

Bulletin:

Deutsche Bank's First Quarter Earnings Show Resilience To Sector Volatility

April 27, 2023

LONDON (S&P Global Ratings) April 27, 2023--S&P Global Ratings said today that Deutsche Bank AG (A-/Stable/A-2) performed solidly in the first quarter (Q1) of 2023 amid banking sector volatility. Short selling of the bank's shares in late March had a relatively modest impact on its funding and liquidity profile, and it achieved its strongest Q1 earnings since 2013. We think this illustrates that Deutsche Bank's 2019-2022 transformation program has delivered a more resilient, focused, and profitable firm.

Deutsche Bank's diversified deposit base and reduced reliance on short-term wholesale funding enabled it to successfully navigate the liquidity stress triggered by the short selling. The bank's 143% liquidity coverage ratio as of March 31, 2023, remained comfortably above the 130% internal target. Deposit balances declined by 5% during Q1, or 4% at constant exchange rates. This is similar to several European peers that have already reported their Q1 results, including Banco Santander S.A. and UBS Group AG. Deutsche Bank's management disclosed that about two-thirds of the Q1 outflow occurred before the short selling episode. The €592 billion deposit base as of March 31, 2023, was diversified by customer type, and we view positively that 73% of balances were within the bank's German home market. Insured deposits represented 41% of total balances excluding bank deposits, which is broadly in line with peers with similar business models.

Deutsche Bank's €1.9 billion Q1 pretax profit represented an 8.3% return on tangible equity (RoTE). The result included €473 million in annual bank levies, which should decline from next year, and the RoTE would have been in line with the bank's 10% target for 2025 if it had instead booked a pro rata share of this charge. Revenues grew 5% year-on-year as improved contributions from the more stable corporate bank and private bank divisions offset a sectorwide slowdown in investment banking and asset management. Costs were 1% higher and the 30 basis-point (bps) credit loss provision was at the top of Deutsche Bank's 25 bps-30 bps guidance for the full year, with a manageable €33 million stage 3 charge on commercial real estate.

The common equity Tier 1 ratio improved to 13.6% as of March 31, 2023, above Deutsche Bank's 13% target and consistent with our 9.5%-10.0% risk-adjusted capital ratio projection. It intends to commence share buybacks in the second half of the year, subject to regulatory approval.

Deutsche Bank additionally confirmed an acceleration of its 2025 strategic agenda. It has raised its cost saving ambition by €500 million to €2.5 billion, and revealed plans to drive stronger revenue growth and exit certain lower-yielding asset portfolios. In support of these goals, it yesterday announced that it will be making some changes in executive responsibilities and

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reducing the number of management board members to nine from 10.

Our ratings on Deutsche Bank stand at the lower end of the range for global corporate and investment banks. We may review this position if the bank delivers on its strategy and looks set to sustain stronger, more consistent earnings in line with its returns and efficiency targets for 2025.

Related Research

- European Banks Can Weather The Market Turmoil, March 21, 2023
- Bulletin: Deutsche Bank AG Meets Its 2022 Earnings Target And Eyes Further Progress, Feb. 2, 2023
- Update: Deutsche Bank AG, Nov. 30, 2022

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