Deutsche Bank AG

Deutsche Bank Q1 2025 Fixed Income Conference Call

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Transcript

Speakers:
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Richard Stewart, Group Treasurer
Philip Teuchner, Investor Relations

Slide 2 – Resilient operating performance drives increasing profitability

- Thank you, Philip, and welcome from me
- Before we turn to our performance, I want to offer my perspective on recent events
- The geopolitical landscape is rapidly evolving, and uncertainty and volatility are likely to stay elevated for the time being
- We still believe globalization will persist, but we expect to see a substantial reordering of trade corridors and supply chains, and this may accelerate some of the long-term trends we have spoken about for some time
- Let's turn to our resilient operating performance on slide 2
- We delivered pre-provision profit of 3.3 billion euros, up 34% year on year
- Revenue momentum, combined with cost discipline, resulted in strong operating leverage of 11% with each division delivering positive operating jaws
- The reported post-tax return on tangible equity of 11.9% in the quarter underpins the bank's ambition to deliver sustainable returns of greater than 10% in 2025 and beyond
- Our revenue quality is strong with 71% from more predictable streams in the Corporate Bank, Private Bank, Asset Management and FIC Financing
- Net commission and fee income increased by 5% year on year, in line with our goals and reflecting our strategic investments
- Net interest income in key banking book segments and other funding also remained resilient year on year
- Noninterest expenses declined 2% year on year to 5.2 billion euros, as nonoperating costs normalized as expected
- Our progress on operational efficiencies enabled us both to deliver adjusted costs in line with plan and continue to self-finance investments
- Turning to slide 3, let us now look at the progress with our 2025 delivery

Slide 3 – Progress across strategic pillars provides confidence in 2025 delivery

- Turning first to revenue growth, since 2021, we have achieved a compound annual growth rate of 6.1%, within our target range of 5.5 to 6.5%
- Double-digit first-quarter revenue growth versus the prior year quarter contributed 700 million euros towards our target of 2 billion euros incremental revenues in 2025
- Second, in respect of operational efficiencies, we have reached 85% of our 2.5-billion-euro target
- Third, we made further progress with our capital efficiency measures, with 4 billion euros of RWA reductions delivered this quarter through a combination of data and process improvements and a securitization transaction
- This brings our cumulative RWA benefit to 28 billion euros, at the high end of the bank's target range of 25 to 30 billion euros by the end of this year
- With 2025 targets in sight, let me now spend a few words on how we are well positioned to help navigate clients through the dynamic environment, on slide 4

Slide 4 – Leading franchise strongly positioned to support clients in dynamic environment

- In Germany and across Europe, we see fresh commitment to support growth, boost competitiveness, and accelerate reform
- We believe Germany's loosening of the debt brake will unlock considerable investment opportunities and the proposed pension reforms are expected to boost activity in the capital markets
- At the European level, we see commitments to invest in defense and infrastructure and a much-needed embrace of structural reforms, for example, the Savings and Investment Union and measures to develop the securitization markets
- Globally, trading patterns are shifting, supply chains are being rewired, and new partnerships and alliances are emerging
- All of this plays to our strengths. Clients need a partner with the expertise, financial strength, product breadth and "global- and-local" network to help them navigate this changing environment

Slide 5 – Targeted loan growth in strategic portfolios

- Let us now turn to quarterly developments, starting with our loan book on slide 5
- During the first quarter, we have seen loan growth of 4 billion euros adjusted for FX effects
- In the Investment Bank, we continued to deliver against the strategic objective to grow FIC Financing supported by the acquisition of a secured loan portfolio
- In both the Corporate and Private Bank, loans remained essentially flat during the quarter as macroeconomic headwinds continued to weigh on client demand
- We are pleased with the underlying quality of the loan book with around two thirds originated from clients located in Germany and Europe, underlining our aspiration to become the European champion and the first choice for our clients

Slide 6 – Stable and well diversified deposit portfolio

- Moving now to deposits on slide 6
- We continue to manage a well-diversified portfolio which further grew by 6 billion euros during the first quarter adjusted for FX effects
- The quality of the portfolio remains strong across client segments and products, with a significant share of insured retail deposits
- Let us now look at the underlying trends within our segments
- In the Corporate Bank, the deposit portfolio has grown during the quarter adjusted for FX effects driven by high engagement with our corporate clients. Serving our clients needs and maintaining strong relationships remains our key priority
- Private Bank balances remained broadly stable, with underlying momentum from our deposit campaigns in the German Retail segment
- For the remainder of the year, we see further opportunities to modestly grow our deposit book while closely observing developments in the broader economic environment

Slide 7 – Banking book net interest income (NII) expected to increase in 2025

- Turning now to net interest income on slide 7
- NII across key banking book segments and other funding was 3.3 billion euros, broadly stable quarter on quarter
- As in prior quarters the Private Bank continues to deliver strong NII supported by our structural hedge portfolio while FIC Financing continues to grow the lending book
- The Corporate Bank is slightly down compared to the prior quarter principally due to accounting reclassification effects in Loan NII which are offset in remaining income
- Deposit NII was broadly flat as hedge benefits offset a reduction in policy rates and portfolio growth remained strong
- With respect to the full year, in line with prior guidance we continue to expect a material NII tailwind versus 2024 for the key banking book businesses which is principally driven by the hedge rollover and deposit growth

Slide 8 – Long-term hedge contribution protects NII in volatile rate environment

- Looking at page 8, based on the market implied forward curves as per the end of March, we can see that our hedge portfolio positions us well in an uncertain rate environment
- The shaded area shows the roll-over benefit, indicating the annual volume to be replaced, as most of our hedges are 10-year swaps
- Compared to year-end 2024, higher long-term rate expectations, specifically in Euros, increase the expected benefit of our hedge portfolio in the outer years
- Looking at 2025, the income from our hedge portfolio represents an increase of approximately 300 million euros year on year, with more than 90% of the income secured through existing positions

Slide 9 – Sound liquidity and funding base at targeted levels

- On slide 9 we highlight the development of our key liquidity metrics
- The Liquidity Coverage Ratio at the end of Q1 increased by about three percentage points to 134% which is mainly driven by strong deposit inflows in our Corporate Bank

- With net cash outflows being materially unchanged quarter-over-quarter, the stock of 231 billion euros of HQLA and the surplus above 100% increased by about 5 billion euros
- We continue to maintain a high-quality liquidity buffer and hold about 95% of HQLA in cash and Level 1 securities
- Our funding profile remains strong across maturity tenors and currencies
- The Net Stable Funding Ratio at 119% reflects a stable funding base with more than two thirds of the Group's stable funding sources coming from our global deposit franchise
- The surplus above regulatory requirements decreased to 99 billion euros

Slide 10 – CET1 ratio remains strong

- Turning to capital on slide 10
- Our first-quarter Common Equity Tier 1 ratio remained strong at 13.8%
- The CRR3 go-live impact was 1 basis point since the reduction in credit risk-weighted assets was largely offset by reductions in capital supply and an increase in operational risk RWA
- Aside from the CRR3 go-live impact, risk-weighted assets increased, principally reflecting a normalization of market risk RWA, as previously guided
- This increase was partly offset by a reduction in credit risk RWA as higher business growth was more than offset by capital efficiency measures, including a securitization transaction during the quarter
- CET1 capital increased, as the strong first-quarter net income net of AT1 and dividend deductions was offset by equity compensation, the FX impact on account of the AT1 call and other capital changes

Slide 11 – Capital ratios well above regulatory requirements

- Our capital ratios remain well above regulatory requirements as shown on slide 11
- The CET 1 MDA buffer now stands at 252 basis points or 9 billion euros of CET1 capital

- The 11 basis points quarter on quarter reduction reflects our 14 basis points higher CET1 Pillar 2 requirement applicable since January 1st, the slightly lower CET1 ratio at quarter-end and a reduction of the systemic risk and countercyclical capital buffer requirements
- The buffer to the total capital requirement reduced by 13 basis points and now stands at 318 basis points
- This reduction principally reflects the movement in our CET1 ratio buffer
- The 1.5 billion Euro AT1 issuance in March more than offsets the AT1 call we announced for April and almost neutralizes the 11 basis points higher Pillar 2 requirement related to AT1 and T2 capital

Slide 12 – Leverage ratio stable

- Moving to slide 12
- At the end of the first quarter, our leverage ratio was 4.6%, up by 1 basis point, as higher trading inventory and growth in high-quality liquid assets were offset by higher Tier 1 capital, alongside beneficial FX and CRR3 effects

Slide 13 – Significant buffer over MREL/TLAC requirements

- We continue to operate with a significant loss-absorbing capacity, well above all requirements, as shown on slide 13
- The MREL surplus, our most binding constraint, stands at 22 billion euros at the end of the quarter
- The reduction of 1 billion euros compared to the prior quarter reflects lower MREL supply from total capital and a net reduction in eligible liabilities
- 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 14 – 2025 issuance plan well progressed

- Moving now to our issuance plan on slide 14
- We reaffirm our previous guidance to issue 15-20 billion euros to meet our 2025 funding requirements
- Since the last fixed income call, we issued a total of 4.3 billion euros, mainly driven by higher-beta senior non-preferred and AT1 issuances
- Our recent 1.5 billion euro AT1 security attracted an orderbook in excess of 10 billion euros, allowing pricing at the tightest spread for a Deutsche Bank euro AT1 since 2021
- Looking at the total year to date issuance volume vs. the mid-point of our guidance, we have already completed more than a third of our issuance plan
- This gives us flexibility regarding the timing of further issuance, which is particularly helpful in times of elevated macro uncertainty
- After our call / non call announcement on March 21st, our focus is now on the third US-dollar denominated AT1 security, with an upcoming call date in October 2025
- I would note that there is a small positive revaluation impact on this instrument at current FX rates and the coupon would reset to roughly 8.5% based upon current markets
- We will take a decision on this security closer to the call date on October 30th after considering several factors, including capital demand, refinancing levels versus reset, FX effects impacting CET1 as well as market expectations

Slide 15 – Summary & outlook

- Before going to your questions, let me conclude with a summary on slide 15
- Our outlook remains largely unchanged, and we are on course to deliver our full-year targets for 2025
- Our strong revenue performance in the first quarter provides the step-off to deliver this year’s revenue goal of around 32 billion euros, with our complementary businesses all performing well
- We remain committed to rigorous cost management, while not compromising on controls and investments, as we continue to benefit from ongoing delivery of our cost efficiency initiatives

- Our asset quality remains solid, and we continue to expect Stage 3 provisions to normalize this year. We are maintaining our full year guidance for provision for credit losses, but the macroeconomic and geopolitical environment may continue to impact model-based Stage 1 and 2 provisions
- We remain comfortable with our trajectory to deliver a RoTE of above 10% and a cost/income ratio of below 65% in 2025, with strong operating leverage and balance sheet efficiency remaining the levers to also deliver further improved profitability beyond 2025
- Together with our robust capital position and strong earnings momentum, we believe that we are well equipped to continue to support our clients globally and to provide advice and solutions as they navigate this time of uncertainty
- With that, let us turn to your questions

Questions & Answers

Daniel David (Autonomous)	Good afternoon all. Congratulations on the results. I've got three questions please. The first is just on the recently announced reduction in the systemic residential real estate buffer from BaFin. Could you just maybe provide some guidance on the impact on your capital ratios and the timing there? The second one is a broader one on NII. I think you reiterated 13.6 billion euros guidance but given the headwinds from FX and lower ECB rates, this looks quite challenging. Can you just give us a view on how you hit that NII target, also across the divisions? And the third just relates to SRT. So, I know your comments on some RWA optimization in the quarter. I'm interested in what total SRT benefit you recognize in your capital ratio. So put a different way: if you couldn't roll the SRT outstanding at the moment, what impact would that have on your capital ratios and what are you planning to hit longer term? Thanks.
Richard Stewart	Thanks Dan, and welcome to the call. So may I sort of take the order in sequence. I guess like you said, there was an announcement which came out a little bit earlier this morning on the central buffer with regard to German retail mortgages. The reduction of our CET1 MDA requirement will be just under 10 basis points for us. So, to give you an idea about the order of magnitude. I think

it's very welcome and helpful particularly to support lending to the real economy. And I guess as we mentioned on our previous call, we do sort of feel that there are various things on the horizon. Obviously, we're subject to regulators thinking but where we kind of feel recently in a high-water mark in terms of our MDA. In terms of net interest income as we kind of said on the call yesterday. We reiterate our guidance we kind of gave last quarter, which is 13.6 billion euros is the kind of right number for our banking book and other funding NII and that's sort of an increase sequentially of around 400 million euros from 2024. And that benefit will come from primarily the Private Bank but also supported by the growth which we have been talking about for a while strategically in our FICC Financing business. As you would have seen, the Corporate Bank is still expected to be kind of flat for the year and that's despite a revenue neutral accounting reclassification offset that we made where NII is a little bit lower, remaining income is a little bit higher. So net net is flat from a total revenue basis. But from a NII perspective, the Corporate Bank is still expected to maintain its momentum and be unchanged year on year from 2025 to 2024. These outlook measures are as of the end of Q1 FX rates. While there is some sensitivity to NII from dollar rates, as you would expect, the impact from our ratios is going to be pretty close to home for us just because we have costs and equity which is denominated in dollars. So, in terms of the RoTE target then that's something which is particularly FX sensitive.

And then in terms of the SRT benefits. So, the way we think about that is a) the real driver of the platforms that we've had, we've been operating for the last 20 years have been to manage our credit concentration risks. And so that's kind of the primary benefit we have. Obviously, there is an RWA benefit for that, but the idea is suddenly stopping is not something we would do if we were abundant in capital just because we would want to always manage our credit risks prudently. But I think if you want to talk about a number, then as of the year end of 2024, you're probably looking at a sort of 15 billion euros or so RWA number.

Daniel David	Thanks. And is that 15 billion euros kind of where you're going to be longer term or is that looking to grow over time?
Richard Stewart	So I think like you say, I think over the last RWA benefit over the last few years has been very stable as we kind of generally manage the credit concentration exposures. We have had a more move to sort of seeing those further RWA efficient and capital efficient kind of structures that we can do and hence why it's been kind of growing the last couple of quarters. We kind of think that there is some, some modest room for growth over the next few years.
Daniel David	Thank you, really appreciate the detail.
Lee Street (Citigroup)	Hello, good afternoon all. Well done results and thank you for taking my questions. Just following up on the NII point, I guess when you think about your balance sheet, what's more important for the bank in terms of future revenue growth? Is it the absolute level of ECB policy rates or is it the shape of a yield curve? I ask because obviously the shape of yield curve seems becoming more important as we talk more and more about the structural hedge. So, what's more important, base rates or the shape of the yield curve? First question. Secondly, on risk weighted assets, these are sort of moved in a 350 to 360 billion euros range for a few years now. So, given the fiscal package and the other measures you highlight, should we be expecting Deutsche Bank to materially grow or materially break out of this range as we look ahead? And then just finally a point of detail. Obviously on the 4.789%, the AT1 that wasn't called, I believe it was set tonight. But what's your world that currently set based on your current numbers? That'd be helpful to know. That would be my three questions. Thank you.
Richard Stewart	Thanks Lee. So, I will take each question in order. So, in terms of yield curve absolute or not from a hedging perspective then for us the sensitivity is much more to long end rates. As you will see we're generally well hedged for short end rate moves and generally what really drives our hedge income is the rollover to longer dated swap tenors. And so, it's really the absolute level of tenure is what becomes relevant for hedging. And as

	you kind of see in our sensitivity slides, we're kind of part of our overall strategy of ensuring a stable NII through the cycle, then we're pretty well hedged for the next couple of years with sort of 90% of our exposure kind of hedged. What that kind of means is that's for local moves. Obviously, if we had a very severe move down in rates, we would end up in what we call margin compression tariffs where it becomes harder to pass on rates to clients or pass on the policy rates to clients just because you hit a natural floor. And from a risk management perspective, we have downside protection on our books right now to protect against that scenario.
Richard Stewart	So, the answer to your question very simplicity is long end rates is really the thing to be looking at. And then in terms of growing of RWA. So yes, you're right, we have been around that kind of sort of level. But going forward you should be expecting us to grow RWA as we continue to develop our business. Obviously, we're looking to we see still plenty of opportunities coming through as Christian was alluding to on the call yesterday, particularly in Germany, but also around trade corridors just because of the unique set-up we have with the Hausbank strategy. So, we are in a position to lend, we have the capital to do so. And again, you know how we're thinking about that is again we alluded on the core is ensuring that we kind of do that in a way which is adding value to shareholders. So, it will be done in a targeted manner and will be done from a risk management perspective done in conjunction with ensuring we really are risk appetite. And if we have to put on appropriate hedges, we will do that through SRTs, as we discussed. But generally, we're open for growth subject to those constraints. And I guess I kind of missed the last question that you had, actually. Can you just repeat it?
Lee Street	Yeah, it was just on the Additional Tier 1 security that wasn't called - the 4.789%. Where do you expect the coupon to reset to? Just when it sets tonight.
Richard Stewart	I think it's around 8.13%, something like that.
Lee Street	Okay. All right. Helpful.

Rob Smalley (Verition)	Hi, thanks for taking my questions. I've got a few, a couple from yesterday's call. First, you were asked about any kind of adverse RWA change around changes in far and volatility in the market. My question on that is really as we went through some market volatility recently, was there anything out of pattern that came out of that? How did you feel that risk management went? Were there any risk management driven requests for additional liquidity? This is my first question. Secondly, you talked about the net stable funding ratio a little bit on the equity call, and I think you wanted to elaborate on EBA and the matching. If you would, I'd appreciate that. And then third, in terms of exposure to non-bank financial institutions, it seems that you've got very small exposure there. If you could elaborate on that and where it is, is it more BDCs, Is it more securitization? Is it private equity? Could you give us a flavor of what your exposures are there? Thanks.
James von Moltke	So, Robert, it's James. I'll jump in on the first question and ask Richard to do the second to look, as I mentioned on the call yesterday to that question. We think at least as things stand right now, the market risk RWA impacts of the sort of unsettled markets in the first couple of weeks in April likely will wash out by the end of the quarter. So, we don't necessarily see an uptick driven by that alone. Although, it very much depends on how the markets evolve from here. If there's another sort of bout of turbulence. Obviously, it can have an impact. I think the second thing just to point to is the stressed VaR is one of three features that drives the market risk RWA and sort of each quarter we have to retest what the stress scenario window is. And as it happens, we move to the COVID window in Q2, which is a sort of a credit heavier window. And that did cause an sVaR spike in the early part of the quarter, which again we've mitigated now through hedging and portfolio actions, which I think will wash out on the averaging by the end of the quarter or more or less mostly will have washed out. But that was an interesting feature of our risk management in the early days. Interestingly, we'd gone in relatively recent risk flat, so that was helpful for us. And so as in part the answer to the, to your third part of the question, it was an, it was an unsettled time for sure. There were correlations breaking down that basis risk that, you

know, moved out, but nothing that we see in our trading outcomes that fall outside of our risk appetite. And I think we were pleased, as I think I mentioned yesterday, that our desks kind of stood in, provided liquidity and pricing and we managed through that period of volatility quite well. From a liquidity perspective and actually also margin calls and what have you there was nothing at all unusual that we saw in the environment in those days. So, unlike some of the stresses that we've gone through, as you know, in the markets over the past several years, it looked to us to be quite orderly in terms of kind of margin call activity, liquidity conditions in the marketplace, despite what was sort of headline grabbing around the US treasury market and what have you.

So, all in all, I think that period of unsettled markets we were able to travel through and I think the industry as well, reasonably.

Richard Stewart

Thanks, James and hi Rob, how are you? So, I guess you are referring to the EBA NSFR paper which kind of came out in early April I guess. So, we sort of sort of tipped our hat to it. I think you'll see it on page 17 of this fixed income presentation where we kind of point to the fact that 90% of our assets are funded with native dollar assets are funded with dollar liabilities. And that was more me to sort of put across the fact that for us we don't feel currency NSFR is particularly meaningful, useful kind of piece of information or way to think about risk or the shape of the balance sheet. And so, we kind of felt it was easier to sort of put that sort of 90% number out there. Do we just sort of give it a flavor and a sort of confidence around the fact that we're not concerned at all about our dollar liquidity position and we have a reason why we believe that is, is one that our balance sheet in the US is a little bit different from the rest of the group in the sense that it's the asset side is much more liquid in terms of a) the type of assets we have on there tends to be securities or SFTs as well as cash. And then on top of that, the tenor of that is much shorter than our longer dated native liability. So, in terms of how you think about that for an NSFR prism, you should take some comfort from that. Likewise, as James said, yes, loans to deposit ratio there is higher in the US than it is at group. And then when I think about our stress testing framework, and obviously this is something which has been tried and tested over a number of years, our dollar stress testing framework is very rigorous. And how we think about things from an internal stress testing perspective just gives us plenty of comfort in terms of our balance sheet there. And it's not something we haven't talked about in terms of currency because we just don't find it useful. But hopefully that gives you a little bit more flavor as to why we're very comfortable in terms of for example, the remaining balance is funded through cross currency swaps, but those have a tenor weighted average life well excess of one year which obviously if it was included in the NSFR calculation, which is one of the currency and SFR calculation. If it was included, then you'd have numbers which would be well in excess of 100%. So, we're very comfortable with our dollar position. And I guess your third piece was around, I think was around what's the sort of the private capital equity exposure, is that right?

Rob Smalley	Right. The non depository financial institutions disclosure.
Richard Stewart	Well, maybe I'll jump in for a second on it. Go ahead, Robert.
Rob Smalley	Oh, no, just BDCs, private equity, etc. in terms of exposure that you have there.
James von Moltke	Yeah. Look, to be honest, the public disclosure of that isn't very helpful. And we've had actually inbounds from time to time on NBFI exposures and how you can understand from our Pillar 3 reporting what is really there. And to be honest, it's not very helpful our external reporting on that. I will say one thing. We have a lot of financial institution and also clearinghouse exposures that get caught in that reporting. So, it looks like big numbers, but that's just a function of the business that we're what we're in and not a good representation of what I call credit risk, real exposure. We have been because it's an industry topic and also a regulatory topic naturally, as have our peers been looking at the broader exposures that we have to what I'll call alternative asset managers. I think it's a good question and again, publicly available data isn't very good to help investors get a

sense of that exposure, an absolute sense for an individual institution or comparatively across the industry it sort of doesn't exist. But there I think we feel very comfortable with the exposures that we do have. I mean they tend to be highly collateralized; they tend to be in structures that we lend to, sponsored by these. The alternative asset managers. Also, sometimes NAV financing, sort of subscription financings, other types of financings that we engage in. Again, very relatively speaking, low risk, highly collateralized, good sort of quality obligors standing behind those. But there's not much more I can really point to in terms of public disclosure to help you get a sense of that. Rob, I'm afraid.

Rob Smalley — No, that's very helpful. It's definitely a work in progress for the industry as a whole. So, I appreciate your comments. Thank you.

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