in this segment in 2025
- In line with previous guidance, Corporate Bank deposits have reduced modestly during the fourth quarter
- In the appendix we provide further granularity around the quality of our loan and deposit portfolio

Slide 11 – Sound liquidity and funding base at targeted levels

- On slide 11 we highlight the development of our key liquidity metrics
- We managed our spot Liquidity Coverage Ratio at year-end to 131%, representing a surplus above the regulatory minimum of 53 billion euros
- With a daily average liquidity coverage ratio of 128% during the quarter we operated with a sound liquidity position at our targeted level
- The quarter-end stock of 226 billion euros of HQLA, of which we hold about 95% in cash and Level 1 securities, slightly decreased quarter over quarter and is mainly driven by asset growth in the businesses
- The surplus reduction was mainly driven by an increase in net cash outflows

- The Net Stable Funding Ratio at 121% reflects the strength of our funding base with more than two thirds of the Group's stable funding sources coming from deposits
- The surplus above regulatory requirements decreased to 110 billion euros

Slide 12 – CET 1 ratio remains strong

- Turning to capital on slide 12
- Our fourth-quarter Common Equity Tier 1 ratio came in at 13.8%
- CET1 capital decreased primarily reflecting the deduction of the 750 million share buy-back from excess capital
- RWA were lower adjusted for FX, driven by market risk
- The marginal increase in credit risk was driven by model changes, largely offset by reductions from capital efficiency measures
- With respect to the CRR3 go-live, effective on 1st January 2025, our pro-forma CET1 ratio was 13.9%
- However, the CRR3 go-live will also lead to around 5 billion euros of RWA equivalent impact from operational risk in the first quarter; hence, the total impact of CRR3 is a CET1 ratio burden of ~15bps, consistent with prior guidance

Slide 13 – Capital ratios well above regulatory requirements

- Our capital ratios remain well above regulatory requirements as shown on slide 13
- The CET 1 MDA buffer now stands at 264 basis points or 9 billion euros of CET1 capital
- While this is 2 basis points higher quarter on quarter, reflecting the increase of our CET1 ratio, the buffer to the total capital requirement increased by 44 basis points and now stands at 331 basis points
- This increase was principally driven by our Additional Tier 1 capital issuance in the fourth quarter
- Effective from January 1, 2025, our buffers over requirements are impacted by the CRR3 go live and the increase in Pillar 2 requirements

- On a pro-forma basis, the buffer to our CET1 requirement at the start of 2025 was 254 basis points, above our target operating level of 200 basis points distance to MDA

Slide 14 – Leverage ratio stable

- Moving to slide 14
- At the end of the fourth quarter our leverage ratio stood at 4.6%, flat sequentially, as the benefit from Additional Tier 1 capital was offset by the CET1 deduction for the announced 750-million-euro share buyback and FX effects
- Following the 2024 SREP assessment, our 2025 Pillar 2 requirement for leverage ratio remained unchanged

Slide 15 – Significant buffer over MREL/TLAC requirements

- We continue to operate with a significant loss-absorbing capacity, well above all requirements, as shown on slide 15
- The MREL surplus, our most binding constraint, increased by 3 billion euros and now stands at 23 billion euros at the end of the quarter
- The increase reflects higher MREL supply from new senior preferred and Additional Tier 1 capital issuances partially offset by increased MREL requirements from higher RWA
- Our surplus thus remains at a comfortable level which continues to provide us with the flexibility to pause issuing new eligible liabilities instruments for at least one year

Slide 16 – Issuance plan at € 15-20bn

- Moving now to our issuance plan on slide 16
- We finished 2024 with a total issuance volume of 18 billion euros, in line with our guidance of ending the year at the upper end of a 13 to 18 billion euro range
- During the fourth quarter of 2024, the most notable deal was a 1.5 billion euro AT1 transaction which attracted a little over 10 billion in total orders

- Turning now to 2025, we expect to issue between 15 and 20 billion euros, broadly in line with last year's plan
- The composition is also similar to 2024, with the focus on senior non-preferred bonds and capital instruments
- Senior preferred issuances will be primarily in non-benchmark format
- So far, we have already raised roughly 2 billion euros, predominantly via a US-Dollar dominated senior non-preferred dual tranche transaction issued on the 8th of January
- As you know, we have 4 billion dollars worth in AT1 instruments callable in 2025 across three different securities. We assess call decisions based on several factors, including capital demand, refinancing levels versus reset, FX effects impacting CET1 as well as market expectations. This can result in different decisions based on the features of each individual bond
- Our focus for the first quarter is on the two instruments which have a call in April 2025, both of which have a negative FX revaluation impact
- Based upon current markets, the 7.5s would reset to 9.204% and the 4.789s at 8.788%
- You can expect us to take a decision closer to the call date on 30th of April this year, at the latest by end of March, shortly before the respective final notification dates for the two securities
- Regarding the third security with a current coupon of 6%, the reset coupon would be 8.974%. We will provide further information on this security closer to the call date

Slide 17 – Summary & outlook

- Before going to your questions, let me conclude with a summary on slide 17
- We believe we are on track to deliver increased revenues of 2 billion euros to achieve this year's revenue goal of around 32 billion euros, which translates to around 32.8 billion euros at year-end FX rates
- We remain committed to rigorous cost management and will manage our cost base to a cost/income ratio of below 65% for 2025
- Although this is higher than the level we were previously aiming for, we feel good that the level of investment in 2025 positions us for incremental opportunities and higher returns over time while also further improving our controls environment

- We continue to expect an amelioration of provision for credit losses in 2025 as the transitory headwinds we called out subside. This should result in a run-rate of around 350 to 400 million euros of average quarterly provisions, with further normalization expected in the following years
- We have made good progress on our issuance plan with around 2 billion euros issued in January
- And we are committed to maintaining a buffer of around 200 basis points above our CET1 capital requirements, which we think balances the interests of both our bondholders and our shareholders
- Our full attention remains on delivering a post-tax RoTE of above 10% in 2025 driven by continued revenue momentum, cost control and balance sheet efficiency
- With that, let us turn to your questions

Questions & Answers

Lee Street (Citigroup)	Hello all. Thank you very much for the call and taking my questions. I have three brief questions, please. Firstly, just on Tier 2 capital, you've obviously got a bit of a shortfall there, but you've got a bit extra AT1. What do you target as the level of Tier 2 you're looking to run with in the ordinary course of operations? Secondly, yesterday there was some reference mentioned to potentially dropping down a G-SIB bucket alongside other measures. Just to be clear, if you were to drop a G-SIB bucket, does that matter? Because I guess you have a higher domestic requirement. So, any thoughts there. And then finally, thank you for the comments and clarity on the view of how you think about calls. I guess we can look at spread levels, work out the FX impacts. But you also referenced the investor expectations. So if I may, what do you believe the investor expectations are for the bonds coming to call? That'd be my three questions. Thank you.
Richard Stewart	Thanks, Lee. Thank you for joining and a happy Friday, last day of the month. So, yes, maybe I'll take the Tier 2

capital piece. So first, the way we think about it, how we think about both are the AT1 bucket and the Tier 2 bucket in combination.

And depending on the needs of the balance sheet at any one particular point in time, then that dictates which bucket we have a preference for. So at the moment, we have probably a lean towards AT1, but that can change in the future as the balance sheet changes.

In terms of investor expectations on AT1 calls, what we're saying there is, as you know, we've been talking about this for a few quarters now, and we're still awaiting our ability to communicate clearly to you guys just because of awaiting the regulatory approval.

But how we think about investor expectations is more where things are pricing in the market, and not to disappoint our investors per se. And so we're cognisant of where the market is currently trading. We're aware of certainly the feedback we receive from investors, and all that is something that we take into consideration in that overall application we made. And I think maybe James wants to illuminate on the G-SIB bucket piece that he talked about yesterday.

James von Moltke

Yes, thank you, Richard, and Lee for the question. So yes, the G-SIB and domestic O-SII features in two ways. One is MDA for CET1 purposes, and the same for leverage ratio. For CET1 purposes, we reflect our O-SII setting, which is currently 2%, against a global G-SIB of 1.5%. As our overall scoring comes down in this, our O-SII potentially could reset downwards. As you know, there's a European scoring that is applied. And then there's a domestic calibration that's applied to drive to your O-SII level.

But at a point in time when G-SIB and O-SII diverge by, in this case, 100 basis points, if we were to slip down from the 1.5% to 1% bucket, you might expect that the calibration would struggle to keep us at 2%. Hence my comment yesterday, for CET1 purposes, that there is at least a possibility in the coming years of a reduction in

MDA from that particular driver.

You might also have seen that there was some new guidance issued late last year in terms of a proposed rule change in Europe to harmonise the domestic calibrations there, which I think gives you an indication of the direction of travel.

On the leverage ratio, there the G-SIB has the impact. Our minimum requirements on leverage reflect the minimum, 3% plus half of the G-SIB amount, which currently, at 1.5%, means 75 basis points is added to our minimum leverage requirement. That could slip to 50 basis points if we were to go to the 1% G-SIB bucket. So, with the full detail, I wanted to again clarify that comment from yesterday. Thanks for the question.

Lee Street	All right. Thank you very much, both, for your answers. That is most helpful. Thank you.
Domenico Maggio (Jefferies)	Hi, good afternoon. Two from me. Are you thinking about moving away from the temporary write-down clause into standard contingent conversion clause? Clearly, I'm aware that this should be put up on a vote at AGM. And the second one, whether by doing that you would offset some potential FX losses on calling the dollar AT1 coming up to maturity in 2025.
Richard Stewart	Thanks, Domenico, and thanks for joining the call. So it is a temporary write-down clause, to your first question. Yes, we are looking into alternatives in this market. And so you're right, the contingent conversion into equity may allow debt accounting, which would be helpful.

But unfortunately, it could be a bit more challenging as a German issuer under German tax law, as it would very likely lead to an imposition of a withholding tax, which makes the structure uneconomical for us. But we are continuing to look at various alternative structures which will allow us to solve for the various constraints that we need to.

And then in terms of whether we offset potential FX losses, that sort of structure, or any alternative structure, would benefit future issuance, but it wouldn’t be able to do anything about existing securities.

Domenico Maggio: Thank you.

Paul Fenner-Leitao (Société Générale): Yes, hi. Thank you very much. I've got three. Actually, I had four, but I won't be greedy. I've got three quick questions. The first is on Stage 2 loans. I noticed from the Excel that you're running at a Stage 2… It's quite a big jump from September to the end of December to 64 billion euros Stage 2. That's the highest it's been, basically on this Excel, which is the highest it's been since 2022. Can you just explain what's going on there? Is this a German macro problem? Some colour on that would be great.

The second question, I guess there's a little bit of a philosophy here, but if I look at slide 3 and I look at your RoEs, RoTEs across the business, the outlier in terms of underperforming from a risk-return perspective, a volatility return perspective, is the Investment Bank.

My question is, what's your internal cost of capital for that business, and do you ever think it gets there? DB is not the only one in Europe that's suffering from this, but a little bit of colour on that. And I know that you guys are under continuous strategic review. Is getting rid of the IB at some stage something that you would look at?

And then the third question is back to AT1 calls, I'm afraid. On slide 16, someone must have purposely put this comment in at the end, which is bill specific approach for AT1 calls. I think it was Lee made the point that all of these calls are now in the money, potentially by a considerable amount, certainly maybe 20 basis points, maybe significantly more if you do something in dollars.

My understanding is that there is no limit to when you can make the call announcement on these bonds. I guess you're looking for some regulatory approval, but you might have got that last year. The market is super hungry for AT1. Dollars are a great market to go into. You could probably issue it somewhere around 400. What are you waiting for?

And the question is, I guess the additional question is, would it not make sense for you to say that you're going to call, and then issue, and thus saving you maybe ten, 15 basis points? A little bit of colour around AT1 calls would be great. Thank you.

James von Moltke

So, Paul, it's James. I might jump in on the second question around the IB and the cost of capital. Look, strategically, no, under no circumstances. We view the Investment Bank to be a critical part of our company and our offering.

We talk about the Global Hausbank strategy. And for our clients, especially on the institutional and corporate side, but also in some respects in the Wealth Management businesses, our businesses rely on the capabilities of our Investment Bank, and we are a leading player in the marketplace. So, we view it very much to be an integrated business in our overall offering.

To your point, post-crisis, all of the investment banks had to struggle to rebuild their profitability and capital utilisation, reflecting the post-crisis regulation. And so we, like many, looked hard at the business, how you would transform it and restructure it to meet hurdle rates under the new requirements.

And I'll say we've come a very long way in that regard. On a blended basis, our Investment Bank, you will have seen 9% last year, we think it's well on its way to meeting and exceeding its cost of capital over time. And we're working on each of the business units within the Investment Bank, and certainly those that are below what we would perceive our cost of capital to be, to improve.

And we think there are significant tools available now to do that, whether it's on the capital side or, frankly, costs and revenue generation. And so it is becoming more and more efficient in its resource utilisation as we continue to develop it and build it under the leadership of Fabrizio, Ram and Mark. So, we're pleased with that progress.

In terms of differential cost of capital, just inside our inner workings, we apply a firm-wide cost of capital across all businesses to look at exceeding hurdle rates for shareholder value add. But our expectations aren't limited to the cost of capital of the group.

Obviously, many of our businesses operate in markets and product areas that should be well above the group's cost of capital. And so there's a differential that we think of in terms of group hurdle rates and expectations in individual businesses. I hope that helps give you a sense of our thinking about all that.

Paul Fenner-Leitao — It does, thank you.

Richard Stewart — So maybe I'll pick up the AT1 question. So thanks, Paul, for the question. To unpack some of the observations you made, so, one, around the deal-specific language, that was something that we have mentioned in previous earnings calls. And it's much more to flag that one of the things which you say, that we're in the money on some of these calls coming due in 2025, one of the things we're at pains to point out is this FX translation charge that we have as well.

So that's something that we have to think about, not just the credit and rate markets' valuation of the call. And so when you think about those, then we have a security which is callable in October. We'll make a decision on that guy a little bit close to the time. But I'd note the CET1 impact there from the FX effects is relatively small currently.

And then we have two calls coming due in April, as you know. The one is, well, both are in the money from what we can see in the market levels today, you're correct on that. You obviously have quite attractive reset levels. One has different language in the sense that it's a legacy LIBOR contract. So, these things are things that we have to consider, about what makes economic sense for us, based on the criteria that we've explained a few times before.

And in terms of market opportunities to go, I agree with you, the market is open. Obviously, we were successful in issuing in November when there was similar strong demand for AT1. Just the windows for these activities, given they’re equity securities vis-à-vis various both internal approvals from our supervisory boards versus disclosures versus regulators, just means the windows isn't continuous for us. So those are some of the reasons for why these things are presented the way they are.

James von Moltke — Richard, I'm happy to take the Stage 2 question. It's really sovereign downgrade. So there's a Stage 2 trigger that takes place when there are downgrades, including of sovereigns, and sometimes clearing houses and the like and that type of thing. So typically when you see volatility in that for us, it has to do with that type of event. In this case, that is what happened to sovereign downgrades in the period that impacted Stage 2.

And to the way you phrased the question, it really isn't Germany overall credit conditions. As we said on yesterday's call, we are seeing very modest movements, and by the way also in the disclosure materials, very modest movements in the German portfolio, which is not to say we're not watching it carefully but is to say it's not a driver of the Stage 2 movement.

Paul Fenner-Leitao — Okay, thank you. Can I just come back on one additional question on the AT1 thing? And it's the following. Something that comes across with my conversations with investors, and certainly other issuers, they perceive the FX loss as something that they just basically have to stomach, and that it's unfair to have investors have to second guess on FX, i.e. it's something that you're supposed to be able to manage without that necessarily influencing the call decision. That's just a bit of feedback.

Richard Stewart — No, thank you. I think the reason why we flag it out there is just as people ask what our thinking is around our call strategy, given all the constraints that we have to think about, as I mentioned earlier, what we're saying is it's something else that we have to think about as an input into that thinking.

Paul Fenner-Leitao: Thank you very much.

Daniel David (Autonomous): Hi, good afternoon. Congrats on the results, and thanks for taking my questions. I've got three, a couple on AT1 and one on Tier 2. Just following on maybe from that last question, I just wanted to focus on FX to start with. And that, we can debate whether investors should take it or it's your responsibility.

What I'm interested in and what I observe is that the FX hits have got worse as a result of FX moves recently. So I guess my question is, with the call process, could you have hedged against that FX getting worse, I guess maybe avoiding a couple of extra hundred million euros of hits? And is this something you considered ahead of time?

The second one on AT1 is just on the bucket and where you want to be, longer term. So it's quite healthy at the moment, 3.2% and 85 bps of leverage. When I think back to what you said about the first AT1 last year, you said it was to manage our leverage ratio, given internal demand. So how should we think about that bucket and also what you've done in the AT1 space?

And then just briefly on Tier 2. Clearly, we saw the reg impact, the change in Q3. And at the time, I think you said you don't want to fill it with new Tier 2 issuance. I just wondered if that's still the case. And if so, why don't you want to replenish that Tier 2 bucket? Thanks.

Richard Stewart: Yes, thank you very much indeed, Dan, for those three questions. So I will go through the FX hits. So hedging, yes, it's something that we've thought about many times. I think the trade-off, unfortunately, is one around an economic impact through capital, which is what the current situation would be versus hedging and generating mark-to-market P&L and consumer market risk RWA. So that's just the nature of IFRS accounting for this equity accounting that we have for this instrument, where the FX rate is just set at inception.

So those are the choices. From time to time, we've considered whether hedging makes sense. But you're right, since the second half of last year, then the Euro has weakened against the dollar, so that as a calculation then the FX effect has gone against us slightly since then. So that's the hedging question.

The other one is around the bucket and internal demand. So a couple of things there. So one is, two bits and pieces which influence our thinking around AT1s going forward is, in Q4, you would've seen on the CET1 side lower market risk RWA consumption. We expect that to normalise back through Q1 and going forward, just given the robustness of the Investment Banking franchise.

And then similarly, in terms of our liability raising, both in terms of deposits both in our Corporate Bank and Private Bank, then that obviously brings cash onto the balance sheet, which is leverage intensive as well. So those two dynamics means that there's an underlying need to have a decent weighting in that bucket.

But as I said at the outset, I do imagine that mix between AT1 and Tier 2 will change. But for what I can see through 2025, based on our current planning, then I think it's going to be very similar to 2024. Does that answer your questions, or is there another question which I missed?

Daniel David	Yes, just on the Tier 2 piece, right, so that reg change for the value that you recognise in your capital ratios, I think you made a comment that you don't want to replenish it by issuance. Was there a reason for not wanting to do that?
Richard Stewart	No, I think it's more just a trade operation. Like I say, I think just from a, what's the best instrument to achieve our objectives from a funding and liquidity and capital perspective, based on what we can see in our balance sheet development and our growth, then Tier 2 we don't think is necessarily the best asset for 2025. But it might well be a better instrument beyond that.

Daniel David	All right, thank you. I appreciate that.
Robert Smalley (Verition)	Hi, good morning and good afternoon, and thanks for taking my question. And I'm sorry to beat a dead horse on the AT1s, but one or two questions. In terms of FX losses, what would be an acceptable FX loss for a call? How would you evaluate that? And you're in a position on that in pretty much all three. Secondly, you have significant buffers across the board. As you bring down capital buffers, you have three calls this year in AT1s. Is it possible that you just call one, two, all three, none for cash as opposed to calling and refinancing? And then I have a third, completely unrelated question, but something I wanted to pick up on from the call yesterday on the Mittelstand opportunity that you have. You talked about making your operations domestically more efficient to address that. But could you talk a little bit more about what you're doing in terms of penetration by product? A lot of these companies have longstanding relationships that you're going to have to compete with, and how are you doing that in terms of product and in terms of price? Thanks.
Richard Stewart	No problems, Robert, and good to hear from you. Thanks for joining. So the AT1 question, I think how best I can answer it, and I think I recognise it's challenging for people who are looking at these products day by day and looking to understand what to put into their models in terms of how we're thinking about these things, look, I think the way I think about the FX loss is more at a portfolio level in a single year. So the question becomes, what’s your acceptable level? Do we have a number in mind? No. But that's how we think about it, is that overall portfolio number. In terms of which, zero, one, two, three, in terms of what could be called, we do think about it on a deal-specific basis, but on a portfolio level when it comes to the capital and when it comes to overall investor sentiment. So I can't answer your question directly or, yes, as

transparently as you would like, just because of these constraints we're having to operate under and from what I can disclose or not at this time. But yes, the way to think about it, I think, when I look at the portfolio of these three particular calls, given where things are right now, is that it's a not unsociable number of capital that we'd have to be taking in 2025.

Do we have a target around that? No. But that portfolio impact is something we're thinking about. And then all the other factors that I've talked about on a deal-specific basis, in terms of documentation, in the moneyness and market expectations, are things which feed into the loop on that. So that's how I would answer your question, although that might be not as satisfying as you announced that you would like.

James von Moltke

Robert, it's James. On the last question regarding the German Mittelstand, look, obviously it is one of the signature strengths of the German economy. And therefore, providing banking services and having the relationships with the Mittelstand's obviously super important for our bank and other banks in Germany.

And it's a competitive market. We probably de-emphasised too much that segment, now going back a couple of decades. But we've been rebuilding our market position steadily over the years, and it does absolutely represent a focus for us strategically.

Where we are especially competitive in the Mittelstand is obviously where there are significant product demands that are international in nature or capital markets orientated, so International Cash Management, Trade Finance, some of the Investment Banking products that I talked about earlier in response to the question, I think from Paul, around the Investment Bank. So that is where we have a differentiated market position. And absolutely, we wish to grow and thrive, along with our clients, in that marketplace.

I will say, and I think the question yesterday came up at least tangentially in connection with potential M&A activity here in our home market, and would it create an opportunity for us, I think the answer to that is yes. But obviously, events are out of our control. But certainly, we intend to prosecute the opportunity and work with clients in the Mittelstand, existing and new clients.

In terms of how to penetrate, look, pricing is interesting. I think one of the SVA challenges that we have is certain portfolios are, in fact, below hurdle. A very competitive domestic market here. So credit extension is in that way expensive in the German market. But it is something that we look at carefully.

The way you interact with clients, and particularly the technology that you put to work in that client relationship and the connectivity and the ease of use, of access to the services, to payments and what have you, is a significant competitive differentiator, and it's one that we are seeking to leverage and invest in going forward. And so that is an important part of our thinking as well. Hope that helps in terms of colour, Robert.

Robert Smalley	That colour and Richard's colour are very helpful. And I know you can't answer all of the questions with specifics. So I greatly appreciate it.
James von Moltke	My pleasure, Robert.
Ibraheam Radi (Lazard)	Hello. Good morning. Congratulations for the results, and thank you for taking my question. I first have a comment, maybe from an investor perspective, is that the expectation is absolutely that the three AT1s callable in 2025 should be called. And as credit investors, we would not understand that a couple of basis points of FX impact would affect the call decision.

After that, I have two questions. Number one, on the call rationale, what you say is that you look at the FX loss at portfolio level in a single year. Can you give more clarity as to what you mean, especially considering that you consider the economics of each transaction on a deal-by-deal basis? So is it, how to put it, a full-cap-stack economic rationale for the call, or is it a deal by deal? How do you reconciliate both?

Number two is regarding the leverage ratio. If you call the three deals this year, the excess Tier 1 drops to 5.5 billion euros from 10 billion euros. My question is, is there a target there, long term? Thank you.

Richard Stewart

Thanks very much for the call and the questions. So what I was getting at with this dichotomy between deal-specific and portfolio was, A, the questions which I get asked, in a very simple format, is what is the rationale and how should people think about it from a modelling perspective as to the likelihood of call or non-call. And people always expect rational behaviour with those decisions.

And I think what we've been trying to do on this call, and in previous calls, is to raise the things that we as a firm need to take under consideration. Obviously, there's things which, mathematically, people are aware of, whether it's credit spreads, interest rates, volatilities, and obviously the FX losses is something that we think about.

But also, there's all of these more qualitative impacts, which are around the investor expectations, as we're talking about, and obviously you made your point clear at the start. And what I was really saying about the portfolio effect is, some of these deals have different FX losses. One of the things we do think about overall is the overall portfolio impact, just because in this particular year, we have just a number of non-euro calls coming due this year. So that's what I was trying to get to.

And in terms of targets, we don't have a target, as in a communicated, external target for leverage ratio. What we do have essentially, or how we think about it, is we like to internally think that we want to keep it above 4.5% and, over time, as we grow our business in organic capital, move towards 5%, which is also something which informs rating agencies' decisions. So over time, that's where we have an ambition to get to.

But for the next few quarters, it's going to be more being at these sort of levels, notwithstanding the internal demand that we see, as I mentioned earlier. So those are factors in terms of how we think about the leverage ratio, the direction of travel over time, but we don't actually have a specific target.

Ibraheam Radi — Okay. Thank you very much.

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