Earnings Commentary

Deutsche Bank Q2 2023 Results: Continuation of Q1 Trends Despite Some Noise

DBRS Morningstar
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Ratings

Debt	Rating	Trend
Long-Term Issuer Rating	A	Stable
Short-Term Issuer Rating	R-1 (low)	Stable

Deutsche Bank (DB or the Bank) reported Q2 2023 results with a number of moving parts. Pre-tax profit of EUR 1.4 billion was down by 9% Year-on-Year (YOY) due to EUR 655 million of litigation and restructuring costs. Excluding these costs, pre-tax profit would have been up by 25% YOY, driven by strong revenues at the Corporate Bank and the Private Bank, partly offset by weaker Investment Banking and Asset Management results.

Non-interest expenses increased by 15% YOY, due to EUR 395 million of litigation costs and EUR 260 million in restructuring & severance costs. Adjusted costs increased by 4% YOY, well below the 11% increase in revenues. Credit costs of EUR 401 million were up somewhat from EUR 372 million in Q1 2023, or 33 basis points in terms of Cost of Risk (CoR). The return on average equity (ROAE) was 4.9%, down from 7.1% in Q2 2022. Excluding litigation and severance costs, the ROAE for H1 2023 would have been 9.3%, underscoring the improving underlying performance. Going forward, we expect revenue dynamics to remain in place, albeit at a lower pace. However, we see pressure on asset quality increasing. On the cost side, we anticipate the Bank will continue its cost efficiency measures, especially now that the Postbank IT migration has been completed, partly offsetting cost increases from growth investments and inflationary pressure.

The Corporate Bank continued to be the driver of YOY growth with Q2 2023 revenues up 25% to EUR 1.9 billion, benefitting from significantly higher margins. Sequentially, revenues were slightly down on lower loan balances. Revenues were strong across all segments. Private Bank revenues increased by 11% YOY to EUR 2.4 billion, but declined by 2% sequentially, as the segment benefitted from higher rates, partly offset by headwinds from lower fees and a divestment in Italy.

Asset Management reported a 6% YOY drop in revenues to EUR 620 million, but this trend has reversed with revenues up 5% sequentially due to stronger capital markets and continued inflows, mainly in passive and alternative products. Investment Banking revenues were down 11% YOY to EUR 2.4 billion as FIC Sales and Trading revenues declined by 10% from a strong Q2 2022, and somewhat better than peers so far. While improved, the contribution from Origination and Advisory was still small at EUR 291 million, an area where DB seeks to grow with the acquisition of Numis and the hiring of investment bankers.

Provisions for credit losses increased by EUR 29 million Quarter-on-Quarter (QOQ) to EUR 401 million or 33 basis points (bps) in terms of cost of risk (CoR). The composition shifted from increased provisions for the Private Bank to a more even spread across all segments. The Bank is seeing some weakness in certain German midcap sectors and CRE. The Stage 3 loan ratio remained stable at 2.7% compared to the previous quarter (2.5% at end Q2-2023). Reflecting a somewhat more negative outlook, the full-year CoR is expected to be at the upper end of the 25-30 bps guidance.

Liquidity metrics remained fairly stable as deposits increased slightly to EUR 593 billion at end-Q1 2023 from the previous quarter, while loans decreased by 1%. The Liquidity Coverage Ratio (LCR) was 137% at end-Q1 2023, down from 143% and end-Q1 2023. The Net Stable Funding Ratio (NSFR) was 119% compared to 120% a quarter earlier.

Earnings retention lifted the CET1 capital ratio further to 13.8% at end-Q1 2023 from 13.6% at end-Q1 2023. The leverage ratio was 4.7% at quarter-end, well above the 3.75% requirement. However, capital ratios are set to decline by year-end, as the combination of model changes, the Numis acquisition and share repurchase are expected to lower the CET 1 ratio by approximately 70 basis points.

Notes:
All figures in Euros unless otherwise noted
Sources: Company documents
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