

Earnings Commentary

Deutsche Bank Q2 2022 Results: Positive Revenue Dynamics, But Cost Pressure Increases

DBRS Morningstar

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Ratings

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

Deutsche Bank (DB or the Bank) reported a Q2 2022 pre-tax profit of EUR 1.5 billion, up 33% Year-on-Year (YoY) and a profit attributable to shareholders of EUR 1.0 billion, up 51% YoY. The improvement was due to a 7% increase in revenues, while costs fell by 3%. Revenue growth was solid across all business segments, benefitting from volatile capital markets, higher rates and an increase in business volumes. The cost/income ratio (CIR) improved to 73% from 80% in Q2 2021, and the return on average equity (ROAE) was 7.1%, up from 4.9% a year earlier. In DBRS Morningstar's view, DB's revenues will continue to benefit from market volatility and higher rates, but progress on costs is slower due to higher regulatory costs, inflationary pressures, and additional IT-related costs. For the entire year we still expect a marked improvement in profitability compared to 2021.

The Corporate Bank reported a revenue increase of 26% YoY to EUR 1.6 billion, driven by higher interest rates and business growth both on the loan and fee side. Investment Banking revenues were 11% higher YoY supported by strong Sales & Trading revenues (up 32% YoY to EUR 2.4 billion) despite significantly lower credit trading results, more than offsetting the 63% decline in Origination & Advisory, which was impacted by a lower fee pool and commitment markdowns. Despite an 8% YoY decline in AuM due to market movements and outflows, Asset Management reported revenues up 5% YoY to EUR 656 million, albeit 4% lower than in Q1 2022. Revenues at the Private Bank were up 7% YoY (4% excluding specific items and the negative impact of a German court ruling in Q1 2021) to EUR 2.2 billion, benefitting from higher interest rates and growth in loans and deposits.

Noninterest expenses declined by 3% YoY to EUR 4.9 billion, or 2% excluding transformation charges, bank levies and FX effects, as the benefits from the transformation programme were partially offset by higher bank levies, higher litigation charges and the establishment of a new tech centre in Berlin, including the associated relocation of staff from Russia. These factors have prompted the Bank to revise its CIR targets for 2022 from 70% to mid- to low 70s. We note that while the deviation will result in a higher CIR than planned, we expect the Bank to continue its path to improve its CIR and ROE in 2022, as the Bank continues to benefit from the materialisation of the measures implemented during 2021,

Provisions for credit losses increased to EUR 233 million in Q2 2022 from EUR 75 million in Q2 2021, as provisions for Stage 1 and 2 loans increased to EUR 52 million from a release of EUR 36 million in Q2 2021, reflecting deterioration in the economic forecast. Stage 3 loan provisions increased from EUR 111 million to EUR 181 million. DB's annualised Q2 2022 provisioning translated into a cost of risk (CoR) of 19 basis points. The proportion of Stage 3 loans as a proportion of customer loans at amortised cost was 1.4%, down slightly both Quarter-on-Quarter (QoQ) and YoY.

The loss at the Capital Release Unit (CRU) narrowed by EUR 76 million YoY and EUR 157 million QoQ to EUR 181 million in Q2 2022 due to revenue improvement, lower internal service charges and lower compensation costs. Risk-weighted assets (RWA) decreased to EUR 25 billion down EUR 7 billion YoY and flat QoQ.

The CET1 capital ratio at end-Q2 2022 was 13.0%, up 14 basis points from Q1 2022 driven by earnings retention, but down 23 basis points from Q1 2021 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 in Q2 2022. The Q2 2022 ratio represents a buffer of 253 basis points over regulatory minimum requirements.

Notes:

All figures in Euros unless otherwise noted

Sources: Company documents

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