Earnings Commentary

Deutsche Bank Q1 2023 Results: Corporate Bank Supports Steady Improvement

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 Q1 2023 pre-tax profit of EUR 1.9 billion, up 12% Year-on-Year (YOY) and a net profit of EUR 1.3 billion, up 8% YOY, driven by very strong revenue performance at the Corporate Bank, and, to a lesser extent, at the Private Bank, partly offset by weakness in Investment Banking and Asset Management. Non-interest expenses increased by 1%, and as a result the cost income ratio (CIR) edged down further to 71% from 73% a year earlier. Credit costs increased by EUR 79 million YOY to EUR 372 million or 30 basis points in terms of Cost of Risk (CoR). Overall, this resulted in a return on average equity (ROAE) of 7.4%, up from 7.2% in Q1 2022. While we note again the strength of DB's diversified business model, Investment Banking results were on the weaker side, especially in fixed income trading, where peers reported stronger results. That said, the strength in traditional banking segments should bode well for revenues for the remainder of the year. Generally, we expect the positive impact from higher rates to outweigh possibly lower business volumes in certain segments and potentially higher credit costs as the global economic outlook remains clouded.

Group revenues increased by 5% year-on-year (YOY) to EUR 7.7 billion, driven by a 35% YOY revenue growth at the Corporate Bank, which benefitted from higher interest rates while maintaining pricing discipline, as well as business momentum in Cash Management and Corporate Trust Services. The Private Bank also benefitted from higher rates, with total revenues increasing by 10% YOY to EUR 2.4 billion and revenues in Germany increasing by 14%. However, at 5.3% the ROTE is still somewhat modest, as this division is subject to further efficiency measures. Asset Management reported a 14% YOY drop in revenues to EUR 589 million due to a decrease of assets under management of 7%, driven by lower market valuations and performance fees and transaction fees declined. This was only partly offset by continuous net asset inflows. The Investment Bank recorded the weakest revenue performance with a drop of 19% YOY to EUR 2.7 billion. Given the turmoil in the market, a 31% decline in Origination and Advisory revenues to EUR 327 million was not unexpected. However, the 17% YOY decline in Sales and Trading revenues underperformed peers. According to management, this was driven by particular strength in Emerging Markets and Credit Trading in the previous year, while FX was adversely impacted by the interest rate volatility Results in Rates improved further from strong Q1 2022 numbers.

Noninterest expenses increased by 1% YOY to EUR 5.4 billion, benefitting from a reduction in bank levies. Excluding bank levies, expenses were up 5% YOY, as the bank invested in technology, controls and business growth. The Bank has announced further efficiency measure to achieve cost savings of EUR 2.5 billion by 2025 from an original target of EUR 2.0 billion.

Provisions for credit losses increased by EUR 79 million YOY to EUR 372 million or 30 basis points (bps) in terms of cost of risk (CoR) in line with the 25-30bps guidance. The increase was mainly driven by higher provisions for the Private Bank and Stage 3 loans, whereas a small amount of provisions for Stage 1 and 2 loans was released. The Stage 3 loan ratio edged up somewhat to 2.7% from 2.5% at year-end 2022 and 2.6% at end Q1-2022. Overall, the Bank's outlook on credit risk is unchanged.

Despite the turmoil in the markets following the failure of Credit Suisse, liquidity remained fairly stable. Deposits of EUR 592 billion at end-Q1 2023 declined from an elevated level of EUR 621 billion at end-2022. However, the Liquidity Coverage Ratio (LCR) of 143% at end-Q1 2023 slightly increased from 142% and end-2022, due to active management of the deposit composition. The Net Stable Funding Ratio (NSFR) remained stable at 120%.

The CET1 capital ratio at end-Q1 2023 was 13.6%, up 20 basis points since year-end supported by earnings retention, partly offset by higher RWA. The leverage ratio was 4.6% at quarter-end, well above the 3.75% requirement applicable since 1 January 2023.

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