Earnings Commentary

Deutsche Bank: Ending the Year on a Strong Note

DBRS Morningstar
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Ratings

Issuer	Obligation	Rating	Rating Action	Trend
Deutsche Bank AG	Long-Term Issuer Rating	A (low)	Confirmed Jul '20	Negative
Deutsche Bank AG	Short-Term Issuer Rating	R-1 (low)	Confirmed Jul '20	Stable

Deutsche Bank (DB or the Bank) reported a EUR 113 million profit attributable to shareholders for the full year 2020 and EUR 51 million for Q4 2020. Still modest, this is nevertheless the first annual profit since 2014, supported by strong Investment Banking revenues and continued cost cuts, despite elevated credit and transformation related expenses. Full-year Group revenues increased by 4% Year-on Year (YoY) to EUR 24.0 billion and core revenues, excluding the Capital Release Unit (CRU) and specific items, increased by 6% to EUR 24.2 billion. For the quarter Group revenues were up by 2% YoY to EUR 5.5 billion while core revenues increased by 4% YoY to EUR 6.0 billion.

- The Investment Bank, which continued to benefit from market volatility as well as strong origination volumes reported a revenue increase of 32% for the year and 24% for the quarter. Fixed Income Trading was up 28% for the year and 17% for the quarter as the Rates business slowed, partly offset by strength in FX, Emerging Markets and Credit. Origination and Advisory revenues increased by 34% for the year and 52% for the quarter, and continued to outperform peers in a sign that DB has managed to stabilise its franchise. As a result, we consider some of the revenue improvement to be sustainable for the Bank, even as the current revenue boost gradually subsides.

- While reported revenues in all other segments declined YoY for the full year as well as the quarter, we note that core revenue performance (excluding specific items) in other business segments was essentially flat. In an effort to counter negative rates, the Bank now has charging agreements on EUR 85 billion of assets (of which 90% in the Corporate Bank), which translated into a EUR 69 million revenue impact in Q4 2020 compared to just EUR 16 million a year earlier.

- On the cost side, the Bank remained on track, reducing 2020 full-year adjusted costs (excluding transformation charges and Prime Finance) by 9% YoY to EUR 19.5 billion. For the quarter, the costs declined to EUR 4.6 billion, down from 5.0 billion a year earlier. Transformation related expenses were EUR 207 million during the quarter and EUR 490 million for the full year, while restructuring and severance costs were EUR 127 million and EUR 688 million respectively. At this point 85% of transformation related expenses have been incurred. 2021 will be the last year of heavy transformation related costs of appr. EUR 1.1 billion. The number of employees (full time equivalent) declined to 84,659 from 86,984 during the quarter, and was down by about 3,000 YoY. With the cost cuts implemented over the course of 2020, we expect adjusted costs for 2021 to decline further, even without incremental measures which should provide additional support. Starting in 2022, a significant reduction in transformation related costs should lead to a more noticeable effect on the Bank's bottom line.

- The Bank provisioned EUR 251 million for credit losses in Q4 2020 as provisions for Stage 1 and 2 loans were released to reflect an improved macroeconomic outlook, bringing the total for the year to EUR 1.8 billion or 41 bps, in line with guidance. Stage 3 loans represented 2.9% of total loans in Q4 2020, flat QoQ compared to 2.2% a year earlier. While provisions have likely peaked, we expect further deterioration of assets quality metrics as support programs are phased out and economic uncertainties persist.

- DB's capital ratios improved during the quarter, with the Common Equity Tier 1 (CET1) ratio increasing to 13.6% from 13.3% a quarter earlier, benefitting from changes in regulatory treatment of software assets, further RWA reductions in the CRU, somewhat offset by RWA growth in the Core Bank. This implies a buffer of 315 bps above regulatory requirements, which, in our view, gives DB a solid cushion for upcoming regulatory requirements related to the Targeted Review of Internal Models (TRIM) and the still challenging operating environment. The Bank estimates the CET 1 ratio to drop to 12.8% by the end of H1 2021 mostly driven by TRIM, after which the impact is expected to subside.

Notes:

All figures in Euros unless otherwise noted

Sources: Company documents

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