Deutsche Bank AG

Deutsche Bank Q1 2025 Analyst Conference Call

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Prepared remarks CEO and CFO

Speakers:
Christian Sewing, Chief Executive Officer
James von Moltke, Chief Financial Officer
Ioana Patriniche, Head of Investor Relations

CHRISTIAN SEWING

Slide 2 – Well-positioned to support clients and deliver on 2025 targets

- Thank you Ioana, and a warm 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. This will likely impact the world economy. 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
- And we are particularly encouraged to see what is happening in our domestic market with regards to fiscal changes and structural reforms, leading to a much-needed economic boost for Germany and Europe
- All of this underscores why we believe our *Global Hausbank* business model and four strong businesses position us very well to support clients through these unsettled times. And already, since the start of the second quarter, we're seeing clients increasingly seek our expertise and advice
- Now, let me turn to our results. We are very pleased with a very strong first-quarter performance
- We delivered revenues of 8.5 billion euros, up 10%, a strong start towards our full-year revenue objective of around 32 billion euros
- Our cost/income ratio was 61% with adjusted costs of 5.1 billion euros, in line with full-year guidance
- Our loan portfolio quality remains solid. Stage 3 provisions are down nearly 30% year on year, normalizing as expected, while Stage 1 and 2 provisions were higher and included overlays in this more uncertain environment
- Our pre-tax profit of 2.8 billion euros was up 39% year on year
- And with net profit of 2 billion euros, our return on tangible equity was 11.9% in the first quarter
- Our CET1 ratio of 13.8% sets us up well for the rest of the year, both to support our clients and reward shareholders
- To summarize, the start of the year was very strong. We believe that we have the right business model both to face uncertainties in the environment, as well as to steer the bank towards delivery of our 2025 targets

- Beyond that, we have a clear management agenda for further developing our *Global Hausbank* offering for our clients, and sustainably increasing returns for shareholders beyond 2025, which I will talk about shortly
- Let's now turn to our resilient operating performance on slide 3

Slide 3 – Resilient operating performance drives increasing profitability

- 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 operating division delivering positive jaws
- Revenue quality is strong; 71% came from more predictable revenue 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 4, let's now look at the progress with our 2025 delivery

Slide 4 – 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 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, with 2.1 billion euros in cost efficiencies either delivered or expected from completed measures
- 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
- We have announced capital distributions of 2.1 billion euros this year, including the 2024 dividend and our recently launched share buyback program
- This will take cumulative capital returns to 5.4 billion euros since 2022, and we remain committed to surpassing our capital distribution target of 8 billion euros in respect of the years 2021 through 2025
- Put simply, our 2025 targets are in sight. Let me now turn to our long-term management agenda on slide 5

Slide 5 – Embedding our management agenda for strategic delivery beyond 2025

- Our aim is to deliver a sustainable increase in returns through three levers; increasing value generation for shareholders, re-engineering our target operating model, and reinforcing leadership
- First, we will deploy Shareholder Value Add methodology in our planning process and decision-making to optimize resource allocations across the Group
- And progress is underway; in the Private Bank we have reduced RWA exposures in below-hurdle mortgages, and in the Corporate Bank and Investment Bank we are undertaking client-level reviews
- We are also making progress in re-engineering our target operating model. In the Private Bank, we continue to transform our Personal Banking operations by reducing branches and moving to digital channels, resulting in a planned reduction of almost 2,000 FTEs
- We are transforming our Corporate Bank German platform and overhauling front-to-back processes in the Investment Bank, leading to improved client experience and efficiency

- Finally, we are strengthening leadership by streamlining governance structures. We have already reduced our committees, councils and internal policies by about half. This speeds up decision-making and increases accountability while maintaining a robust control environment

Slide 6 – Leading franchise strongly positioned to support clients in dynamic environment

- As promised, a few words on how we are well positioned to help clients navigate through the dynamic environment, on slide 6
- 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 much-needed embrace of structural reforms, for example, the Savings and Investment Union and measures to boost securitization
- 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
- And we aim to be that partner, as our leading franchise and diversified businesses are best placed to advise clients at European and global levels
- Our Corporate Bank was voted World's Best Bank for Corporates by clients. We combine global reach with local presence to support multinational clients as their supply chains evolve. We are already a partner of choice, with around 40% of our revenues with multinationals coming from cross-regional corridors
- With deep roots in Europe and in Germany's *Mittelstand*, we are ideally positioned to help clients benefit as fiscal stimulus feeds through to the real economy
- Our Investment Bank is also ideally placed to help institutional and corporate clients navigate this environment

- We have the leading global non-US FIC franchise; we were the top-ranked European bank in global SSA issuance and in EMEA cash rates, while in Germany, we have the leading O&A franchise
- And we are well positioned to support the broader German and European defense agenda, where we have the leading franchise in Aerospace & Defense in Germany, providing clients with holistic global coverage
- We are also Germany's leading Wealth Manager and Retail Fund Manager through our Private Bank and Asset Management businesses. This positions us well to help clients capitalize on savings and investment reforms
- We have already rebalanced our Wealth Management business mix resulting in increased asset under management flows, and we continue to scale up in our core growth markets
- DWS, with assets under management of over 1 trillion euros, record net inflows of 20 billion euros in the first quarter and a market share of 11% in European ETFs, is ideally placed, not only to serve German and European investors, but also to act as a gateway to Europe for investors globally
- To sum up, across all our businesses, we believe we are very well positioned to serve German, European and global clients in a fast-changing environment
- With that, let me hand over to James

JAMES VON MOLTKE

Slide 8 – Key performance indicators

- Thank you Christian and good morning
- As you can see on slide 8, we saw strong delivery this quarter against all the broader objectives and targets we set ourselves for 2025
- More importantly, we have done so without compromising on our investments, be it to support operating performance or our controls
- Our capital position is robust, after absorbing deductions for dividends, share buybacks and AT1 coupons, and the CRR3 impact
- Equally, our liquidity metrics are sound; the liquidity coverage ratio was 134%, in line with our target, and the net stable funding ratio was 119%, at the upper end of our target range

- And while we recognize that the last few weeks have been turbulent and resulted in a significant amount of volatility and uncertainty, reflecting on the path ahead, our balance sheet remains strong
- As shown on slide 28 in the appendix, asset quality is sound, the bank's liquidity profile is strong and 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
- Our prudent approach to managing our trading book also paid off in April. Our trading P&L has stood up well throughout the market volatility and developed in line with the bank's risk appetite
- With that, let me now turn to the first-quarter highlights on slide 9

<u>Slide 9 – Q1 2025 highlights</u>

- We have demonstrated strong franchise momentum across the bank
- Investments across businesses continue to pay off, which drove a significant increase in revenues, both sequentially at 18% and year on year at 10%
- And the balanced portfolio mix also enables us to weather times of uncertainty
- Our cost/income ratio of 61.2% benefitted both from our continued cost discipline and a normalization of nonoperating costs. Noninterest expenses in the first quarter are in line with our guidance for 2025
- Profit generation was strong and our post-tax return on tangible equity of 11.9% underpins the bank's ambition to deliver sustainable returns of greater than 10% in 2025 and beyond
- Our tax rate in the first quarter came in at 29%
- In the first quarter, diluted earnings per share was 99 cents and tangible book value per share increased to 30 euros and 43 cents, up 4% year on year
- Before I go on, let me add a few remarks on Corporate & Other, where you can now find further information in the appendix on slide 39
- With respect to developments this quarter, C&O generated a pre-tax loss of 34 million euros, mainly from shareholder expenses and other centrally retained items, partially offset by positive revenues in valuation and timing

- But let me now turn to some of the drivers of these results and start with net interest income on slide 10

Slide 10 – Net interest income (NII) / Net interest margin (NIM)

- NII across key banking book segments and other funding was 3.3 billion euros, broadly stable quarter on quarter
- As in prior quarters, Private Bank continues to deliver strong NII supported by our structural hedge portfolio while FIC Financing continues to grow lending
- 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 for the key banking book businesses and other funding versus 2024 which is principally driven by hedge rollover and deposit growth
- Compared to our disclosure a quarter ago, higher long-term rate expectations, specifically in Euros, increase the expected benefit of our hedge portfolio in the outer years
- In the appendix on slide 26, we illustrate the dynamics of the interest rate hedge in more detail

Slide 11 – Adjusted costs – Q1 2025 (YoY)

- Turning to slide 11, adjusted costs were 5.1 billion euros for the quarter, in line with our expectations
- Cost discipline across the franchise remained high and materially offset an increase in compensation costs. This was driven by higher performance-related cash accruals and increased equity compensation costs, as the result of rising Deutsche Bank and DWS share prices during the first quarter
- With that, let me turn to provision for credit losses on slide 12

Slide 12 – Provision for credit losses

- Stage 3 provision for credit losses materially reduced in the first quarter to 341 million euros, in line with expectations
- Stage 1 and 2 provisions were elevated at 130 million euros and included around 70 million euros of provisions related to the impact of weaker macroeconomic forecasts on forward-looking information, as well as overlays, including for direct tariff-driven impacts on select higher risk names. The remainder was driven by model- and portfolio-related effects
- We feel comfortable with our underlying portfolio performance and the development of provisions, but we recognize the ongoing uncertainty around the macroeconomic environment and monitor these developments closely
- With that, let me turn to capital on slide 13

Slide 13 – Capital metrics

- 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 RWA 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
- At the end of the first quarter, our leverage ratio was 4.6%, up by 1 basis point, as higher trading inventory and high-quality liquid assets were offset by higher Tier 1 capital, alongside beneficial FX and CRR3 effects
- With regard to bail-in ratios, we continue to operate with significant buffer over all requirements
- In short, our capital position remains strong

- And with that, let us turn to performance in our businesses, starting with the Corporate Bank on slide 15

Slide 15 – Corporate Bank

- In the first quarter, the Corporate Bank delivered a post-tax return on tangible equity of 14.4% and a cost/income ratio of 62%, despite an uncertain geopolitical and macroeconomic environment and lower interest rates
- Revenues were 1.9 billion euros, essentially flat sequentially and year on year, supported by interest rate hedging, higher deposit balances and growth in net commission and fee income, mostly offsetting ongoing deposit margin normalization
- We continued to make good progress by further accelerating noninterest revenue development with 6% growth in net commission and fee income and benefitting from a particularly strong contribution from our Institutional Client Services business
- The deposit base remained strong. Adjusted for FX movements, deposits were up by 13 billion euros year on year and by 6 billion euros sequentially
- Provision for credit losses was contained at 77 million euros, including 50 million euros of Stage 1 and 2 provisions, of which 29 million euros related to management overlays
- Noninterest expenses were lower year on year driven by the non-recurrence of a litigation item in the prior year and continued tight cost management
- Looking ahead, we believe that our international presence, strength in all trade corridors, and strong footprint in Germany position the Corporate Bank well to support our clients on changes in trade flows and supply chains
- I will now turn to the Investment Bank on slide 16

Slide 16 – Investment Bank

- Revenues for the first quarter were 10% higher year on year, with strength in FIC driving improvement to the division's return on tangible equity and cost/income ratios

- FIC revenues increased by 17%, with both Rates and Foreign Exchange significantly higher year on year reflecting heightened market activity and increased client engagement
- We continue to support our institutional and corporate clients through volatile markets and saw activity increase across both groups in the first quarter, including our priority clients. Meanwhile, we continue to advance the business strategy of developing existing and adjacent businesses
- Financing revenues were also higher, reflecting strong fee income across the business combined with an increased carry profile, following targeted balance sheet deployment, in line with our strategy. The targeted deployment in the business is also reflected in the increased loan balances compared to the prior year
- Moving to Origination & Advisory, revenues were lower year on year due to a loss on the partial sale and markdown of a specific loan in Leveraged Debt Capital Markets, as guided. Excluding this item, revenues increased 5% on a like-for-like basis compared to the prior year quarter in a fee pool that was broadly flat
- Advisory revenues were significantly higher in a static industry fee pool, with the business maintaining the momentum of a strong 2024
- Noninterest expenses were essentially flat, with higher adjusted costs, which were impacted by FX translation, offset by lower litigation and reduced severance and restructuring costs
- Provision for credit losses were 163 million euros, with the year-on-year increase driven by Stage 1 and 2 provisions, which includes tariff-related overlays, model changes and portfolio effects, largely offset by a material reduction in Stage 3 impairments, including CRE
- Let me now turn to Private Bank on slide 17

Slide 17 – Private Bank

- The Private Bank achieved a 43% increase in pre-tax profit, reflecting 7% operating leverage driven by revenue growth and further cost benefits from progress made in our transformation initiatives
- Good business momentum continued with net inflows of 6 billion euros and higher revenues driven by 5% growth in net commission and fee income from investment product revenues in line with our strategy, while net interest income grew by 2%

- Revenues in Wealth Management and Private Banking grew 8%, reflecting double digit growth from investment products, mainly driven by discretionary portfolio mandates. Revenues in Personal Banking reflect our decision to reduce capital-intensive loan products such as mortgages, while revenues from deposit and investment products were up 4%, mainly from discretionary portfolio mandates
- The Private Bank has continued its transformation, with an additional 60 branch closures and reductions of approximately 400 FTE in the quarter, on track to achieve almost 2,000 FTE reductions as part of further restructuring efforts in Germany
- Benefits from these measures coupled with normalized investment spend, including from the Postbank IT migration, and lower regulatory costs drove adjusted costs down by 4% year on year
- Provision for credit losses in the Private Bank was impacted by the deteriorating macroeconomic environment, while underlying portfolio performance improved. The prior year quarter was impacted by elevated provisions in Wealth Management and transitory effects from the operational backlog
- We expect the Private Bank to continue benefitting from a combination of efficiency programs underway in Germany, Italy and Spain, where benefits are yet to be realized, revenue growth initiatives and optimization of capital usage via recalibrating the lending book and higher focus on capital-light solutions, which in turn will lead to sustainable profitability and annual mid-teens RoTE in the near term

Slide 18 – Asset Management

- Turning to slide 18; my usual reminder, the Asset Management segment includes certain items that are not part of the DWS stand-alone financials
- Asset Management delivered materially improved profitability with a 67% increase in profit before tax. This was driven by higher revenues across all streams, resulting in a materially lower cost/income ratio and an improved return on tangible equity of 22.1%
- The 730 million euros in revenues were primarily driven by higher management fees from both Active and Passive products, benefitting from growth in average assets under management
- The increase in performance fees was driven by the ongoing recognition of performance fees on one infrastructure fund, while other revenues benefitted from a more favorable outcome of fair value of guarantees

- Slightly higher costs were driven by business growth and increased equity compensation costs, as a result of a rising DWS share price during the first quarter
- Assets under management remained over 1 trillion euros, with record net inflows of almost 20 billion euros, driven by Passive products of 13 billion euros, offset by negative FX and market impacts
- Cash, SQI and Fixed Income also contributed with combined further net inflows of 11 billion euros, over-compensating for net outflows of 3 billion euros in Active Equity, Alternatives and Multi Asset products
- In the quarter, a new Private Credit partnership with the Investment Bank was launched to enhance the Alternatives franchise, aiming to provide prospective investors with access to this highly sought-after asset class
- Finally, let me turn to the Group outlook on slide 19

Slide 19 – Outlook

- In short, our outlook remains largely unchanged, and we are on course to deliver our full-year targets for 2025; we are steadfast in our aim to deliver improved profitability and shareholder returns
- 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 complimentary businesses all performing well
- We remain committed to rigorous cost management, while not making any compromises 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
- Yes, uncertainty has increased, and we need to remain vigilant, but considering our strong financial performance and levels of client activity, 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 supporting further improved profitability beyond 2025
- Our strong capital position and first-quarter results also give us a solid step-off for our distribution objectives

- The 750-million-euro share buyback we announced in January is already underway and we have proposed a dividend of 68 cents per share, which brings us to 2.1 billion euros of capital distributions so far this year
- We will assess the scope for additional distributions in 2025 and remain comfortable on outperforming our 8-billion-euro distribution target
- With that, let me hand back to Ioana, and we look forward to your questions