Deutsche Bank AG

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Transcript

Speaker:
James von Moltke, Chief Financial Officer

Hello, everyone. This is a real pleasure to be here playing a home game, if you like. We are so proud of this building and also this flagship conference, and to have so many people join us and engage. In prior years, Fabrizio and Christian have been hosting the conference and also delivering the remarks that we do for our shareholders. I'm glad to be stepping in and doing that today. The main message I give you, though, is that the things that Fabrizio and Christian have spoken to in the past are the things that we're executing on. And you can see the evidence of that in our performance, both financial performance over the past several years, but importantly, the businesses and how they're performing in the marketplace.

If I take you back to March of 2022, we did an Investor Deep Dive at that time to lay out our strategies through to next year, 2025, and that's the strategic plan that we've been executing on since that time. We have four core businesses that are all performing well in their competitive environment, and we think they're positioned to continue performing well in the years to come. Actually, a lot of the opportunities that Michael just talked about that he sees in private credit are really shaping also our landscape and help to define the opportunities that we think we can capture and execute on.

At the same time, though, we've been investing in the business and future proofing, if you like, our franchise in a variety of ways, whether that's technology and controls where there was some, what I often called deferred maintenance, so a need to invest and uplift our capabilities. That's something that's been ongoing for several years, and we're making an enormous amount of progress. But more recently, not just on the technology side but also on the people side, investing in our businesses, investing and growing the franchise, investing in client-facing resources and also in the technology that improves the client experience that we offer. And so we're excited that we're more on the front foot than we were several years ago.

That balanced, steady performance is feeding through not just to the ongoing profitability and quarterly performance, but also to capital generation. And so our story has switched from one where we were behind peers in terms of the distributions to one we're on a steady increase of 50% per year in our distributions, both on dividends and share repurchases. And so increasingly, it's also a capital return story at Deutsche Bank.

The path that we've been on now for several years has been towards targets that we set, financial targets for next year, 2025. And that's to exceed a 10% RoTE, and as part of that, deliver a cost/income ratio of 62.5% or better. And I'll go through a little bit some of the ingredients of that in terms of our guidance, and again, financial performance.

I think the first quarter, now seems some weeks ago, but the first quarter performance, to our mind, that was a great milestone proof point on how our strategic execution is delivering in terms of both the business performance and the financial performance. We had about a 10% year-on-year growth in both pre-tax profit and after-tax. The pre-tax profit was € 2 billion in the first quarter. We delivered that with operating leverage, so growing the top line by about 1% at the group level, 3% in the businesses, and reducing expenses by 3%.

We showed resilience in terms of the revenue performance in the first quarter. Revenues were € 7.8 billion at the group level, € 7.9 billion if you aggregate the businesses. The theme, as you'll recall, in banking had been NII growth as we got into this rate cycle. But we started to see the likely pivot and we are positioning the company for a pivot to non-interest revenue growth. We think that trend will continue in the years to come, and Deutsche Bank is well positioned to participate in that growth.

Commissions and fee income in the first quarter was up 11% versus the prior year quarter, and we think we've established sort of a run rate from which we can grow from here. So, much of our growth in the next couple of years should come from those sources. And that resilience in our revenue base goes back to some of the investments that we've made consistently over the past several years. Importantly, as many of our peers do and talk about, investments in, relatively speaking, capital-light business activities, for example, payments, custody, Trust and Agency Services in our Corporate Bank are areas that we're investing in, Wealth Management in the Private Bank. So really hiring bankers, also improving our product and technology capabilities there has been an area of investment. And as you see around you here in our New York location, our Origination & Advisory franchise. So I think of that as the corporate finance wallet and client engagement has also been a destination of investment, in particular, capitalizing on the opportunities that presented themselves last year around people as well as the newest acquisition late last year.

We're seeing real franchise strength across those four businesses. And that's exciting for all of us who have been working over the past several years to build that momentum, build the company, importantly, build our relevance to our clients. They absolutely need to be in the center point of everything we do, but we can see that every day in terms of the client engagement and feedback.

So to give you some examples. Our Corporate Bank grew its deposit base by 11% year over year to € 300 billion. Again, a great sign of the relevance of our company to corporations, corporate treasurers around the world. Incidentally helped by the improvement in our ratings over the years, and so we're increasingly a destination for their cash.

Our Fixed Income & Currencies business has outperformed its peers over the past several years. It's been steady growth also helped by the rating but also by investments that we've been making in the business over time. I have to credit Ram Nayak and his team for the steady pace of investment, adding people by product area and region, backing that with technology investments. And so you've seen us capture and keep market share in that business. And the first quarter was a great milestone also in that regard as we grew and most of our competitors had been shrinking in the fixed income markets area.

Coming back to Origination & Advisory, Mark Fedorcik's business. As I say we've grown the market share there by about 70 basis points versus the 1.9% we'd run at for the two prior years. So 2023 and 2022, we had a market share of about 1.9%. In the first quarter, it was 2.6%. And we had indicated with the fourth quarter earnings that our aspiration is to grow that market share in a growing wallet, at least to 3%, probably more over time. And so we've covered a lot of ground in a short time. I won't say that that's necessarily all permanent. Some of it's got to do with mix and timing of our business. But we can see that every day, again, in the franchise, in the business we're doing with our clients, our market share terms also in the league tables. And that's exciting to see as, again, a proof point around the investments that we've been making.

In Private Bank and Asset Management, the easiest way to see the franchise performance is around inflows into assets under management. It's actually been a -- and for those of you who follow the asset management industry, last couple of years have been tough in inflow terms. But our asset manager, DWS, has been actually quite consistent in recording inflows over the past several quarters. Year on year, AuM in the two businesses grew by € 72 billion, and there were € 19 billion of inflows in client money in the first quarter. DWS benefits from a great spread of capabilities. So it’s got an actively managed business, especially in Europe, but also alternatives and passive businesses. And so that spread of capabilities has positioned it well to enjoy inflows, despite the trends in the environment.

A further point that investors have been looking at us to deliver on, and we’ve been very focused as a management team and across the organization, is on costs. We recognize that we need to demonstrate consistently the discipline around cost delivery. And we set out at the beginning of the year, so with fourth quarter results, a target to deliver adjusted cost, really the operating cost base of the company, through the year at about € 5 billion per quarter, positioning us for our 2025 target of about € 20 billion in total cost. And we delivered on that in the first quarter, and we're absolutely committed to continuing to deliver on that cost trajectory, maintaining our costs flat through the year at € 5 billion a quarter.

Now, some of that in the first quarter benefitted from bank levies. They are now happily something of that past. Hopefully it will remain that way in Europe with the SRB having built the Single Resolution Fund to its target level. But it's also driven by all of the work we're doing across a whole range of initiatives across the company, driving down the structural expenses in the organization. And so the initiatives range from technology-driven, process-driven initiatives, what we call key deliverables across the organization that we track and measure.

We had laid out a target of delivering about € 2.5 billion in cost savings over the time to 2025, maybe some of it slipping into 2026. We have about € 1 billion of that now embedded in the run rate. And we've completed initiatives that will deliver € 1.4 billion. So there's always a bit of a lag between completion of the work and the benefits coming into the run rate. But we're on a very clear track and managing that with a great deal of focus. My colleague, Rebecca Short, our Chief Operating Officer, is measuring, monitoring, working across the organization to deliver there, and we're making really good progress. And that gives us confidence about the future from here.

Risk management has always been a hallmark of Deutsche Bank. And we are proud of our track record in managing our risks. The environment, the credit environment, we talk a lot with investors about where we are at the moment. In Europe, in both the retail and commercial markets, what we see is a relatively stable, I'd say benign credit environment, notwithstanding an economic environment that hasn't seen a great deal of growth, and of course, we've been through this rate cycle.

We have obviously been participating, if you'd like to say it that way, in the Commercial Real Estate cycle that we see around the world, but particularly in the U.S. Deutsche Bank is a big lender. We have a very strong franchise in Commercial Real Estate, one we're proud of. But naturally, when you have a portfolio here, you will take your share of bumps and bruises along the way.

We called in with our first quarter results a view that the market was stabilizing. And that's something that we saw in our own portfolio, in the valuations that we update on a regular basis, and in some of the external measures for Commercial Real Estate, the indices that you see. That's something that's continued now into the second quarter. So we're feeling more and more confident about the trajectory from here on Commercial Real Estate, which we would expect to be down in terms of the CRE credit loss provisions in our book. And we think there are also some data points in the market around activity in CMBS financing that support the idea that the markets found a floor.

Now, it will always be somewhat path dependent, but it all gives us confidence in the trajectory that we had set for this year of credit loss provisions of between 25 to 30 basis points. We recognized relatively early on in the year that we're likely to be at the high end of that range, but what we see for the balance of the year into the second half is an improvement in our overall credit loss provisioning. And so there we also have some confidence about the path ahead.

So, we talk about our *Global Hausbank* strategy. And you can see around the organization a lot of work that we've done into our strategy articulation, the purpose for the company, our vision about how that translates into the culture or the behaviors that we seek. But a lot of it can be crystalized into the words of the *Global Hausbank* that we aim to be for our clients, and incidentally, the European alternative among the major global banks, with the type of network that we have, to the U.S. banks in particular.

That's delivered since we laid out that strategy in March of 2022 a compound annual growth rate of revenues that exceeded our expectations at the time. So we've tracked at about 6.0% compound growth rate in revenues since 2021. And that caused us to raise our target through to the end of next year to a range between 5.5% and 6.5%. So we're tracking in the middle of that new range. And we're executing against that. We see that in our businesses. Efficiency is part of that strategy as well. But not just efficiency in terms of cost savings, but efficiency in terms also of delivering improvements in our capabilities, our infrastructure, our technology and our processes.

We also have set out some targets in terms of capital efficiency in the organization. Our capital environment has changed over the years with new rules, new models, changed methodologies and now CRR III that is due to come into force in Europe on the 1st of January next year. That cost us and forced us to look more carefully at how we deploy our capital, but also the efficiency of how we manage our capital. And we set out a target initially of € 15 billion to € 20 billion of RWA that we felt we could take out of the business just optimizing our use of capital, and to some degree the data, the methodologies that we do to measure it. We upped that target now to € 25 billion to € 30 billion of RWA that we aim to crystalize, and that’s something that we will continue to work on, and I think we're making really good progress on.

So to sum up where we are strategically. Great progress and execution on our strategy. Real discipline. I think the proof points are there in terms of revenue growth, expense discipline, and also, as I say, the risk management, capital discipline that we've shown for some time.

Unfortunately, after we announced the first quarter which we felt was this great proof point, we were struck with a surprise. Really the day after, the market started to absorb that information the Monday after. And that was a court hearing that took place in late April around a matter that is now 16 years since the takeover, 14 years since the voluntary offer that we made for Postbank. And essentially, claimants take the view that a mandatory offer should have been made much earlier than the ultimate 2010 voluntary offer. We obviously disagree. We strongly believe in our legal position.

As you may know, we have won this case twice, and twice it's gone to the highest court in Germany and been remanded back with some additional questions to explore. But given that history, we were obviously very surprised that the court at the end of April started to make some statements that were beginning to interpret the law in the favor of the claimants. Our assessment then immediately after that court case was that the likelihood of an outflow had shifted to at or around, perhaps greater than 50%, and therefore, we decided it was the right thing to do to build a provision for the entire amount of the claim, including interest.

Now let me be clear. We are working hard to make sure that that money does not leave the bank. Our hope is that the legal arguments ultimately can prevail, even if the court statements on the day suggested otherwise. And of course, there is a path for settlement. As I stand here today, I can't tell you really what the timing or the outcome is going to be. But naturally, our goal is to minimize ultimately the impact of this legal matter for shareholders.

So, we have booked the € 1.3 billion in Corporate & Other in Q2, so that impact will be felt. And of course, we are adjusting around that. But I do want to just emphasize, nothing about that provision changes our discipline and the execution of our strategy, the momentum we see on our business, our franchise strength and what have you. In a sense, in a perhaps ironic sense, we're probably as strong as we've been since the time of the Postbank takeover in order to be able to absorb that. But I can just assure you that we'll continue to work to minimize the ultimate outflow on that matter, given the strength that we see in our legal position.

That booking provision, among other things, does not change our trajectory on the capital distribution side. We are building towards a sort of 50%, as I mentioned, increase in both dividends and repurchases over the next couple of years through 2026. We believe we're positioned to continue that, notwithstanding the provision, and that's our commitment going forward.

Turning to a couple of guidance items before I close. I think looking at Q2, the operational performance continues to be strong in the businesses. So far quarter-to-date, it's been a good quarter. And we see the benefits of our strategy continuing, our focus on capital-light businesses and the generation of non-interest income in those businesses. While net interest income remains resilient, in a sense surprisingly so, given the expectations we had at the beginning of the year, especially of pass-through of deposit pricing to clients, it's remained remarkably strong. We therefore reconfirm our revenue ambition of € 30 billion this year and € 32 billion for next year, sort of closing out on that compound annual growth rate target that we mentioned.

In the businesses, our Corporate Bank is continuing to see non-interest revenue growth in all of the areas that we've been investing in, while deposit revenues, although normalizing, again have remained more resilient than we expected. So we expect that business to run essentially flat sequentially second quarter versus the first.

Overall, we expect to be up in the Investment Bank year on year, driven by significantly higher revenues in Origination & Advisory. And there we've maintained some of the momentum that you saw in the first quarter. Debt Origination has been especially strong, and the Leveraged Debt Capital Markets environment has been positive, conducive. Advisory performance, again, reflecting some of the investment, also continues to be encouraging in terms of both booked revenues and the remaining pipeline.

Looking at Fixed Income & Currencies, we would expect that to come in slightly lower in the second quarter versus the prior year quarter. But we also see a continuation of the themes from the first quarter, including in the Rates market in particular, somewhat offset by strength in areas like Credit and FX.

In the Private Bank, we expect to see a typical seasonal pattern of a slight reduction in revenues, Q2 versus Q1. Essentially, non-interest revenues are always stronger in a first quarter as more of our clients tend to make their investment decision for the year at the outset of the year. We obviously invest and market to that client activity. But there, again, NII remains resilient, and we see the investments we've been making in the non-interest revenue sources as coming through as we'd hoped and anticipated.

I'll reemphasize the focus and discipline around the delivery of our cost trajectory, around € 5 billion in the second quarter, and we're confident about delivery there. And we reconfirm our adjusted cost view for the year of around € 20 billion.

And so as I say, despite booking the large Postbank provision, we feel like we're on track in terms of execution of our strategy and also capital distribution plans. I would remind investors and analysts that we do tend to have a level of litigation bookings in the ordinary course, and we would expect to see that also in Q2. But as I say, we're confident in all of our guidance that we've provided over time, looking out as we stand here today at the rest of the year.

And I'd also like to confirm the 2025 guidance and targeting that we had set of € 32 billion of revenues. And in 2025, NII now becoming a tailwind again as the replicating portfolios kind of kick in, long-term rates becoming more of a support for the banks. So all in all, I think a very confident view about both our strategy execution, the environment we're in and the engines of growth while maintaining discipline around costs and capital.

I'll close there. Thank you all for listening and for your time.

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