Earnings Commentary

Deutsche Bank Q1 2022 Results: Resilient Revenues Support Strategic Goals

DBRS Morningstar
28 April 2022

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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 Q1 2022 pre-tax profit of EUR 1.7 billion, up 4% Year-on-Year (YoY) and a net profit of EUR 1.2 billion, up 18% YoY. The improvement was due to strong revenue performance and a fall in costs as a result of previously implemented cost cuts, partly offset by a moderate increase in credit costs. Revenue growth was strong not only at the Investment Bank, which benefited from the volatile capital markets environment, but also at the Corporate Bank and in Asset Management. Business growth, deposit repricing and TLTRO benefits, contributed to offset interest rate headwinds. The cost/income ratio declined to 73% from 77% in Q1 2021, and the return on average equity (ROAE) was 7.2%, up from 6.6% a year earlier. The Bank was also able to utilise deferred tax assets. In DBRS Morningstar's view, DB will continue to benefit from market volatility and rising rates and its well-executed transformation programme. However, this could be offset by rising costs due to inflationary pressures and higher credit costs as the global economy weakens.

Group revenues increased by 1% YoY to EUR 7.3 billion and 3% for the core bank (excluding the Capital Release Unit) as 'Corporate and Other' moderated the solid revenue growth in all other segments. The Corporate Bank reported a revenue increase of 11% YoY to EUR 1.5 billion, helped by business growth, deposit repricing and an improving rate environment (particularly outside the Eurozone). The Investment Bank reported a 7% YoY revenue increase to EUR 3.3 billion as strong Sales & Trading revenues more than offset the decline in Origination & Advisory. With a 15% YoY increase in Sales and Trading revenues, DB saw higher growth than most peers. Asset Management had another strong quarter with revenues increasing by 7% YoY to EUR 682 million as AuM increased by 10%, driven by net inflows, though sequentially AuM declined by 3% due to market movements. Revenues at the Private Bank were up 2% YoY for Q1 2022 to EUR 2.2 billion as business growth, increased fee income, and FX effects compensated for the margin compression in deposits and the reduced benefit from TLTRO III. DBRS Morningstar notes the positive revenue momentum as a result of higher client engagement. Interest rate headwinds continue to dissipate and capital market volatility is likely to support Sales & Trading revenues. This is partly mitigated by the phasing out of TLTRO III benefits and possibly lower loan growth as the economy slows.

Noninterest expenses declined by 4% YoY to EUR 5.4 billion, or 5% excluding transformation charges, bank levies and FX effects, as the benefits from the transformation program and a release of a restructuring reserve were only partially offset by higher bank levies, investments in growth areas and payroll inflation. While we expect the benefits from the measures implemented during 2021 to materialise in 2022, this is being increasingly offset by inflationary pressures.

Provisions for credit losses increased to EUR 292 million in Q1 2022 from EUR 69 million in Q1 2021, as provisions for Stage 1 and 2 loans increased to EUR 178 million from a release of EUR 95 million in the year-ago quarter, reflecting rating migration and macroeconomic uncertainties. DB's annualised Q1 2022 provisioning translates into a cost of risk (CoR) of 24 basis points, up from 6 basis points in Q1 2021. The proportion of Stage 3 loans as a proportion of customer loans at amortised costs was 1.5%, flat both QoQ and YoY, although is somewhat higher than the 1.1% seen at end-2019.

The loss at the Capital Release Unit (CRU) narrowed by EUR 70 million YoY and EUR 13 million QoQ to EUR 339 million in Q1 2022 as administrative expenses reduced YoY. Risk-weighted assets (RWA) decreased to EUR 25 billion from EUR 33 billion a year earlier and EUR 28 billion in the previous quarter due to lower operational risk and derisking.

The CET1 capital ratio at end-Q1 2022 was 12.8%, below the 13.2% recorded at end-2021 and 13.7% at end-Q1 2021. This decline was in part due to ECB model adjustments, as well as increased RWAs in both credit risk and market risk. The Russia-Ukraine conflict also resulted in higher prudent valuation adjustments. The Bank has now completed its EUR 300 million share repurchase programme which was announced on January 26th. The Bank anticipates a CET1 ratio of 13% or higher by end-2022, with increased organic capital generation offsetting RWA growth and negative pressure from distributions.

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