

Earnings Commentary

Deutsche Bank Q4 2022 Results: Strong Results Driven by Interest Income

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 full-year 2022 pre-tax profit of EUR 5.6 billion, up by over 65% Year-on-Year (YoY). Net profit of EUR 5.7 billion grew to a larger extent, but benefitted from a positive EUR 1.4 billion valuation effect related to deferred tax assets. Net revenues increased by 7% YoY to EUR 27.2 billion, largely driven by the rise in interest rates, as net interest income rose by 22% YoY to EUR 13.7 billion. Noninterest expenses dropped by 5% YoY, while transformation adjusted expenses increased by 1%, creating positive operating leverage. As a result, the cost/income ratio (CIR) improved to 75% from 85% in 2021. This was partly offset by an increase in credit loss provisions to EUR 1.2 billion from EUR 0.5 billion in 2021, reflecting more challenging economic forecasts. The return on average equity (ROAE) was 8.4%, up from 3.4% a year earlier.

In our view, DB's revenues will continue to benefit from higher rates and market volatility, while loan growth is likely to soften in the context of a slowdown in economic activity and higher interest costs for borrowers. The Bank has a number of cost efficiency measures underway, mostly IT driven, but also including further branch closures, reduction of office space, and workforce management. We therefore expect a downward trend in the CIR over the medium term. Given the Bank's loan portfolio characteristics and the good track record in managing credit risk, we do not expect a material increase in credit costs.

The Corporate Bank reported a strong revenue increase of 23% YoY to EUR 6.3 billion as a result of higher interest rates, higher average loan and deposit balances, while also being supported by pricing discipline, favourable FX movements and increases in fees and commissions. Growth was strong across all three segments. However, loan volumes declined towards year-end. Despite relatively weak Q4 revenues (-12% YoY) full-year Investment Banking revenues of EUR 10.0 billion were up 4% YoY due to strong Fixed Income & Currencies revenues (up 26% YoY to EUR 8.9 billion) as a result of strong performance in Rates, Emerging Market & Foreign Exchange. This offset a decline in revenues in Origination & Advisory (O&A) revenues, which were down 62% YoY at EUR 1.0 billion due to mark-to-market losses in Leveraged Debt Capital Market and the lack of activity in this market. While we view the natural hedge between trading and origination results positively, we note the high dependence on sales and trading revenues.

Private Bank revenues increased by 11% YoY to EUR 9.2 billion (6% if adjusted for specific items such as the German Federal Court of Justice (BGH) ruling and a gain on sale), benefitting from higher interest rates, FX and higher business volume, mostly inflows into deposits and investment products. The bottom line also benefitted from cost reductions. Asset Management revenues declined 4% YoY on lower performance fees. Assets under Management declined by EUR 106 billion (11%) to EUR 821 billion, mainly due to weaker capital markets.

Provisions for credit losses increased to EUR 1,226 million in 2022 from EUR 515 million in 2021, as provisions for Stage 1 and 2 loans increased to EUR 204 million from a release of EUR 218 million in 2021, reflecting deterioration in the economic forecast. Meanwhile Stage 3 loan provisions increased from EUR 734 million to EUR 1,022 million, translating into a cost of risk (CoR) of 25 basis points (bps). The proportion of Stage 3 assets in the category financial instruments at amortised cost was 1.5%, up slightly Quarter-on-Quarter (QoQ) as total loans declined, but flat YoY. For 2023, the CoR guidance is towards the lower end of a range from 25 to 30 bps, driven by Stage 3 assets.

The loss at the Capital Release Unit (CRU) narrowed to EUR 932 million in 2022 compared to a EUR 1.4 billion loss in 2021. With a reduction of leverage exposure from EUR 249 billion in Q2 2019 to EUR 22 billion at end-2022 and remaining risk-weighted assets (RWA) of EUR 24 billion, largely consisting of operational RWAs, the CRU will no longer be reported as a separate segment, but will be included in Corporate & Other. The loss is expected to narrow significantly in 2023.

The CET1 capital ratio at end-2022 was 13.4%, up slightly from the 13.3% on Q3 and 13.2% at end-2021. The CET1 ratio remained above the Bank's minimum target of 12.5%, and the buffer over regulatory minimum requirements was ca. 300 basis points. ([DB SREP Requirements](#) 13.4%-10.43%) As of January 1, 2023, DB's minimum requirements for CET 1 increased to 10.55%. For end-2023, the Bank targets a CET 1 ratio of 200 bps above the maximum distributable amount (MDA) threshold, which is expected to be 11.2%.

Notes:

All figures in Euros unless otherwise noted

Sources: Company documents

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