



Deutsche Bank AG

Deutsche Bank Q3 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 – Disciplined execution driving continuously improving performance

- Thank you, Philip, and welcome from me
- Our third quarter and nine-month results show our ongoing strong operating performance, further reinforcing our confidence in our 2024 ambitions and 2025 financial targets
- Disciplined execution of our *Global Hausbank* strategy is driving steadily improving performance and operating leverage
- Pre-provision profit grew by 17% year on year to 7 billion euros in the first nine months with operating leverage of 5%, both excluding the Postbank takeover litigation-related impact
- Growth was driven by both revenue momentum and cost discipline
- Nine-month revenues grew 3% year on year with around 75% of revenues coming from more predictable income streams
- Reported noninterest revenues were up 14% year on year, with continued strong growth in commissions and fee income of 9%. This demonstrates that our strategy of growing our capital-light businesses is paying off
- At the same time, net interest income in our key banking book segments remained stable, and better than we anticipated at the beginning of the year
- We remain focused on expense discipline, keeping our adjusted costs to 15.1 billion euros, or 5 billion per quarter, as we continue to offset inflation while allowing for investments by delivering savings through our Operational Efficiency program
- Our cost/income ratio excluding Postbank litigation-related impacts improved to 69% from 73% year on year
- Now let's look at the franchise achievements across our businesses, on slide 3

Slide 3 – Ongoing momentum across businesses through focused growth strategies

- The Corporate Bank increased the number of deals won with multinational clients by 18% compared to the first nine months of the prior year
- We also had strong momentum in commissions and fee income, which grew by 5% across all regions



- In the Investment Bank, we increased activity so far this year with our priority institutional clients by 11%, demonstrating the ongoing commitment and focus of our business and coverage teams in supporting our clients
- The Private Bank sees further momentum with 27 billion euros of net inflows and grew noninterest revenues by 5% year on year, driven by higher margin products and volumes across both client segments
- Asset Management grew assets under management by 67 billion euros year to date, to 963 billion euros. This was boosted by continued strong inflows into our diverse product suite, which will support future revenues
- Now let me turn to our progress against our strategic objectives on slide 4

Slide 4 – Continued execution across strategic pillars

- Our third quarter results demonstrate our continued progress across all three pillars of our *Global Hausbank* strategy
- Starting with revenue growth, our well-diversified and complementary business mix has delivered a compound annual growth rate of 5.6% since 2021, in line with our upgraded target range, and we expect it to increase from here
- For the remainder of the year, we anticipate continued momentum in commissions and fee income driven by ongoing high client engagement and our franchise strength, while NII remains stable
- This gives us full confidence in reaching our revenue ambition of 30 billion euros for the full-year 2024, providing a strong step-off into 2025
- Moving to costs, we continue to deliver on our Operational Efficiency program, having completed measures with delivered or expected gross savings of 1.7 billion euros, almost 70% of our target, with around 1.5 billion euros in savings already realized
- We have made further progress on workforce reductions, including 600 FTEs in the third quarter, bringing the total number to more than 90% of the 2024 year-end target
- The achieved progress to date and efficiencies still in the pipeline will support our adjusted cost run rate for the remainder of 2024 and further reductions in 2025 to meet our objective of around 20 billion



euros in noninterest expenses, while continuing to invest in business growth, technology and controls

- Lastly, we delivered a further benefit equal to a 3 billion euros RWA reduction in the third quarter, driven by data and process improvements
- This brings total RWA reductions from capital efficiency measures to 22 billion euros, which puts us in sight of our end-2025 target range of 25 to 30 billion euros, more than one year early
- We expect to achieve further reductions from securitizations as well as data and process enhancements, and we continue to work on finding further incremental optimization opportunities to exceed our target
- Let's now turn to provision for credit losses on slide 5

Slide 5 – Provision for credit losses

- This quarter's provision for credit losses was 494 million euros, equivalent to 41 basis points of average loans
- Stage 1 and 2 provisions were on a moderate level, as various portfolio effects largely offset increases from softer macroeconomic forecasts and overlay recalibrations in the third quarter
- Stage 3 provisions increased sequentially to 482 million euros mainly driven by the Private Bank, including transitional Postbank integration effects
- Let me now take you through some additional detail on our provisions on slide 6

Slide 6 – Provisioning trends

- This year, we faced several headwinds, which negatively impacted provisions and our full-year guidance, but which we do not expect to persist into 2025 at all, or in the same magnitude depending on the item
- First, the transitional effects from the Postbank integration led to longer-than-expected impacts across our internal collection and recovery processes, but we expect these to fade over the coming quarters



- Second, we have been dealing with two relatively fast-paced larger corporate events, impacting year-to-date provisions at a level unusual compared to historical standards
- However, the pre-tax impact was mitigated by around 70%, as these loans benefitted from credit-concentration hedging
- And lastly, our full-year commercial real estate provision run-rate has been at a cyclically higher level but has now substantially declined quarter on quarter, as envisaged
- We continue to see more signs of stabilization which supports our confidence in a gradual reduction in future provisions
- We also see broadly stable developments in our domestic market, as outlined on page 22 in the appendix
- Our 220-billion-euro German loan book is low risk and well diversified across businesses, and 70% of the portfolio is either collateralized or supported by financial guarantees. We also have more than 12 billion euros in hedges
- More than three quarters of the book is in the Private Bank, of which around 90% consists of low-risk German retail mortgages
- Our corporate loan book is well diversified and of high quality. Exposure is predominantly to multi-national corporates and MidCaps with almost 70% of loans rated investment grade
- In summary, our portfolio is holding up well and adjusting our reported gross provisions for offsetting effects from recoveries through hedging, which are captured as revenues, our pro-forma year-to-date net provisions would have been around 34 basis points
- We continue to expect a sequential reduction in provisions towards more normalized levels as we go into 2025

Slide 7 – Lending stable and temporarily elevated deposit levels

- Moving now to the development in our loan and deposit books over the quarter on slide 7
- All figures in the commentary are adjusted for FX effects
- Overall, loans have remained stable during the third quarter
- Within that, targeted growth in FIC Financing has continued, driven by new client origination and the acquisition of a collateralized loan portfolio



- While client demand in the Corporate Bank remains muted, we see further net reductions in mortgage products in line with our strategy in the Private Bank
- Our well-diversified deposit book increased by 15 billion euros compared to the last quarter
- This growth has been most pronounced in the Corporate Bank with inflows of 11 billion euros, partially supported by further temporary client accommodation activities
- In line with previous guidance, we expect Corporate Bank deposits to normalize again to first half of 2024 levels by year-end
- In the appendix we provide further granularity around the quality of our loan and deposit portfolio

Slide 8 – Stable net interest income (NII) in banking book segments in 2024

- Let us now have a look at our net interest income on slide 8
- We remain well positioned to continue delivering strong net interest income over the coming years, and we will cover the drivers of that over the next pages
- NII across our key banking book segments was 3.2 billion euros, and our trajectory continues to outperform our guidance from earlier in the year
- The Corporate Bank benefitted from higher deposit volumes and loan margin expansion offsetting expected beta convergence, although reported NII includes lower levels of CLO recoveries than in the prior quarter
- Private Bank was stable sequentially reflecting ongoing strength in deposit revenues
- The Group number, reflecting accounting effects, increased by approximately 300 million euros compared to the previous quarter to 3.3 billion euros
- This effect was offset by a decrease in noninterest revenues and has no overall revenue impact to the Group
- Our base case remains that our quarterly run rate will continue to be broadly stable and we reiterate that we expect full-year banking book NII to remain in line with the 13.1 billion euros reported in 2023
- This is despite absorbing a headwind of around 150 million euros versus 2023 from the discontinuation of the minimum reserve remuneration



- We will provide a more detailed update on expected volume and margin developments for 2025 and beyond in the next quarterly call

Slide 9 – Interest Rate Hedge stabilizing NII in declining yield environment

- Turning to slide 9 we can see that our hedging strategy has positioned us well for a declining rate environment
- The numbers on the slide are based on the market implied forward curves as per the end of September
- Our hedge portfolio stabilizes our income by extending the tenor of interest rate risk, but it also protects us against a drop in interest rates, and to that end we have increased the notional of our hedge portfolio over the last 12 to 18 months in response to the slower than expected rise in deposit betas
- The weighted average maturity of our hedges is around 5 years. Based on current forward rates we expect the income from the hedge book to grow by 300 to 400 million euros each year as we roll maturing hedges
- As such, we expect the hedge portfolio to provide a long term tailwind to our revenues at current forward rates
- With respect to 2025, more than 90% of the income is already locked in with existing positions

Slide 10 – Limited NII sensitivity

- Now looking at page 10, we can see the impact of our risk management strategy in the NII sensitivity to changes in rates
- The low sensitivity implies that shifts in the yield curve would have limited impact on our reported NII, and any impact would increase slowly over time given the duration of our hedge book
- We have a relatively low NII sensitivity and therefore expect to be well positioned to deliver stable NII through the remainder of the rate cycle

Slide 11 – CET 1 ratio increase reflecting strong Q3 2024 earnings

- Turning to capital on slide 11
- Our third quarter Common Equity Tier 1 ratio came in at 13.8%, 30 basis points higher compared to the previous quarter



- The increase was largely driven by CET1 capital, reflecting strong earnings net of deductions, and an approximately 790-million-euro or 22-basis-point positive effect from the adoption of the Article 468 CRR transitional rule for unrealized gains and losses
- Risk-weighted assets increased for market risk and credit risk. The credit risk RWA increase was driven by model impacts and business growth mostly offset by reductions from capital efficiency measures
- Lower operational risk RWA was driven by the partial release of the Postbank takeover litigation provision

Slide 12 – Capital ratios well above regulatory requirements

- Our capital ratios remain well above regulatory requirements as shown on slide 12
- The CET 1 MDA buffer now stands at 261 basis points or 9 billion euros of CET1 capital
- This is 31 basis points higher quarter on quarter reflecting the increase of our CET1 ratio
- The buffer to the total capital requirement increased by 9 basis points and now stands at 287 basis points
- The increase was primarily driven by the higher CET1 ratio which was partially offset by lower Tier 2 capital
- The reduction in Tier 2 capital is a result of using IFRS carrying amounts as the measurement basis replacing paid-in amounts reflecting latest EBA guidance

Slide 13 – Leverage ratio stable

- Moving to slide 13
- At the end of the third quarter our leverage ratio was 4.6%, flat sequentially, as higher leverage exposure for securities financing transactions and trading assets driven by client activities offset an increase in Tier 1 capital in line with the CET1 capital development



Slide 14 – Significant buffer over MREL/TLAC requirements

- We continue to operate with a significant loss-absorbing capacity, well above all requirements, as shown on slide 14
- The MREL surplus, our most binding constraint, increased by 4 billion euros and now stands at 21 billion euros at the end of the quarter
- The increase reflects higher MREL supply from new senior non-preferred issuance while higher CET1 capital was offset by lower Tier 2 capital reflecting the change in the measurement basis following the latest EBA guidance
- Our surplus thus remains at a comfortable level which continues to provide us with the flexibility to pause issuing new eligible liabilities instruments for approximately one year

Slide 15 – Sound liquidity and funding base

- On slide 15 we highlight the development of our key liquidity metrics
- With a daily average liquidity coverage ratio of 137% during the quarter we operated with a sound liquidity position
- The quarter-end stock of 230 billion euros of HQLA, of which we continue to hold about 95% in cash and Level 1 securities, increased over the quarter and is mainly driven by the deposit growth in the Corporate Bank
- Our spot Liquidity Coverage Ratio was materially unchanged at 135%, representing a surplus above the regulatory minimum of 60 billion euros
- The increase in HQLA was broadly offset by an increase in net cash outflows
- The net stable funding ratio was also unchanged at 122% and reflects the stability of our funding base with more than two thirds of the Group's stable funding sources coming from deposits
- The surplus above regulatory requirements increased slightly to 112 billion euros

Slide 16 – Issuance plan for the year almost completed

- Moving now to our issuance plan on slide 16



- Our credit spreads developed well quarter-on-quarter, particularly in the capital space where we have seen a double-digit spread compression and an outperformance versus our peers
- Since the last Fixed Income call at the end of July, we have issued a little over 3 billion euros, taking our year-to-date total to 16 billion euros, largely completing our plan for the year
- The quarter-on-quarter change was mainly driven by the 2.5 billion dollars senior non-preferred dual tranche transaction in September
- This transaction was well received by investors and the orderbook was more than 5 times oversubscribed, representing one of our largest USD orderbooks for such a transaction
- Regarding our 2025 issuance plan, it is too early to provide precise guidance, however we expect something similar to 2024 activities
- Depending on market conditions, we may consider pre-funding some of the 2025 requirements in the fourth quarter
- To reiterate on our intentions regarding potential calls of AT1 instruments in 2025, we take these decisions based on several factors, including capital demand, refinancing levels versus reset, potential FX effects as well as market expectations
- It is worth noting that this may result in different decisions based on the features of each individual bond and that all call decisions require prior regulatory approval
- As mentioned previously, you can expect us to take a decision closer to the call date in 2025

Slide 17 – Summary & outlook

- Before going to your questions, let me conclude with a summary on slide 17
- Our ongoing performance demonstrates the successful execution of our strategy
- Our revenue trajectory remains on track to 30 billion euros for the year, on the path to our goal of 32 billion euros in 2025
- We expect to further reduce our adjusted cost run rate closer to 4.9 billion euros in the coming quarters to allow us to achieve around 20 billion euros of noninterest expenses in 2025. The reduction should



come through a combination of ongoing cost discipline and benefits from our efficiency and tactical measures

- We expect reported provision for credit losses for 2024 to land at around 1.8 billion euros, higher than our prior guidance, but we continue to expect an amelioration which will follow next year, as the transitory headwinds we have called out will pass, leading towards more normalized levels
- Our issuance plan for the year is largely complete and we may consider opportunistic pre-funding of our 2025 requirements this quarter
- Our full focus remains on the execution of our own strategy
- With that, let us turn to your questions

Questions and Answers

Lee Street
(Citi)

Thank you. Hello. Good afternoon, all. I have three questions, please. Firstly, could you just clarify your NII path for 2025 and just explain that in the context of the rate sensitivity that you show on your slides. Secondly, do you believe that the proposed CMDI depositor preference proposal might risk creating systemic risk for banks, as derivative liabilities will only be pari passu with preferred seniors, and therefore could make counterparties be more skittish in times of market volatility? And then finally, on the AT1 topic that you raised, as it relates to potential FX losses when you look at calls, should we just be thinking about the absolute level of those potential losses, and then comparing that versus the actual levels of spreads, and almost think about the economics in that way? They would be my three questions. Thank you very much.

Richard Stewart

Thanks, Lee. And welcome, and thanks for joining. And so, I'll take, I guess, all three questions, I think. James is joining me in the room, so he might pipe up for a few of the responses. But taking into consideration your first question, this is a topic which came up on the equity call yesterday in a few different ways, so let me try and pull together the various elements and give you an overview.

First, it's the base case outlook for 2025. As I was



saying in my earlier remarks, we are exceeding our guidance for 2024 and now expect to end the year flat to our 2023 print, which was €13.1 billion across the key banking book segments. And for the Private Bank, we believe we're just past the low point in the NII run rate, so from next quarter, we will see ongoing increases as the structural hedges roll over and we keep producing a high-quality lending front book.

On the Corporate Bank side, we expect the bottom to be in the next quarter. Next year, we will see margins expand and deposit volumes grow. And as James said yesterday on the call, we also have some specific dollar hedges, which carry negatively at the moment, but mature before the end of the year. And then to complete this, in our FIC Financing businesses we have grown our loan portfolio this quarter, both with new client business as well as a portfolio acquisition. And we intend to keep growing this business over time as part of our strategic plan, and that will, of course, deliver some incremental NII to the top line.

All of that comes together to give us a fairly significant tailwind into 2025. Yesterday, Christian was guiding to an all-in sequential improvement to around € 500 million, which is a reasonable guide. And given where we are in our planning cycle right now, we will give more precise guidance for the numbers and drivers with our fourth quarter results.

And then we talked about sensitivity, we have specifically hedged exposure to interest rates in 2024 and in 2025, as you can see from the slides. And what you can see is the hedge portfolio is currently trading an average yield of 1.2%, but within that, we have historical hedges at much lower rates, which will kind of roll off next year, in subsequent years. And as we do, we will then replace roughly around 10% of the book, give or take, on an annual basis, at the current market rates. Now, you can see the market-implied rates we have on there, which are significantly higher than the rates that the hedges which will then be rolling off. And that gives us the additional roll-over benefit that you



can see in the slides. And the dark blue line tells you the NII, which is locked in, and the blue line is really the benefit of that roll-over, depending on where market implied rates are. But as long as they are above the hedges to roll off, that'll be a positive for us.

And so, because of this hedging, we just have very little remaining exposure to short-term rates, and so the increase, sort of the market policy rates moving, is not going to have an impact on our outlook for 2025. And so that gives you a bit of a flavour. And then even if rates were to go below 1%, for example, at some point, and we get into the margin compression area for us, as well as for other banks, then we have some options, strategies in place to mitigate that impact as well. So hopefully, that answers the question on the on the NII.

Question two was around CMDI. It's a good question. I think the way we're thinking about it is, first of all, it's still legislation which isn't going to come into play until 2026 at the earliest, so, I guess, still room to work through. As you know, from a senior preferred perspective, which I guess is the one piece of the capital structure which could be impacted by this, then we have limited exposure there. We don't have any deposits in our MREL stack. And at the moment, from what we can see, in terms of the language, both the council and the parliament's text diverge to an extent as well, so I think there's still going to be more to play out here in terms of what the final text lands at.

And then in terms of derivatives, there is an ability of the SRB to exclude from the bail-in to avoid systemic issues or an inability to conduct an appropriate valuation. And so, we are cognisant of it, but I don't think it's going to be material for our business. And I guess as things become clearer from the proposals, as they sort of become more finalised and firmer, then we'll be able to update you in terms of what the implications will be for us.

And then in terms of AT1 pricing, as you think about the calls, as you rightly say, we have three calls next year,



still a way off, a couple of them six months, then one year for the other. How we think about that To Call or Not Call strategy is part of our planning process we have right now, but in terms of pricing of that, it is, as you kind of laid out, in terms of how we think about replacement values, how we think about the credit spreads, how we think about the historical FX balances on the sort of the non-euro AT1s, all of which kind of come into coming to our overall decision-making in its totality.

Lee Street

All right, thank you very much for those answers. Very clear and helpful.

Soumya Sarkar
(Barclays)

Hi. Thanks for doing the call. I have two questions. The first one, when you mentioned credit provisions, you highlighted that there was a mitigation of around 70% on the corporate events due to credit concentration hedging. Could you elaborate a bit more on this? Is it related to SRTs, and where are you getting the benefit, is it in revenues? So if you could kind of expand on that, that's question one. And the second question, you also mentioned that the reduction of Tier 2 capital of around 21, 22 bps, and that was because of the EBA guidelines change from the monitoring report. Again, if you could elaborate on what the change was, and did it only affect the Tier 2 part of the capital stack? And does it affect your go-forward issuance strategy in any way, how you account for the debt, etc.? Are there any steps you can take to respond to this change? Those would be my two questions. Thank you.

James von Moltke

Thanks for the questions. It's James. I'll take the first part. Yes, you're right. The credit protection for the particular items we've called out this year is typically in the form of funded CLOs, and the accounting that is the best we can achieve for that is that we essentially gross up credit loss provisions, and the benefit of credit protection that the CLOs provide comes back in revenues. There are, I would say, to add to that, some credit protection structures, where the accounting is more friendly, in other words, net inside the CLP line, but for these specific protection structures, there is



this, I'll call it, geography asymmetry that takes place. And like other SRT structures, it's not always possible to get it all in the CLP line.

Soumya Sarkar

Understood.

Richard Stewart

On the Tier 2 piece, first of all there's no impact to AT1 regulatory capital from this guidance, given IFRS already classifies AT1 as equity instruments. And then in terms of the Tier 2 piece, it's more just a change in approach, rather than reflecting in capital the proceeds amount at origination, you just have to reflect the IFRS carrying amount. And so that's kind of what drove the change in reporting this quarter. But there was a follow-up question, which is we don't expect to offset this reduction with further Tier 2 issuances, if that was your question

Soumya Sarkar

So it doesn't affect your senior non-preferred tranche, that doesn't come to the same purview?

Richard Stewart

Sorry, I didn't quite understand the question. Can you just repeat it?

Soumya Sarkar

Yes. I was just asking if that change on the measurement of tier 2 is just to the Tier 2, and I understand not AT1s but does it impact senior non-preferred and senior preferred?

Richard Stewart

That is correct. There's no other impact. So, yes, there's no impact on senior bond preferred or senior preferred. That is correct.

Soumya Sarkar

Thank you. Thank you.

Ebrahim Saeed
(JP Morgan)

Thanks for all your comments. I appreciate all the colour you've given around the AT1. I just had one question there. And mentioned all the factors that play into the call decisions for each of the different bonds that are coming up for call, would the fact that any individual bond is coming up for its first call versus a bond that's, let's say, skipped a call date previously, does that also factor into your decision process?

Richard Stewart

I will answer the question in a slightly different way. I think the features of our instruments is something



we're cognisant of, that sort of documentation nuance, I think, is not something we ascribe significant difference to. We're more interested in, I guess, the overall market reaction or market perception of our actions around the call and doing something in a transparent and rational way, taking into account all of our shareholders. So that would be how I would think about the answer to your question.

Ebrahim Saeed

Alright. Thank you.

Robert Smalley
(Verition)

Hi, Philip, Richard and James. Thanks for doing the call. Just a couple of quick questions and follow-ups on CRE and the German economy. Clear that you're now in the back end of the CRE restructuring, and I know deals are unique but could you give us some sense of restructurings and what kind of write-downs you're taking and what the structures of the deals are? And once you've done this geography of the exposure, does it go back into performing? What's left? And also, have you given yourself the opportunity to make some recoveries, if possible? That's on CRE.

On the German economy, we're continuing to see slow growth/recession type of numbers. Number one, are you seeing weakness in services as well as you are in manufacturing? Two, is this manifesting itself in other portfolios, like your high net worth portfolio, etc.? And then, three, is your forecast driving some of the model-driven reserving that you've done, or model-driven provisioning that you've done in the quarter? Thanks.

James von Moltke

Hi, Robert, it's James. Thank you for the questions. I'll try to be as brief as possible. The CRE, typically, the modifications involve the sponsors adding equity into the structure in exchange for the banks offering concessions in the roll-over or extension or refinancing of the credit. So that is the typical path. There are certainly instances where it becomes real estate-owned if the sponsors step away, and there are instances where the banks are asked to do a little bit less just because it's there isn't an alignment of interests based on the value of the portfolio or the property.



Most of what we're taking today in the provisions, as it was last quarter, remains incremental valuation adjustments on already-defaulted loans rather than new defaults. And that's been, again, an indicator that has underscored some of our confidence about the direction of travel. Obviously, we look to a time when there won't be valuation adjustments anymore on the defaulted portfolio either, and we think that will come.

Are we positioned for recovery? Sure. Obviously, these are in stage three life-of-loan numbers, and if the properties improve because of lease activity or maybe a sale of the property and it gets refinanced into other hands, that can certainly produce recoveries. But, of course, we look to, again, book-to-life-of-loan losses with a weighted average assessment of the likelihood of certain outcomes. Loans that go through modification don't all become performing right away, although obviously often they will graduate from stage 3 back to stage 2, and then, in time, performing if they're operating with no concerns in terms of ability to pay and valuation.

As it relates to the German economy, you're right, slow growth. We had been hopeful that the German economy would turn the corner already in the second half of this year, and that seems to be not materialising. You're asking about the service sector. I think the service sector is still growing, the last statistics I've looked at. So there has been some strength in the service sector, offset by weakness in manufacturing. Building trades and real estate, our observations, appears to have found a floor. And if it's recovering, it's recovering slowly, but it's no longer the drag that it's been to GDP growth over the past several years.

I guess the one other thing to point out is that employment, while it's ticked up, unemployment rather, ticked up ever so slightly, it's still at relatively good levels on a historic comparison. And I think the market is still tight rather than loose in terms of labour conditions. Has it fed to high net worth? No, I don't see a great deal of connection between those two, the



German economy and the quality of our high net worth portfolios. Obviously, it can have an impact on collateral values, so changes in the market, including real estate, but by and large, the health of our high net worth client base and portfolios are linked to their own circumstances, commercial and private circumstances.

We do, in many of these portfolios, mark to model, much less in stage 3. And so, I think the answer to your question is there can be recoveries for sure, as exposures roll back from stage 3 and become performing again, and also stage 2, for that matter, up to stage 1, the modelled credit loss allowances can be released back into earnings. As you've seen in some of our statistics, and we call this out particularly related to the Postbank collections disruptions, we do think some of those exposures that are now recorded in stage 3 will roll back to stages 2 and 1. And the relatively modest allowance that has been built would come back into earnings. Hope that covers everything, Robert.

Robert Smalley

That's very helpful. Thanks again.

James von Moltke

Thank you.

Dan David
(Autonomous)

Afternoon, all. Congratulations on the results, and thanks for taking my questions. Just got a couple of topics I want to cover. And unfortunately, they've been mentioned already, but they're just slightly different angles. The first one is just on CRE. I think on the equity call, you might have mentioned that you are looking to be a seller of a CRE portfolio. Is it right to assume some of the stage 3 top-up was related to getting the marks in line with what you need to have to be able to sell? And can you just talk about the prospects here? How do you see the market? Do you think you'll be able to offload that portfolio in, say, a year's time? And how do you see yourself going forward? Is there potentially more sales coming? That's just on CRE.

The second topic is on AT1 calls, and apologies for going there again, but clearly it's a focus of the market. If I look at the bonds that are callable in April, the 7.5% is trading to call, and the 4.789% is not, or partially not.



Is that the right way the market should be looking at it? And I know you've talked about FX, but is LIBOR an impact on how you see those calls as well, and what you've done with the resets?

And then, finally, you mentioned that there's really strong demand for your name in primary, so I'm trying to work out what's stopping you from doing an LME and printing an AT1 at the moment. So, if you could print, let's say, 100 basis points within the reset, would you see that as economic? Thanks.

James von Moltke

It's James. I'll take the CRE sale question, and then Richard to speak about the AT1. We put that portfolio into the market in early August. And subject to pricing and other terms, it would be our intention to transact on it. It's approaching € 1 billion. It's obviously higher in dollars, I think it's about \$ 1 billion, a little less in euros. We have received bids, and so in these things, you work through the bids and the bid packages, if you like. And so, we have marked to the bid levels, or where we think we can execute based on the bids. That caused us to take about € 23 million in CLPs in the quarter. So, the number that I think is € 68 of CLPs in US CRE in the third quarter includes the € 23 million mark to market, if you like, that is there.

All things equal, we would intend to execute and close that transaction in the fourth quarter. I don't see, at the moment, a strong need or interest in pursuing additional sales, but I couldn't rule it out. We'll see over time. This has been, I think, mostly predicated on testing the market and also the capital relief that we get from unloading the billion of net loans outstanding. Incidentally, one thing I mentioned on yesterday's call, you didn't ask, but it was of that amount, about a third, a little bit more than a third, of the total portfolio with stage 3. So, the mark is of mix of the portfolio.

Richard Stewart

Thanks, James. Thanks, Dan. So, yes, the AT1 question, and it's obviously a topic, as you rightly say, investors are strictly focusing on. I think your observation, obviously I can't really comment on the



market, per se, but I think, just from the coupon and the reset levels, which for the existing bonds callable in April, then the pricing approach reflects those different coupons, essentially, which are out there. So, I think that's perfectly reasonable.

In terms of liability management, it's a useful tool. We have seen our peers do that to reduce carry costs, that's something that we consider. We have done it in the past. So, we wouldn't rule out, but at the same time it's something which we're still working through our own planning processes at the moment. So, it's just, unfortunately, a little bit too early for us to comment on our AT1 strategy right now.

Dan David

Thanks, both.

Ibraheem Radi
(Lazard)

Thank you for taking my question. I'm sorry for coming back on the AT1 calls. My question, again, is on the economics of the call. How do you balance between economics on a transaction-by-transaction basis versus funding costs on the whole cap stack? And number two, regarding these economics, how much does investor expectations weigh? Because as investors, our expectation is that the three AT1s should be called on the first call date. Thank you.

Richard Stewart

Yes. I think the investor expectations, I think, is very clear. That's something I hear on a very regular basis. And so I'm cognisant of the market expectations and the behaviour of peers as well. For us, we think about the first phase on a deal-by-deal basis in terms of the economics, in terms of what makes sense for us. We're, of course, well aware of the investor sensitivity around that. If we were not to call, we have done it in a prior life, and so when we currently have reasonable expectations about what that would mean for the overall stack. But we have to think about all our stakeholders, and they include both debt and equity investors, as well as other parties. So, in general, we appreciate sort of giving a response which doesn't probably give you too much guidance, but at the same time, as I've been saying on the last few calls that we've



had on this topic, we're still refining that AT1 strategy, and it's just not appropriate to go into too much detail right now.

Ibraheam Radi

Okay. Thank you.

Louise Miles
(Morgan Stanley)

Hi, there. Good afternoon. Just two quick questions from me. You'll be pleased to know neither of them are on the AT1. I just want to ask about the Tier 2, actually, and whether you're thinking about optimising your capital stack a little bit more, because I noticed that you've got a little bit of room on the Tier 2 bucket, so good to understand your thoughts on that. And then just finally, what about M&A? Is there anything that you're thinking about in terms of areas of the business where you want to bolster operations? Just to give us a little bit of a reminder on that, please, that'd be great.

Richard Stewart

Sure. The capital stack, I think we're feeling pretty good about the overall shape of things. Obviously, we kind of think about the AT1 bucket and the Tier 2 bucket together. I think both have effective uses. I think on the AT1 side, that we saw just internal demand for leverage, which sort of has a slightly heavier towards AT1s, but that overall, we're pretty happy with the shape of the stack for our purposes. And again, from a loss-absorbing capital perspective and how we think about MREL overall. So, yes, I think you're right to point out in terms bucketing, but when we think about the AT1 and Tier 2 buckets in total and the needs of the business that we have, then the behaviour is appropriate for right now.

James von Moltke

And then on M&A, in terms of larger combinations, we get asked this question a lot because of events over the course of the quarter, and we've been very clear about just being 100% focused on executing our strategy, and so hopefully those messages have been received. On what you'd call smaller bolt-on type transactions, we've never ruled that out. But in fairness, we've been pretty focused, beyond the larger mergers, on our own strategy. We've looked from time to time, and as you've seen, the Numis transaction was the first expansionary



transaction in many years. As I say, I won't rule out that other opportunities like that come up in time, but it is not the focus of this management team, given how much we still need to deliver, looking into 2025.

Louise Miles

Thanks.

James von Moltke

Thank you, Louise.

Lee Street
(Citi)

Just a quick technical one. On the € 789 million benefit, 20 basis points under Article 468, how long do you keep that benefit for, please? How long does it stay on the reg cap?

Richard Stewart

It's a transitory rule, so it reverses in January 2026.

James von Moltke

But remember, Lee, whatever amount of unrealised loss is still present on January 1st, 2026 gets reversed into the ratio, right? So that'll change based on interest rates and also portfolio run-off and what have you. So, it's not a static number.

Richard Stewart

Sorry, Lee, actually I might have been a day out, so it might not be 1st Jan 2026, it might be the end of Dec 25. If that makes a difference.

Lee Street

Okay. All good.

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