Bulletin:

Deutsche Bank's Second-Quarter Results Are Solid Amid Economic and Geopolitical Pressure

July 27, 2022

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LONDON (S&P Global Ratings) July 27, 2022--S&P Global Ratings said today that Deutsche Bank AG (A-/Stable/A-2) performed resiliently in the second quarter (Q2) of 2022, but its results also showed signs of the weakening operating environment (see "Bulletin: Geopolitical Risks Add Headwinds For German Banks, Despite Robust Capitalization, " published July 19, 2022). The bank's 8.0% return on tangible equity (RoTE) in the first half (H1) of the year was in line with its full year target, but it acknowledged that sustaining this level will be difficult as the global economy slows in the second half of 2022. Still, our overall takeaway from the results is that Deutsche Bank continues to make progress in strengthening its earnings and franchise and closing the gap to peers.

Deutsche Bank's €1.5 billion pretax profit and 7.9% RoTE in Q2 exceeded the company-compiled analyst consensus, through stronger revenues and a lower credit loss charge. Revenues grew across all customer-facing divisions, led by the corporate bank, due to an improved net interest margin and higher volumes. Strong fixed income trading boosted the investment bank despite the market-wide slowdown in origination and advisory activity and about €150 million of leveraged finance markdowns.

Deutsche Bank withdrew its 70% cost-to-income ratio target for full year 2022 because the 73.3% result for H1 has made it unattainable. H1 costs were inflated by nonoperating items, including a litigation provision regarding employee use of unapproved personal messaging devices and increased bank levies. Operating expenses remained closely controlled, with wage growth mitigated by further headcount reductions and lower general and administrative costs. Excluding bank levies and transformation charges, Deutsche Bank's H1 adjusted costs were 1% lower year on year, or 3% lower at constant exchange rates.

The Q2 credit loss charge was 19 basis points (bps) of average loans on an annualized basis, below the 25 bps level that Deutsche Bank expects for the full year. Similar to peers, its credit indicators remain benign, and its balance sheet provisions include overlays and modeled stage 1 and 2 allowances in recognition of emerging risks. Deutsche Bank separately disclosed that a cut-off of Russian gas exports to Europe could add up to 20 bps, or about €1.0 billion, to its credit loss charge over an 18-month period. This estimate does not take into account potential fiscal support measures, such as the German government's recently announced capital injection into Uniper SE. The manageable loss estimate suggests that a gas cut-off would be an earnings event rather than a capital event, but we are cautious of potential second-order effects and the possibility of a prolonged stoppage.

The common equity Tier 1 ratio stands at 13.0% as of June 30, 2022, in line with Deutsche Bank's target. This provides comfortable headroom of about 260 bps above the minimum regulatory requirement, and is consistent with our 9.5%-10.0% risk-adjusted capital ratio projection. Funding and liquidity metrics also remained robust.

Related Research

- Bulletin: Geopolitical Risks Add Headwinds For German Banks, Despite Robust Capitalization, July 19, 2022
- Deutsche Bank AG, May 24, 2022

This report does not constitute a rating action.