Earnings Commentary

Deutsche Bank Continues on Positive Trajectory in Q1 2021

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 908 million profit attributable to shareholders for Q1 2021 compared to a loss of EUR 43 million in Q1 2020. This translates into a 6.6% ROE, representing the highest quarterly profit since 2014, owed largely to a significant revenue increase in the Investment Banking division, strong Asset Management results, and materially lower credit provisions. Q1 2021 Group net revenues increased by 13.9% Year-on Year (YoY) to EUR 7.2 billion and core revenues, excluding the Capital Release Unit (CRU) and specific items, increased by 12% despite a 14% YoY decrease of net interest income. The Bank reported a 330 basis point buffer over regulatory Common Equity Tier 1 (CET1) minimum requirements.

- DB views much of the investment banking revenue improvement since 2019 to be sustainable despite an expected market normalisation. In addition, pressure on net interest income should gradually subside as a result of deposit re-pricing, portfolio adjustments, the effect of TLTRO III (albeit less than in Q1), and economic stabilisation, with the trend already visible in a 9% increase from Q4 2020. Combined with further cost reductions, this should lend support to the Bank's profitability.

- Investment Bank results continued to benefit from market volatility and strong origination demand, with net revenues up 32% YoY to EUR 3.1 billion. Growth in Fixed Income & Currencies (FIC) revenues was 34% YoY, outperforming most Wall Street peers, as the Bank experienced strength in Credit Trading and Financing and the absence of the negative market-to-market impact in the prior-year quarter. This offset the revenue declines in Rates, Foreign Exchange and Emerging Markets resulting from a return to normalised levels. The Bank gained market share in Origination & Advisory, where revenues rose 40% YoY to EUR 644 million, owing to significant growth in Equity Origination (up EUR 176 million YoY to EUR 196 million), following high levels of activity in Special Purpose Acquisition Companies (SPACs), as well as growth in IPOs and follow-ons. Debt origination increased 5% YoY to EUR 385 million, aided by a rebound in Leveraged Debt Capital Markets, and strength in Supranationals, Sovereigns and Agencies (SSAs).

- Both Corporate Bank and Private Bank revenues were largely flat YoY. Both segments saw interest rate headwinds compensated for by tailwinds from progress on deposit re-pricing, and the ECB's TLTRO III programme. The Private Bank also balanced deposit margin compression resulting from low interest rates, with continued growth in loans as well as investment products. Asset management benefitted from strong market performance, resulting in asset inflows, higher performance fees and positive fair value changes of guarantees, offsetting industry-wide margin pressure.

- In terms of costs, the Bank remains on track regarding its transformation targets, reducing the Q1 2021 adjusted costs (excluding transformation charges and Prime Finance) by 2% YoY to EUR 5.3 billion. Reported costs were EUR 5.6 billion, down 1% YoY. Transformation related expenses were EUR 116 million during the quarter, while restructuring and severance costs were EUR 57 million. 87% of transformation related expenses have been incurred thus far. The number of employees (full time equivalent) declined 3% YoY to 84,389, with the largest employee reduction noted in the Private Bank (down 5% YoY to 29,522). Progress in cost management has been partly offset by a higher than expected bank levy of EUR 0.6 billion, following an increased target for the Single Resolution Fund. In addition, the Bank is subject to an additional contribution to the statutory German deposit insurance scheme of EUR 70 million for 2021 and EUR 60 million per year until 2024 as a consequence of the Greensill Bank insolvency. Despite these headwinds, we expect adjusted costs for 2021 to continue to decline, 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 69 million for credit losses in Q1 2021, a reduction of 86% on Q1 2020, partly due to the 40% reduction in Stage 3 provisions. This results from reduced impairment events, accompanied with provision releases on certain exposures. Additionally, total provisioning levels were decreased by releases for Stage 1 and Stage 2 loans, reflecting an improved macroeconomic outlook. The cost of risk was 6 basis points for the quarter, however, the bank guided towards an average of 25 basis points for full-year 2021. Stage 3 loans represented 2.8% of total loans in Q1 2021, flat QoQ, but up compared to 2.2% a year earlier. In coming quarters, we expect further deterioration of asset quality metrics as support programs are phased out and economic uncertainties persist.

- DB's CET1 ratio increased modestly by 9 basis points QoQ to 13.7%, benefitting from lower market and operational RWAs, and increases in net income, partly offset by higher credit RWAs, equity compensation, and a dividend accrual of EUR 300 million. This implies a buffer of 330 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). The Bank estimates a c. 80bps negative impact on CET1 by Q2 2021 from final TRIM decisions and other regulatory RWA inflation.

Notes:

All figures in Euros unless otherwise noted

Sources: Company documents

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