



Deutsche Bank AG

Deutsche Bank Q2 2025 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 – Positive operating leverage drives increasing profitability

- Thank you, Philip, and welcome from me
- Our first-half results demonstrate clearly where Deutsche Bank stands today
- We delivered a pre-provision profit of 6.2 billion euros, nearly double the same period in 2024
- Robust revenues reflect our well-diversified business mix, with 74% coming from more predictable revenue streams in the Corporate Bank, Private Bank, Asset Management and FIC Financing
- Net commission and fee income increased by 4% year on year, in line with our goal to boost revenues from fee-based and capital-light businesses
- As anticipated, net interest income in key banking book segments and other funding also remained resilient
- Adjusted costs remained flat and, as we intended, significant progress on our operational efficiency measures is offsetting business investments and inflation
- Let us now look at the divisional developments on slide 3

Slide 3 – Continued execution on divisional strategies to drive further growth and profitability

- All four businesses delivered double-digit returns in the first half of this year
- Our diversified business mix is poised to perform in a fast-changing environment, particularly as our focused investments to serve clients are paying off across the platform
- Our Corporate Bank has a leading market position in Germany and, with deep roots in our home market, is perfectly positioned to help clients capitalize on opportunities created by investment programs in Germany and Europe as well as the improving business momentum overall
- The Investment Bank is focused on consolidating its position as the leading European FIC franchise, whilst Origination & Advisory is looking to grow market share, specifically in Advisory aided by recent investments, driving further revenue diversification



- In the Private Bank, we are pleased to see the progress on our transformation, reflected in the improvement in returns seen year to date. Personal Banking continues to drive efficiency through workforce reductions and branch network optimization, mainly in Germany. These steps, combined with increasing digitalization, are enabling us to streamline operations and innovate our offerings
- Asset Management stands to build from its diversified assets under management of more than 1 trillion euros, and we believe it is ideally placed not only to serve German and European investors, but also to act as a gateway to Europe for global investors

Slide 4 – Progress across strategic agenda for delivery in 2025 and beyond

- Let us now turn to our progress towards 2025 delivery on slide 4, starting with revenue growth
- Since 2021 we have achieved a compound annual growth rate of 5.9%, in the middle of our target range of 5.5% to 6.5%
- Second, we have achieved around 90% of our 2.5-billion-euro target for operational efficiencies, with 2.2 billion either delivered or expected from completed measures
- Third, capital efficiencies have reached a cumulative total of 30 billion euros, already at the high end of the bank's target range for full-year 2025 and contributing to our strong CET1 ratio
- We delivered another 2 billion euros of RWA reductions this quarter through securitization transactions and already see opportunities to deliver further capital efficiencies in the second half of 2025
- To sum up, our first-half results demonstrate that we are on track to meet our 2025 financial targets, and we are fully focused on delivering them
- In parallel, we are working on the next phase of our strategic agenda to further increase value generation beyond 2025

Slide 5 – Banking book NII expected to increase in 2025

- Turning now to net interest income on slide 5
- NII across key banking book segments and other funding was 3.4 billion euros, up 5% quarter on quarter



- Private Bank continues to deliver strong NII supported by our structural hedge portfolio while Corporate Bank NII remained stable supported by the ongoing hedge rollover, loan income and a one-off benefit from hedge portfolio optimization
- FIC Financing benefited from loan growth in the first quarter, with strong lending margins offsetting FX effects
- With respect to the full year, we confirm our NII guidance for key banking book segments and other funding of 13.6 billion euros as we continue to see a tailwind versus 2024
- The underlying contribution continues to be driven by the long-term hedge portfolio rolling over at higher rates and volumes, combined with stronger lending income in FIC Financing and lower funding costs
- Together, those factors more than offset margin normalization and FX headwinds

Slide 6 – Long-term hedge contribution protects NII in volatile rate environment

- Looking at slide 6, which is based on the market implied forward rates at quarter end, we can see that our hedge portfolio continues to position us well
- In the second quarter, we have further reduced our short-term interest rate risk by terming out more of our deposit hedges – bringing the total volume invested longer-term to around 245 billion euros
- As a result a larger proportion of our future NII is now locked in, and in addition the absolute NII contribution of the hedge portfolio is increasing steadily year over year while the long-term Euro rates remain above 1%

Slide 7 – Underlying loan growth in the second quarter

- Let us now turn to quarterly developments, starting with our loan book on slide 7
- During the second quarter, we have seen loan growth of 3 billion euros, adjusted for FX effects
- The underlying quality of the loan book remains strong with around two thirds of clients located in Germany and Europe



- While our loan portfolio in the Investment Bank has further increased in line with our strategic objectives, we have also seen slight growth within our Corporate Bank segment
- In the Private Bank, our focus remains on targeted mortgage reductions to optimize capital allocation
- For the remainder of the year, we expect growth momentum in FIC Financing to continue, while the Corporate and Private Bank are well positioned to benefit from the expected growth in Germany and Europe

Slide 8 – Stable and well diversified deposit portfolio

- Moving now to deposits on slide 8
- Our well-diversified deposit book has slightly grown by 4 billion euros during the second quarter, adjusted for FX effects
- The strong presence in our German home market and a significant share of insured deposits continue to demonstrate the high quality and stability of the portfolio
- In the Private Bank, we continue to see strong momentum from our retail campaigns in Germany
- We are pleased with the strong deposit levels in the Corporate Bank and the encouraging underlying growth in sight deposits
- Looking ahead, we expect further campaign driven growth within the German retail segment, while strategic objectives in the Corporate Bank are centered around portfolio optimizations

Slide 9 – Sound liquidity and funding base

- On slide 9 we highlight the development of our key liquidity metrics
- The Liquidity Coverage Ratio at the end of the second quarter increased by around two percentage points to 136%, mainly driven by lower net cash outflows
- We continue to maintain a high-quality liquidity buffer and hold about 95% of HQLA in cash and Level 1 securities
- We are comfortable with our current liquidity position but remain focused on further strengthening the resilience of the balance sheet and growing liquidity levels



- As such, we aim to conservatively align our liquidity position without having specific external liquidity targets
- The Net Stable Funding Ratio slightly increased to 120%, with a surplus above regulatory requirements of 107 billion euros
- This reflects our stable funding base with more than two thirds of the Group's funding sources coming from our global deposit franchise

Slide 10 – CET1 ratio increase due to strong Q2 2025 earnings

- Turning to capital on slide 10
- Strong second-quarter earnings net of AT1 coupon and dividend deductions, combined with diligent resource management, led to a CET1 ratio of 14.2%, up 42 basis points sequentially
- Lower risk-weighted assets were driven by credit risk, benefitting from continued execution of capital efficiency measures, predominantly through securitization transactions during the quarter
- Market risk remained flat. Increases at the beginning of the quarter, reflecting market turbulence at the time, have been offset through strict risk management and hedging

Slide 11 – Capital ratios well above regulatory requirements

- Moving to slide 11, you can see that our capital ratios remain well above regulatory requirements
- The CET 1 MDA buffer now stands at 299 basis points or 10 billion euros of CET1 capital
- The 47-basis-point quarter-on-quarter increase reflects our 42-basis-points higher CET1 ratio and a 5-basis-points lower systemic risk capital buffer requirement, where a reduction in Germany was partially offset by an increase in Italy
- The buffer to the total capital requirement increased by 53 basis points and now stands at 371 basis points

Slide 12 – Leverage ratio stable

- Moving to slide 12



- Our second quarter leverage ratio was 4.7%, up by 8 basis points, principally driven by FX effects, as higher Tier 1 capital was mostly offset by higher trading inventory

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, increased by one billion to 23 billion euros
- 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
- Before we turn to issuance, let me quickly refer to slide 21 in the appendix on which we offer our perspective on the bank's CRR 3 disclosure
- As we have laid out in the analyst call yesterday, we have a strong and credible path to mitigate the potential impacts arising from the output floor
- The implementation of CRR 3 is a multi-year journey, including several transitional arrangements that are subject to reviews, and which will mostly apply through 2032, and we are not planning franchise-changing decisions today for an outcome that is almost certain to change

Slide 14 – More than 60% of issuance plan completed in the first half of the year

- Moving now to our issuance plan on slide 14
- Despite geopolitical tensions and macro volatility, credit markets remained resilient in the second quarter
- Our spreads developed constructively quarter-on-quarter, tightening by roughly 10 basis points on average in senior non-preferred, allowing us to further progress with our issuance plan at attractive funding costs
- We confirm our previous guidance to issue between 15 and 20 billion euros to meet 2025 funding requirements
- With year-to-date issuances of 10.9 billion euros, we have already completed a little more than 60% of our 2025 plan with the remaining



residual funding focused on senior non-preferred and preferred instruments

- Since the last Fixed Income call at the end of April, we issued 4.6 billion euros, primarily in senior non-preferred format
- The most notable transaction during the second quarter was a 1.5 billion euros senior non-preferred transaction, which attracted over 9 billion in total orders
- In addition, we issued a multi-tranche Japanese Yen transaction, across both senior preferred and non-preferred
- Concerning our 1.25 billion US-Dollar 6% AT1 security with an upcoming call date in October 2025, we will take a decision closer to the call date at the end of October
- Several factors will be taken into consideration including capital demand, refinancing levels versus reset, FX effects impacting CET1 as well as market expectations
- This security was issued at a stronger US-Dollar exchange rate and hence would have a small positive revaluation impact at current FX rates. The coupon would reset around 8.5%, roughly 50 basis points above current market levels
- In terms of the timing of any call announcement, we always need to balance the desire to provide the market with certainty as soon as possible against the loss of capital at the time of the announcement
- We are still assessing whether we will replace the transaction and will provide further details later in the year

Slide 15 – Summary & outlook

- Before going to your questions, let me conclude with a summary on slide 15
- We are on track to meet our full-year 2025 targets and remain comfortable with our trajectory to deliver a RoTE of above 10% and a cost/income ratio of below 65%
- Our asset quality remains solid and despite uncertainty from developments around Commercial Real Estate as well as the macroeconomic environment, we currently anticipate a reduction in provisioning levels in the second half of the year



- Our improved profitability, sound risk profile and strong balance sheet was recognized by a rating upgrade from Morningstar DBRS in June
- In the same month, Fitch has raised our short-term rating on the back of improved investor confidence and resilient liquidity
- Our strong capital position and second-quarter performance provide a solid foundation as we head into 2026
- We have already completed around 60% of our issuance plan for the year and plan to issue primarily more senior instruments in the second half of the year
- With that, let us now turn to your questions

Questions & Answers

Lee Street
(Citigroup)

Hello, good afternoon. Thank you for taking my questions, and well done on the results yesterday. Three questions from me, please. Firstly, on capital, you've obviously got a new operating range. Based on that, am I supposed to think of 14% CET1 as being the floor for additional shareholder distributions, and 13.5% as the floor for your MDA buffer? Is that how I should think about it? That's question one.

Number two, any thoughts on ratings and ratings direction from here? You've had upgrades from DBRS and Fitch. Are you expecting anything else this year? And any comments on the changes from Moody's, relating to their request for comment and/or the CMDI?

And then finally, a bigger picture one. You've mentioned on various calls in the past about playing some role in banking consolidation in Europe. Obviously, that's alive and well. I guess at the moment, it seems to be a lot easier to do deals within one country rather than cross borders, just based on what we see. So, the question is, do you think that DB will be involved in any form of M&A over the next 18 months? Can you see any angle there? They'd be my three questions. Thank you.

Richard Stewart

Thanks, Lee, and happy Friday, and thanks for joining the call. So, taking your first question around capital, what James and Christian were saying yesterday was that our distribution policy remains unchanged. So, we



intend to repatriate 50% of our earnings via dividends and share buybacks, as we communicated. And this also applies in the case our CET1 ratio would be at the low end of our target range of 13.5% to 14%.

In addition, if we sustainably report a projected a CET1 ratio above 14%, then this provides the flexibility for additional distributions. And when considering these excess capital distributions, we'll make our assessment after consideration of projected business growth and the regulatory environment at the time, no different to what we have done in the past.

And finally, in terms of share buybacks, they typically involve a three- to four-month regulatory review before they're announced and we can execute it further. So just wanted to make that point as well, just in terms of timetables.

And then what should be most relevant for fixed income investors, as you were asking about, is the fact that we have increased our MDA buffers steadily over time, and now we're around 300 basis points above CET1 MDA, which is much more in line with peers. And given our own views of the world, we feel that that gap will continue to grow over time.

And then in terms of the rating actions, yes, we're very pleased with Morningstar DBRS upgrading all long- and short-term ratings for the bank at the end of June. That was based on the continued progress of our strategic transformation and our general path towards the medium-term targets.

Separately, Fitch upgraded our short-term ratings. We see that as proof of improved investor confidence and our resilient liquidity position. And we're confident that the continued delivery of our targets should result in further positive rating revisions over time from the other rating agencies.

Of course, we are monitoring potential ramifications arising from various industry-related events. So obviously, there's a Moody's Request for Comment process ongoing in which the agency is seeking feedback regarding their banking methodology. But from what we can see right now, we're not expecting



any repercussions on the baseline credit assessment for ourselves.

And then on CMDI, there's still a few open items, including the availability of the final legal text. So, delivery of that is still uncertain, but sometime in the next few quarters. And then they'll take some time to transpose that into national law. And then Moody's will need to reflect that in their ratings.

But the long and the short of it from our perspective is our base case is we do not see any impact to our senior preferred ratings, given just the overall size of our senior preferred layer we have in the stack. So that'll be how I'm thinking about the ratings picture. James has joined us, very kindly, so maybe I'll let him handle the M&A question.

James von Moltke

Sure. Thanks, Richard. And Lee, thanks for the question. Really, nothing's changed about our perspective. Point one, as you point out, we've always subscribed to the industrial logic of mergers, consolidation, scale in the banking industry. But we've also been consistent about saying that we were working on our own homework and improving Deutsche Bank before we'd consider anything. And nothing's really changed in that regard.

I wouldn't commit to a timeline. You mentioned 18 months. As time goes on, I think we feel better prepared, as the company goes from strength to strength and we get through some of the investments and remediation work we've been doing. But I don't think there's any change in terms of our thinking, that we want to remain focused on self-help for now.

As to your comment about cross-border versus domestic, I'd say, right now, unfortunately, Europe is showing itself to be, I'd say, whatever, mixed about both, so that if you look at the transactions that have been in the market, there's been national resistance to national mergers, and there seems to have been political resistance to cross-border mergers. So, I'm not exactly sure what the preference is.

You'd like to see a world where Europe genuinely wants to function as a single market, and that some of the



preconditions are created in terms of the legislative environment, things like a capital markets union, banking union, remove some of the frictions, and then, in essence, the political sensitivity around the role of banks lessens somewhat to allow that industrial logic to take over.

One can still dream, but that's hopefully the direction of travel ultimately. But nothing in all of this changes Deutsche Bank's view that we just remain focused on executing on our strategy and focus on self-help.

Lee Street

All right. That's very clear. Thank you both.

James von Moltke

Thanks, Lee.

Dan David
(Autonomous)

Good afternoon. Congratulations on the results. I have two sets of questions, one on CRE, and the second one just on AT1. So, on US CRE, I guess US CRE in scope of the severe stress test has reduced year on year, so € 16 billion to € 13 billion. A year ago, I think you said € 12 billion was modified. What's the figure now?

And then a year ago, provisions in the US book were € 614 million, so roughly 4% cover on the € 16 billion, or 5.1% on the modified part. Can you tell us what the cumulative provisions are currently? And just any colour on the drivers of the reduction of the book, so sales and redemptions, would be interesting. Thanks.

And then the second one, I just wanted a quick one on the AT1. If I look at your issuance plan, it says that you're done. Well, obviously you've maybe got a little bit more AT1 to do. And you made reference to reset levels versus new issuance levels, I guess, when you assessed the decision. So, should we assume that you need to print new AT1 to be able to call the October 30 AT1 that's coming up? Or could you call outright? Thanks.

Richard Stewart

I'll take the second one first, if you like. So yes, the answer's pretty simple. So, I think on the slide, it shows we've issued € 1.5 billion year to date. I think the range we gave as guidance as part of the overall € 15 billion to € 20 billion of issuance was € 1.5 billion to € 3 billion across AT1 and Tier 2.



The comments I made earlier were basically just to outline, as you rightly said, that the current market, in terms of where we are versus where we would issue in terms of distance to reset spreads, obviously suggests we'd likely call. And also, the FX risk that we were talking about at previous AT1 calls is also positive. So, I think from our perspective, and from a rational perspective and how we guided before, I think the market's thinking about that the right way.

And then in terms of what does that mean in terms of our plans around if we decide to do that and where we want to replace, that's really still our ongoing planning process around what we can see as interim demand for leverage, whether that makes sense. So, no decision's been made on that. So that's why we're still working through that process. And we'll obviously update you guys as soon as we decide what we want to do. But essentially, we need to make some sort of decision over the next couple of months or so.

James von Moltke

So then on CRE, Dan, I'm not sure I got each of the questions that you asked. But I guess point one is the stress-tested portfolio reduces with paydowns, and to some extent with charge-offs. So, there is a modest reduction in the portfolio over time. You saw that the stress test outcome is still € 1.1 billion. I think right now, we're showing cumulative credit loss allowance against that of € 700 million. So it's less than the cumulative amount of provisions we've taken because we've charged off against the allowance.

I don't have the modified number just to hand, but the modifications are slowing down. So as we have chewed through the maturities, the number of loans now still to be modified in the next, say, six months has declined to a pretty modest number. And we're working to extend the loans. Whenever there is a loan that can be refinanced or modified, the goal is now to extend and put them on a stable footing.

And that a bit gets to the last part of your question. So, are we taking action to stabilise the portfolio? For sure. It's through those modifications, refinancings, also sponsor support for the positions. But also, as we did last year, we've looked at specific loan sales or portfolio



sales, and that's something we'll continue to do, so that over time, we shape and manage that portfolio down.

So yes, we're taking a series of risk management actions to minimise the footprint. And as you say, the allowance level has continued to build over time against the remaining exposure. Now, I won't say we're out of the woods. As I said in yesterday's call, it's a little bit path dependent on each of the individual buildings and projects, and sponsor behaviour around those buildings and projects. So, it's something we're still working on. But again, to your question, yes, we're doing what we can in terms of risk-minimising actions.

Dan David

Thanks, both.

Robert Smalley
(Verition)

Hi, thanks very much for taking my question and doing the call. A couple of questions. One, with respect to the results, the trading lines were very strong. Could you talk a little bit about the investment banking pipeline coming up, particularly in Europe for the second half of the year, and if we'll see that start to come through as well?

Secondly, we talked a little bit on the last call about NBF lending, and there is a lot of nomenclature issues around that. So specifically, could you talk about your lending to alternative asset managers and BDCs? And let's winnow that out from asset-backed products, etc.

And then third, just as a follow-up on the CRE point, now that we're starting to see more visibility around price, as you go through this portfolio, which is admittedly lumpy and has its own quirks, can we see a more accelerated timeline to get through this, and maybe in a quarter or two, provisioning, etc., will start to come down meaningfully? Thanks.

James von Moltke

So Robert, I don't have the pipeline broken down by Europe. We tend to look at it on a product basis. But it's strong. Remember that the most visible pipeline we have is either M&A transactions that are announced, pending closure, or where we are signed up and are working with the client to bring it to announcement and then closure.

Equity pipeline, those two look strong in terms of mandated pipelines. But as you saw in the equity



pipeline, and is true also of the advisory pipeline, clients need to see stability in the markets' visible prices in order to transact. And so there's been a delay, and therefore an increasing backlog.

As you've heard from us and other competitors, we like how the pipeline has shaped up, and it's stronger than it was this time last year, considerably. But of course, transacting is a different question, and there's been delays, and in certain cases transactions that didn't get to market.

The debt capital markets pipeline is much shorter term, so from being mandated to transaction execution and fee realisation. There, you saw in the second quarter really a stop for practical purposes. There was a very significant decline in activity in April, and then a recovery through May and June. So, we do see that market as normalising a little bit.

And as we talked about yesterday, the leveraged debt capital market was especially quiet, and we also stepped back a little bit in terms of risk appetite. So, I think as we get through, well, July, and then after the summer pause, our expectation is that debt capital markets will also recover. And so, we're optimistic about how that can move from here.

We also noted that there were some transactions ready to close that we'd initially thought would close and produce revenues in the second quarter, which were moved to the second half, and in a couple of cases already closed in July. So that timing is also helpful in terms of revenue momentum and O&A going into Q3. Hope that helps, although, as I say, I don't have the geographic pipeline in front of me.

Robert Smalley

Yes, it does. Thanks.

Richard Stewart

So I know there's a couple of other questions that Rob was asking about, which was more around NBF lending. Well, I think we'll have to get back to you with the sort of breakdown that you're looking by. Off the top of my head, I think our BDC exposure is de minimis, but we can clarify that. I think we just need to, I guess, make sure that we're talking on the right terms when it comes to alternative asset management. So, if you



don't mind, we'll come back to you offline on the response to that question.

James von Moltke

And then on commercial real estate, as I said to Dan's question, I don't know that there's yet full visibility on pricing, I have to say. I think what we see is a weakness in certain geographies, but it is often idiosyncratic to an individual project, where there might be leasing activity or the lack of, terminated leases and so on, that impact the value of a specific building. And we've called out the weakness on the West Coast.

Does the current market environment give you an opportunity to accelerate a work-down? It's mixed, I'd say. But as I said in answer to Dan's question, we're absolutely looking at alternatives to do that. But it is often idiosyncratic to individual investments, which makes it a granular activity.

Our hope and expectation is that as we get more visibility into the economic developments, especially in the United States' interest rates and secondary market activity, that the situation will ameliorate and we will be able to transact. And of course, with that, the credit loss provisioning or the allowance can come down again.

Robert Smalley

Thank you. Thanks for the detail. Greatly appreciated.

James von Moltke

Sure thing, Robert.

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under the heading “Risk Factors.” Copies of this document are readily available upon request or can be downloaded from investor-relations.db.com.

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