Earnings Commentary
Deutsche Bank 2021 Results: Regaining Flexibility

DBRS Morningstar
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Ratings

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

Deutsche Bank (DB or the Bank) reported a full-year 2021 pre-tax profit of EUR 3.4 billion and an after-tax profit of EUR 2.5 billion, up significantly from EUR 1.0 billion and EUR 0.6 billion respectively in the previous year. The improvement was due to a variety of factors such as a positive operating environment for the Investment Bank and Asset Management in particular, the increased benefits from the Bank's restructuring program, success in deposit repricing and a benign credit environment. The return on average tangible equity (ROATE) was 3.8%, still low but up from 0.2% a year earlier. Given the positive revenue and cost momentum the Bank reconfirmed its 2022 targets including a ROATE of 8% and a cost/income ratio of 70% and announced the resumption of dividend payments and share repurchases.

Group revenues increased by 6% year-on-year (YoY) to EUR 25.4 billion and the Bank noted that positive momentum continued, with 4Q 2021 revenues up 8% YoY. This increase was mostly driven by the asset management segment, which reported a 21% YoY increase in revenues to EUR 2.7 billion as AuM increased by 17%, driven by net inflows (EUR 48 billion of the EUR 135 billion increase) as well as the positive impact from strong capital markets and FX effects. The Investment Bank reported a 4% YoY revenue increase to EUR 9.6 billion from an already strong 2020, as a 14% YoY decline in Sales and Trading revenues (in line with U.S. peers) was largely offset by a 29% YoY increase in Origination and Advisory. The Corporate Bank reported revenues that were flat YoY at EUR 5.2 billion due to interest rate headwinds offsetting underlying business growth. However, momentum improved towards the end of the year and Q4 2021 revenues were up 10% YoY driven by treasury services and Institutional Client Services. Finally, revenues at the Private Bank were up 1% YoY for 2021 to EUR 8.2 billion as business growth was largely offset by the impact of the German Court Ruling on account servicing fees.

In DBRS Morningstar's view, the contribution from the Investment Bank and Asset Management to revenues and earnings demonstrate the benefits of DB's diversified franchise. While we are not anticipating 2021 growth to continue at the same level in 2022, we positively note that the interest rate headwinds have started to dissipate, lending some support to the Corporate Bank and Private Bank. In 2021, the Bank was able to offset interest rate headwinds of EUR 750 million through business growth and improved balance sheet efficiency. Using current forward curves, management expects a positive, albeit still modest contribution for 2022, which would continue to increase going forward.

The negative contribution from the Capital Release Unit (CRU) continues but is reducing with a loss of EUR 1.4 billion in 2021, down from EUR 2.2 billion in 2020 and EUR 3.2 billion in 2019. Risk-weighted assets (RWA) decreased to EUR 28 billion from EUR 34 billion during 2021 and leverage exposure declined to EUR 39 billion from EUR 72 billion. However, we note that the CRU continues to have a significant negative impact on results. The Prime Finance and Electronic Equity businesses have now been fully transferred to BNP Paribas, removing any remaining risks associated with this business.

The cost side remains well contained despite an increase in variable compensation in Q4, as non-interest income increased by 1% YoY for 2021, while adjusted costs ex-transformation charges declined by 2%. 97% of transformation costs have now been absorbed. The cost/income ratio declined to 85% from 88% a year earlier and 108% in 2019. Though still elevated, we expect further improvement in 2022 as the benefits from the measures implemented during 2021 will affect the P&L.

Provisions for credit losses declined by 71% to EUR 515 billion in 2021 translating into a cost of risk (CoR) of 12 basis points. Stage 3 loans at amortised costs at 1.5% of total loans at end-2021 remained flat YoY and up somewhat from 1.1% at end-2019.

The CET1 capital ratio at end-2021 was 13.2%, somewhat below the 13.6% at end-2020 and up 20 basis point from end-Q3 2021. The Bank announced that it would resume dividend payments of about EUR 400 million in 2022 as well as share repurchases of EUR 300 million. In our view this will improve DB's access to the equity capital market. At the same time, management announced the intention to maintain a CET1 ratio of approximately 13%, above the minimum target of 12.5%.

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