Deutsche Bank AG

Deutsche Bank Q1 2022 Fixed Income Conference Call

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Transcript

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Philip Teuchner, Investor Relations

Slide 1 – Results support trajectory to FY targets and ambitions

- Thank you, Philip, and welcome from me
- We are mindful that the war in Ukraine has been devastating for millions of people, and continues to bring a high degree of uncertainty to the world economy, to the market environment and to our clients
- We condemn the Russian invasion of Ukraine in the strongest possible terms, and we support the German government and its allies in defending democracy and freedom
- We are not taking on any new business in Russia, nor with entities incorporated in Russia
- We have been clear that we are in the process of winding down our operations, in line with our legal and regulatory obligations and are accompanying our clients in doing the same
- While this has the potential to impact our full year results in our important measurement year, we believe we are on a good trajectory to reach our 2022 goals
- We delivered group revenues of 7.3 billion euros, an increase of 1% year on year, even compared with a strong quarter in the prior year
- We saw revenue growth across all four core businesses, driven by business momentum, market share gains and investments that will support sustainable growth in 2022 and beyond
- This quarter, we generated a reported 8.1% return on tangible equity, up on the first quarter of last year, despite a 28% increase in annual bank levies, which are recognized in the first quarter
- We also improved our efficiency; post-tax profit was up 18% over a successful prior year quarter, driven by positive operating leverage
- This brings our cost/income ratio down to 73%, four percentage points lower compared to the prior year
- We are mindful that the current operating environment presents many challenges, including on the cost front, and we will continue to focus on cost discipline
- Finally, looking at our balance sheet, we are well-equipped to navigate the current environment thanks to our high-quality loan book and tight risk management
- Our capital position remained strong despite the impacts of the war in Ukraine and facilitating business growth

- Now let me take you through the progress on strategic priorities in our core businesses on slide 2

Slide 2 – Progress on strategic priorities in core businesses

- In the Corporate Bank, business growth continued despite the more challenging market, as we diligently executed on our strategy
- We saw this reflected in loan growth, which, alongside interest rate tail-winds, contributed to an increase in net interest income. This, coupled with cost discipline, helped us deliver operating leverage of 18% this quarter
- In the Investment Bank, strong client activity in FIC supported revenues, with year-on-year growth across institutional and corporate clients
- Advisory revenues were more than 80% higher year on year, partly off-setting lower revenues in Equity and Debt Origination
- The Private Bank delivered its best quarter since we launched the trans-formation, with pre-tax profit up more than half year on year to 419 million euros. It also captured net new business of 13 billion euros, across inflows into assets under management and loans
- Asset Management delivered revenue growth of 7% year on year, driven by higher management fees, despite the volatile market environment
- At the same time, the business continued to invest in growth initiatives and platform transformation
- The dynamics in all four core businesses provided a strong step-off point to deliver on our 2022 targets
- Next, let me give you an update on Russia on slide 3

Slide 3 – Russia: impact continues to be carefully monitored

- We believe the investments we made in future proofing our business meant we were well prepared as we entered this period of uncertainty
- This means we were ready to deal with not only the direct impacts of the war in Ukraine, where we reduced our net loan exposure to Russia to below 500 million euros by the end of this quarter, but also the second order ones, and our investments in controls are a testament to this
- As a result, we executed diligently on sanctions implementation without any major issues, and managed the financial aspects of these sanctions

- As it stands, we operate under a heightened alert status, and we are continuously adapting our controls to the evolving landscape
- Despite the uncertainties of the current situation, we have not seen any major disruptions to our businesses, even with all the added safeguards we have put in place
- While it is too early to quantify the potential long-term impacts of the war, we believe our conservative balance sheet and transformed business model will help us face the challenges ahead
- Of course, we continue to be mindful of the broader environment and uncertainties that go well beyond the war, such as the supply chain issues that could further impact future economic growth

Slide 4 – Positive operating performance

- A key driver of higher profitability is our delivery of positive operating leverage, which I will now cover on slide 4
- Starting with revenues, Group revenues increased by 1% year on year and the Core Bank contributed by generating revenues of 7.3 billion euros, up 3% year on year
- Excluding revenues in Corporate & Other and the Capital Release Unit, the average annual increase of revenues in the four operating divisions was 7%
- Revenues in the Corporate Bank were up 11% year on year, a second consecutive quarter of double-digit growth, driven by continued deposit repricing and business growth
- Investment Bank revenues grew 7% year on year, over a strong first quarter in 2021. A 15% increase in FIC revenues more than offset a 28% decline in Origination and Advisory
- In the Private Bank, continued strong business growth more than offset interest rate headwinds and, as a result, revenues were up 2% year on year
- Asset Management revenues rose 7% year on year, driven by a 13% rise in management fees which reflects consecutive quarters of inflows and assets under management growth during last year
- Assets under management increased by 82 billion euros year on year to 902 billion euros
- Moving now to costs, noninterest expenses were down 4% year on year, despite an increase in bank levies of 28%, or more than 150 million euros,

which was offset by lower transformation charges and the cessation of Prime Finance costs

- Adjusted costs excluding bank levies, transformation charges and Prime Finance were also down 1% year on year reflecting lower investment spending needs after the completion of IT projects and delivery of efficiency gains, again in line with plan
- Beyond these cost items, we faced higher-than-expected expenses mainly in compensation costs

Slide 5 – Resilient loan & deposit development

- Let us now look at topics that drive our revenue performance over the next slides
- Slide 5 provides further details on the development in our loan and deposit books over the quarter
- Loan growth across the bank has been 5 billion euros or 2 billion euros on a FX-adjusted basis
- As outlined in the previous quarter, this normalization in our growth rate was expected due to a partial reversal of short-term lending which supported a strategic transaction over year-end in the Investment Bank. We expect the majority of this loan to be repaid by the end of the second quarter
- Offsetting this, we saw continued strong momentum from mortgages and collateralized lending in our Private Bank, high client demand in Corporate Treasury Services as well as loan originations across FIC Financing
- Despite the more challenging market conditions, we saw a strong performance of our deposit portfolio given the market volatility during the quarter
- Deposits were broadly stable compared to the previous quarter when adjusting for FX as a result of active balance sheet management
- Furthermore, our momentum in repricing deposits has also continued as shown on slide 6

Slide 6 – Deposit repricing momentum continued in Q1 2022

- At the end of the first quarter, we had charging agreements in place on a total of 142 billion euros of deposits, generating quarterly revenues of 139 million euros
- Compared to the first quarter last year, we implemented additional agreements on 47 billion euros of deposits
- Our annualized run-rate now stands at 557 million euros, an increase of 149 million euros compared to our full year 2021 charging revenues, principally driven by ramp-up effects from last year as well as the continued lowering of charging thresholds
- Looking ahead, current forward curves imply lower charging-specific revenues later this year which will be more than offset given our overall positive net interest income sensitivity

Slide 7 – Net interest margin expected to have bottomed in 2021

- Let me provide some detail on the evolution of our net interest margin on slide 7
- Looking back, the decline of net interest margin in the first half of 2020 was driven by the cut in US rates
- The margin has been broadly stable since then, above the level we initially anticipated, driven by increased balance sheet efficiency, deposit repricing and TLTRO income that helped offset ongoing deposit margin pressure
- Adjusting for TLTRO timing effects, NIM in the first quarter would have been at the prior year level
- From here, we expect NIM to rise due to the tailwinds from the rising rate environment

Slide 8 – Strong liquidity position in-line with targets

- Moving to slide 8 highlighting the development of our key liquidity metrics
- Despite the recent period of increased market volatility due to the war in Ukraine, our liquidity and funding levels remain robust and close to targeted levels
- The stock of our high-quality liquid assets increased by about 7 billion euros during the first quarter

- This is mainly due to new issuance activities and deposit inflows primarily from the Private Bank
- The liquidity increase was partially deployed in further loan growth quarter on quarter, primarily in the Private and Corporate Bank
- As a result, the Liquidity Coverage Ratio slightly increased by two percentage points to 135%
- The surplus above minimum requirements increased by about 3 billion euros quarter on quarter to 55 billion euros
- For the remainder of 2022, we remain committed to supporting the businesses while comfortably exceeding regulatory requirements
- Going forward, we continue to steer the Liquidity Coverage Ratio conservatively towards 130%
- The Net Stable Funding Ratio of 121% at quarter-end was broadly unchanged at the upper bound of our target range, comfortably above the 100% requirement
- The longer-term funding sources for the bank remain well-diversified and continue to benefit from a strong customer deposit base, which contributes about two thirds to the Group's available stable funding sources
- For the remainder of the year, we aim to maintain this funding mix, which will be supplemented by debt securities issued in line with our issuance plan

Slide 9 – CET1 ratio impacted by higher RWA

- Turning to capital on slide 9
- Our Common Equity Tier 1 ratio decreased from 13.2% to 12.8% over the quarter, or 41 basis points
- This reflects a decline of around 8 basis points from higher risk weighted assets due to core bank business growth, partially offset by lower operational RWA
- ECB-mandated model adjustments related to small and medium-sized enterprise lending led to a decrease of 20 basis points
- Strong organic capital generation during the quarter was offset by share repurchases, deductions for dividends, AT1 coupon payments and equity compensation, adding 4 basis points net
- We estimate the impact of the war in Ukraine on our CET1 ratio as 17 basis points, due to higher risk weights on our Russia-related exposures

and higher prudent valuation reserves, due to the increased dispersion of market prices

- CET1 capital now includes a capital deduction for common share dividends of 354 million euros for 2022, in addition to the roughly 400 million euros which were already put aside last year to pay the proposed 2021 dividend of 20 cents per share post the Annual General Meeting this May
- We remain committed to support business growth through continued earnings retention and to finish the year with a CET1 ratio of 13% or higher
- However, what remains hard to predict at this point is the potential for further regulatory-driven RWA inflation over the remainder of the year

Slide 10 – Capital ratios well above regulatory requirements

- Our capital ratios remain well above regulatory requirements as shown on slide 10
- Due to ECB-mandated model adjustments and as a result of the war in Ukraine, the distance to the CET1 capital requirement has decreased by 41 basis points over the quarter and now stands at 238 basis points or 9 billion euros of regulatory capital
- We have successfully issued two Tier 2 capital instruments with a total volume of 2.6 billion euros in the quarter and a 750 million euros AT1 capital instrument which has settled on the 4th of April only and is therefore not included in the first quarter 2022 statutory capital
- With these issuances we have better aligned our AT1 and Tier 2 capital structure to regulatory requirements
- As a result, our Total Capital ratio distance to MDA is now 250 basis points on a pro-forma basis including the latest AT1 issuance

Slide 11 – Leverage ratio improved in Q4

- Moving to slide 11
- Our fully loaded leverage ratio was 4.6%, a decrease of 30 basis points over the quarter
- Of the 30 basis points decrease, 16 basis points were driven by Tier 1 capital, which reduced as a result of the call of our 1.75 billion euros AT1 instrument announced in January

- Our 750 million euros AT1 issuance that settled in early April adds 6 basis points to our leverage ratio on a pro-forma basis
- Leverage exposure, excluding FX effects, increased by 28 billion euros quarter on quarter, following continued growth in our Core Bank, including loan growth
- Our pro-forma fully loaded leverage ratio including certain ECB cash balances was 4.3%
- With our reported leverage ratio of 4.6% at the end of the quarter we have a buffer of 134 basis points over our leverage ratio requirement of 3.23%

Slide 12 – Significant buffer over loss absorbing capacity requirements

- We continue to operate with a significant loss-absorbing capacity, well above all our requirements, as shown on slide 12
- The MREL surplus, as our most binding constraint, has increased by 1 billion euros to 15 billion euros over the quarter, mainly from the first-time inclusion of selected structured notes in senior preferred ranking that meet the MREL eligibility criteria. This has more than offset higher RWA
- We expect a reduction of the MREL surplus in the second quarter of 2022 given we will receive the next, higher MREL requirement from the Single Resolution Board
- Our loss-absorbing capacity buffer remains at a comfortable level and continues to provide us with the flexibility to pause issuing new senior non-preferred or senior preferred instruments for approximately one year

Slide 13 – Substantial portion of issuance plan already achieved in Q1

- Moving now to our issuance plan on slide 13
- In the first quarter, we issued a total of 8 billion euros, mainly driven by five benchmark issuances as well as larger structured issuances
- Our last two benchmark transactions were a 1.5 billion euros Tier 2 and a 750 million euros AT1 security. Both deals combined saw an aggregate orderbook of over 12 billion euros

- Together with the AT1 issuance in November last year, we have raised 4.6 billion euros of new capital instruments to strengthen our balance sheet. Most of our requirements for 2022 are now satisfied
- Also noteworthy was our first green senior non-preferred issuance over 1.25 billion euros. This expands our ESG issuance footprint into a new debt class
- As you are aware, we have not called Postbank Funding Trusts I and III, despite their loss of recognition as regulatory capital. We continue to see these bonds as inexpensive funding instruments for our balance sheet
- We will continue to make decisions regarding the exercise of the issuer call right depending on economic factors while balancing the interests of our key stakeholders
- For the full year, our issuance plan remains between 15 and 20 billion euros
- Despite the challenging market environment in this quarter, we have already completed over 50 percent of the lower end of our full-year issuance target

Slide 14 – Outlook

- Turning to the outlook on slide 14
- The current geopolitical outlook and macro-economic environment brings a great deal of uncertainty to the financial markets and to our clients
- However, strong revenue momentum in our core businesses continues to support our revenue guidance of 26 to 27 billion euros for 2022 and, in our view, our first quarter results built a strong foundation to achieve this
- We remain highly focused on cost discipline and continue to work towards our targets, but the current environment remains challenging and the visible cost pressures have intensified
- We remain disciplined in managing our risks and we believe that near-term risk is contained
- Our capital remains resilient as our organic capital generation was offset by distributions, while at the same time we supported business growth and absorbed regulatory changes and the impact of the war
- We remain confident in our year-end guidance of around 13%, consistent with our target of greater than 12.5%

- Our strong first quarter also gives us flexibility on issuance for the remainder of the year
- With that we look forward to your questions

Question and answer session

James von Moltke	Before we do the Q&A, I just wanted to make a brief statement. You will have seen the headlines today with regard to searches by the Frankfurt Public Prosecutor in our Frankfurt head office. As you may have read from our statements, this is an investigative measure in connection with suspicious activity reported by the bank. Deutsche Bank is fully cooperating with the authorities. Unfortunately, as this event is very recent and an ongoing investigation, we are unable to say more on this matter on today's call. With that, we look forward to your questions.
Robert Smalley (UBS)	Good morning and thanks for doing the call. A couple of related questions on credit and credit quality. Can you talk about the leverage lending book? When I look on slide 26, I see that the notional hasn't changed that much, but when we're looking at provisioning, looking at risk, capital allocation to the book, could you talk about how you may be looking at that differently in a rising rate environment, particularly. Secondly, on the call from the other day, there was a discussion of loan growth in trade finance. Could you talk about that? That's the other end of the credit spectrum, but what are the opportunities there and what does that do around RWAs and density, if anything different? And then finally, trying to pull it together, as we look at the loan portfolio going forward, should we look at your loan portfolio as growing more barbelled will more leverage exposure and more low-risk trade finance, and not as much in the middle? How do we dimension that across the credit spectrum? Thanks.

James von Moltke

Hi, Robert. Thank you for joining the call. It's James here. Obviously, the growth year on year in the Investment Bank loan book was considerable, so I think your question is entirely well placed. One element of that growth relates to an episodic transaction, which we called out in the Q4 earnings call that we expected to run off.

And it did partially run off, but some of it was still on the books on March 31st. If you adjust for that, the growth is in the financing part of our business and is significant year on year, but relates to, essentially, regrowing our structured finance portfolio in that lending business. Leveraged lending, that book has been relatively flat over time.

We managed that book within quite disciplined risk appetite metrics and constraints, and actually, as you know, volumes, relatively speaking, were weaker in the first quarter than over recent quarters. So, you would not have seen leveraged lending being a significant contributor to that loan growth sequentially.

On the trade finance part, that is obviously a business we think we have leading capabilities in, and it is a core part of our strategy going forward in the Corporate Bank. Those are attractive assets, in terms of their characteristics in a variety of ways, including their risk characteristics. And indeed, we do intend to grow our trade finance book.

The trends, as I mentioned on Wednesday, are encouraging in that regard. Notably that a longer, more complicated supply chain increases the need for working capital, increases the length of inventory flows in the economy, which is something that needs to be financed.

The last point barbells. We do think of our portfolio as a barbell, but the whole loan book. And you need to remember that a significant part of the loan book is in the retail banking part of the business, and within that, heavily weighted towards mortgages. And the types of lending, you're talking about leveraged lending or some of the structured finance, we think we do really well in and have a very good handle on the risks and a very solid risk performance over time in those activities.

As you say, it is balanced by a much larger, very low-risk, highly secured book that we run within that total 480 billion of loans. I hope that helps in terms of colour, Robert, on your question.

Robert Smalley (UBS)	Very much. Thanks a lot, and thanks for doing the call.
Jakub Lichwa (Goldman Sachs)	Hi there. I've got a few questions. Thanks for doing the call, as always.

Question number one is you have reduced fairly recently the prime broking business. Would you actually expect that to have any effect on reduction in your market risk? And also, would this leak through, you would expect into Pillar 2 assessments for the following year or not?

The second one is resolution planning. Is there any date by which the authorities expect you to present or complete the resolution planning? I think there are expectations for banks. There is an indicative date of end of 2023, by which point, banks should remove any sort of impediment to resolvability, or SPV issued instruments, etc.

On ratings, question number three, you're on a positive outlook from Moody's. Clearly, the beneficiary there is a tier two rating. But beyond tier two, obviously, your issuance right now at the senior non-preferred levels calibrated to LGF, in order to qualify for that one notch. Do you expect to be defending that one notch in case of an upgrade? Or would you be happy with B double A2 rating at the senior non-preferred level? So, would you think that you may reduce the stock or senior non-preferred debt? And is this actually already in your funding plan? That's number three.

And number four, on the CMS, sorry to ask, I know it's small security, but SRB seems to allow SPV issued debt in MREL. As long as they do not pose an operational issue in resolution. Can you confirm to us whether CNS poses issues in resolution planning, please? Thank you.

James von Moltke

Thanks for your questions. I'm going to take the first two, it's James, and then Dixit will take the second two. On prime brokerage, that is out of our balance sheet, P&L, and our risk metrics now, from the first of the year. It had tailed off towards the end of last year as we transferred, client by client, over to BNP Paribas.

But all of our metrics, recruiting metrics, market risk metrics, obviously, the leverage balance sheet, and the balance sheet are clean from an influence of Prime Finance at this point. The one thing, as you know with any of the businesses that we exit, there can be operational risk RWA that stay with us, but beyond that, it is not part of our profile today.

On the Pillar 2 requirement, business model is one of the considerations of your Pillar 2 setting. I can't speak for the assessment, and certainly not publicly, but it does feed in, naturally, to the Pillar 2 assessment on business model.

On resolution planning, as you say, the measurement date in an end-2023 assessment of your resolvability that the Single Resolution Board has to determine in connection, also, with the national resolution regulators.

This has been a build over many years, and as a firm, we're highly committed to building all of the capabilities across the full range and dimension of resolution capabilities, in order to achieve a positive assessment by the end of 2023. For practical purposes, we feel that those capabilities have to be in place by the end of this year to prove their sustainability over time.

So, we're working towards a 2022 timeline to have all, or practically all, of the capabilities in place, hopefully, meeting the expectations of our resolution authorities.

Dixit Joshi

I'll take the last two. On ratings, in the current moment, we don't anticipate giving up the senior non-preferred

LGF uplift. We've been encouraged by the upgrades that we've got from all three agencies in 2021, I would say, hard won through many quarters of consistent execution on our transformation plan. We're on the right track, we think there is positive momentum and positive ratings pressure in respect of us, which is a good thing. But we don't plan to give up the uplift.

In terms of legacy AT1, you'll see, in the appendix, we have a list of our capital instruments. It does not include the two issuances that add up to about 600 million in aggregate, i.e., a de minimis amount. But we don't see those as an impediment to resolution. We've done a thorough legal analysis there and those two instruments for us are simply now cheap funding, and we've kept those outstanding. I hope that's helpful.

Jakub Lichwa (Goldman Sachs)	Yes, thank you.
Stéphane Suchet (Credit Suisse)	Thank you very much for the call. Three questions, if I may, on my side. The first one is what has been the impact of rising rates on your other comprehensive income and how do you compare to peers? The second question is probably a product question regarding the ECB response to the European Commission's call for advice on the macroprudential framework, and more specifically, on AT1. How to make AT1 securities more of a going concern capital and make coupon payments easier to cancel. What is your thinking on that? And lastly, what is your thinking in terms of timeframe for a ratings upgrade, especially at Moody's? Any insight you could share with us would be much appreciated in this respect. Thank you.
Dixit Joshi	Sure, Stéphane, I'm happy to run through that. In turn, on the OCI front, we have noted that peers have had reasonably large OCI losses in the first quarter as a result of the rate environment. The impact for us was more measured. It was probably in the region of less than, I would estimate, around 300 million euros after some technical

effects. Probably around in the region of five basis points of CET1.

And within that, I would say the specific element related to securities portfolios within our liquidity results would probably be about 50 million in the quarter. And the reason we've seen a muted CET1 drawdown in the first quarter, even though we've had fairly large moves in interest rates is we had de-risked portfolios coming into the close of last year.

And that was as a result of our view that we entered 2022 see higher volatility and a steeper curve and higher rates, again, with lots of uncertainty and uncertainty around timing as well. And that prudent risk management has helped put us in good stead.

On the ECB consultation, call for advice, and on AT1, is something that we obviously follow very closely and participate in. And it is our view that to the extent that regulators look to review methodology, review the toolkit around capital, look at making it further risk sensitive and efficient, we obviously encourage improvements to the framework. Ultimately, it is, of course, in the domain of the legislators to decide what that framework looks like.

I would think that this would be in the context of wider discussion around bank capital and the bank capital stack. You would have noted the comments out of the PRA, which we are also following reasonably closely. So, I would say look, the AT1 market, currently, as you know, is fairly well-structured, well understood. We've issued in full compliance with the guidelines around structuring of AT1 instruments, so investors are reasonably comfortable with the current market. That's not to say the marketplace can't be enhanced.

And then the third question you had around ratings, again, there's not a whole lot to say, given it's not really in our domain and timeline to control. But we're encouraged. We remain on a positive outlook. We continue to execute on our transformation plan, which is one of the key criteria the ratings agencies have. So, we're going to continue doing what we've done now for many quarters. One, a prudent balance sheet, ensure that we communicate very carefully and transparently with the capital markets to try and minimise our issuance needs, and continue to execute successfully with some upward pressure on our ratings from here. I hope that's helpful.

Stéphane Suchet (Credit Suisse)

Yes, indeed. Thank you very much.

Lee Street (Citigroup)

Good afternoon and thank you for taking my question. I've only got one, but there's a couple of parts to it. If Russian gas and oil gets switched off in Germany and we get the type of GDP reduction that the Bundesbank is suggesting, and then a potential recession, A, do you still think Deutsche Bank can achieve its 8% return on tangible equity target for the year?

Obviously, I appreciate that the German state probably comes in with some capital injections, KfW does some lending, but my worry is that it probably stops the required loan growth in your private clients and your corporate divisions, where you probably still get the cost pressure, and you might not get as many rate rises coming through.

That's question one, and then linked to that in that scenario, what levers do you have to pull to help you get back up or achieve that 8%? So, it's basically all about economic risk and the risk that that impenetrability to hit your 8% return on tangible equity target. That would be my question.

James von Moltke

Thanks, Lee. I appreciate the question. As we've said now for three years, we have been doing everything to manage the company towards the financial targets that we set for 2022. Over that period of time, we've overcome a number of different challenges in the marketplace, or the market environment and the economic environment, and we've remained committed to doing that.

As we disclosed on Wednesday, we continue to see a path to our targets for this year. No question that there's a scenario, an adverse scenario, that can take place that would make it increasingly challenging to hit those targets. But as we sit here today, we don't see that scenario materialising. It's not our base case. And we've been working to create the levers necessary to retain the path.

In terms of this scenario, as I say, it's not our base case that that takes place. We agree with the Bundesbank analysis in terms of the severity of the impact on the Germany economy, but as you say, the potential offsets, whether it's fiscal support from the German government for the economy, where we do believe there is political will and the resources to do that. It's frankly not easy to predict how these scenarios play to.

But there is clearly a downside scenario that would put more pressure on that target achievement.

Lee Street (Citigroup)

Any particular levers you might have in those scenarios? Anything you could call out?

James von Moltke

The levers are the ones that are in place. As I said on Wednesday to, I think, Stuart Graham's question, the ECL impact for us, even in that downside scenario, looks to be, in some sense, surprisingly modest as we sit here today. And there is no inclination in our credit book that there's a deterioration so far as a result of these events.

And the first level is, of course, having a strong and well underwritten credit book with the right degree of diversification, low concentration risks, credit protection, where it's applicable, and just managing the business carefully and within risk appetite. So, in that sense, that lever is already pulled.

And then we're working on, with respect to the rest of our income statement and balance sheet, to manage towards the targets. So, I think, as a management team, we're doing everything we can to remain on track and managing through this environment with the appropriate degree of caution, but also, cognisant that it's not our base case and that we remain on track against our objectives for the year.

Lee Street (Citigroup)	Thank you very much for the response.
Daniel David (Autonomous)	Good afternoon. Thanks for the call and taking my questions, I've just got a couple. On RWAs, I think you've guided to 415 to 420 billion in 2025. Now that there may be five to ten billion of RWA inflation in 2022, due to the ECB model decisions on the SME book and the retail book, is the 415 to 420 still unchanged? Or is there anything else to say there? And related to that, does the ECB model decision mean that the 10% RWA inflation guided to for Basel IV come down a bit, or is there anything else that you could say on that? And finally, on the CMS, and again, I know it's been talked about and apologies for returning to the topic, I understand that German BRRD transposition has an impact on the CMS and infection risk that's perhaps been talked to death. But I just wanted to understand, does German BRRD mean that there isn't infection risk for the MREL layer? And with regard to your comments on de minimis, is that sentiment also shared by the regulator, or should we read that the EFB, the expectation for banks is when they'll give that kind of sign-off? Thanks.
James von Moltke	On the RWA side, no change in our view for 2025. First of all, at least the first of these model adjustments was built into our planning. And then secondly, the effect of a lot of these model decisions is simply to raise the IRB RWA, ultimately, given that, over time, and this is really in 2029, when the output floor becomes binding, all it does is really bring forward or cause to converge slightly the IRB and the standardised approaches, so that the ultimate result of the output floor is less. As we think about 2025, as I say, at this order of magnitude, it doesn't affect our capital planning.
Dixit Joshi	Hi. On the BRRD and infection risk, again, in our view, just given the nature of our capital set, we really don't have much exposure, even if you consider the two notes that we have, which again, having done the legal work

around those, we don't view our stack as having infection risk, and certainly not from an MREL point of view.

Daniel David (Autonomous) — Thanks. And just to touch on the point on de minimis, is that signed off by the regulator that it's not a problem, or is that something that is yet to come?

Dixit Joshi — I think the BRRD is reasonably clear in our minds, and so, having done the work around those notes, it's pretty clear to us that we don't have that infection risk. I can't comment on the regulator review here, but from our perspective, we've managed our stack with that assessment in mind.

Daniel David (Autonomous) — Understood, thank you.

James Hyde (PGIM) — Good afternoon. Two questions. One on litigation risk and I'm not asking about today's raid. I'm looking at you have 1.1 billion of litigation reserves, and then there is this figure that hasn't changed about the 1.7 billion of possible that you have this usual language about.

I'm just wondering, although these are way below anything that was paid out in the DOJ RMBS business and so forth, beyond maybe hitting 2022 target 8%, what would be your annual budget for topping this up or for just operational risks that arise? What are your expectations on that? Also, can you confirm that you are completely done with Cum-Ex, with that little fine you had a couple of years back?

Then secondly, on credit risk, about 40% coverage of all stage threes by all provisions, which has not really changed that much for you over time. But I still don't understand how that works with calendar provisioning. Is it something that is going to be constantly deducted from CET1? Or just going to keep doing your Pillar 2 requirement higher? Those are my two questions. Thanks.

James von Moltke — James, it's James. I'll take both, but feel free to ask a follow-up. So, on litigation risk, you notice how relatively stable the provisions have been in the past recent quarters, both the balance sheet provision and the contingent liability or contingent risk that we see.

And that reflects that there haven't been any major items either flowing in or flowing out of our litigation portfolio. By and large, that's a good thing. I think a degree of stability there is helpful, although as you know, from our disclosure, there are one or two matters that we would happily resolve and put behind us.

In terms of the ongoing, it's always hard to say. It's an awkward thing to talk about what is your, quote unquote, budget for litigation matters? Our goal, and you've heard us talk a lot about investing in our control environment and our operational or non-financial risk management capabilities and what have you, the goal is obviously to conduct our business in the best possible way, so as to minimise the degree of litigation risk that we face.

In our business, of course, that's never zero, but if you're looking for a budget, it's considerably smaller than the worst of the years we've had, and probably towards the single-digit 100 millions and the low end of that, to the extent that we can, again, benefit from the longstanding investments in non-financial risk management, and also, conduct and other aspects of our business.

In terms of the deduction from CET1, if I understood the question correctly, I think it's really the ECL that you're thinking about in this regard that feeds into our regulatory capital that ebbs and flows, based on, essentially, the book evolution, and then also, the risk evolution, in particular, ratings migration, model changes, and assessment to the riskiness and the environment.

So, it's not a constant number, for sure. Hopefully, I've understood your question correctly. If not, feel free to ask a follow-up.

James Hyde (PGIM)

Thanks. It's to do with the calendar provision requirements for stale non-performing loans.

James von Moltke	I understand the question now. The NPE: we have been incrementing, over time, the capital impact of the non-performing exposure backstop requirement that the ECB has communicated to the banks. So, yes, that's built into it. To my knowledge, we're now fully built, I believe, in terms of the capital impact of the NPE backstop.
James Hyde (PGIM)	Thank you, James.
Philip Teuchner	Thank you. And just to finish up, thank you all for joining us today. You know where the IR team is, if you have any further questions. We look forward to talking to you soon again. Goodbye.