
Earnings Commentary

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

DBRS Morningstar
26 July 2023

Sonja Förster, CFA
Vice President - Global Financial Institutions Group
+49 69 8088 3510
sonja.forster@dbrsmorningstar.com

Elisabeth Rudman
Managing Director, Head of European FIG - Global FIG
+44 20 7855 6655
elisabeth.rudman@dbrsmorningstar.com

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

For more information on this credit or on this industry, visit www.dbrsmorningstar.com

About DBRS Morningstar

DBRS Morningstar is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 3,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

DBRS Morningstar is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

That's why DBRS Morningstar is the next generation of credit ratings.

Learn more at [dbrsmorningstar.com](https://www.dbrsmorningstar.com).



The DBRS Morningstar group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). DBRS Morningstar does not hold an Australian financial services license. DBRS Morningstar credit ratings, and other types of credit opinions and reports, are not intended for Australian residents or entities. DBRS Morningstar does not authorize their distribution to Australian resident individuals or entities, and accepts no responsibility or liability whatsoever for the actions of third parties in this respect. For more information on regulatory registrations, recognitions and approvals of the DBRS Morningstar group of companies, please see: <https://www.dbrsmorningstar.com/research/225752/highlights.pdf>.

The DBRS Morningstar group of companies are wholly-owned subsidiaries of Morningstar, Inc.

© 2023 DBRS Morningstar. All Rights Reserved. The information upon which DBRS Morningstar credit ratings and other types of credit opinions and reports are based is obtained by DBRS Morningstar from sources DBRS Morningstar believes to be reliable. DBRS Morningstar does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS Morningstar credit ratings, other types of credit opinions, reports and any other information provided by DBRS Morningstar are provided "as is" and without representation or warranty of any kind and DBRS Morningstar assumes no obligation to update any such ratings, opinions, reports or other information. DBRS Morningstar hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS Morningstar or its directors, officers, employees, independent contractors, agents, affiliates and representatives (collectively, DBRS Morningstar Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of credit ratings, other types of credit opinions and reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS Morningstar or any DBRS Morningstar Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. IN ANY EVENT, TO THE EXTENT PERMITTED BY LAW, THE AGGREGATE LIABILITY OF DBRS MORNINGSTAR AND THE DBRS MORNINGSTAR REPRESENTATIVES FOR ANY REASON WHATSOEVER SHALL NOT EXCEED THE GREATER OF (A) THE TOTAL AMOUNT PAID BY THE USER FOR SERVICES PROVIDED BY DBRS MORNINGSTAR DURING THE TWELVE (12) MONTHS IMMEDIATELY PRECEDING THE EVENT GIVING RISE TO LIABILITY, AND (B) U.S. \$100. DBRS Morningstar does not act as a fiduciary or an investment advisor. DBRS Morningstar does not provide investment, financial or other advice. Credit ratings, other types of credit opinions and other analysis and research issued by DBRS Morningstar (a) are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities; (b) do not take into account your personal objectives, financial situations or needs; (c) should be weighed, if at all, solely as one factor in any investment or credit decision; (d) are not intended for use by retail investors; and (e) address only credit risk and do not address other investment risks, such as liquidity risk or market volatility risk. Accordingly, credit ratings, other types of credit opinions and other analysis and research issued by DBRS Morningstar are not a substitute for due care and the study and evaluation of each investment decision, security or credit that one may consider making, purchasing, holding, selling, or providing, as applicable. A report with respect to a DBRS Morningstar credit rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS Morningstar may receive compensation for its credit ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS Morningstar. ALL DBRS MORNINGSTAR CREDIT RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DEFINITIONS, LIMITATIONS, POLICIES AND METHODOLOGIES THAT ARE AVAILABLE ON <https://www.dbrsmorningstar.com>. Users may, through hypertext or other computer links, gain access to or from websites operated by persons other than DBRS Morningstar. Such hyperlinks or other computer links are provided for convenience only. DBRS Morningstar does not endorse the content, the operator or operations of third party websites. DBRS Morningstar is not responsible for the content or operation of such third party websites and DBRS Morningstar shall have no liability to you or any other person or entity for the use of third party websites.