Earnings Commentary

Deutsche Bank: Loss in Q2 2024 on Legacy One-Off Postbank Litigation Hit, but Solid Underlying Performance

Morningstar DBRS
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Ratings

Issuer	Obligation	Credit Rating	Trend
Deutsche Bank AG	Long-Term Issuer Rating	A	Positive

Deutsche Bank (DB or the Bank) reported a net attributable loss of EUR 143 million in Q2 2024, compared with a EUR 763 million profit for the same period last year. As previously announced, results were affected by the Postbank takeover-related litigation costs of EUR 1.3 billion booked in the quarter. The Bank recorded a pre-tax profit of EUR 411 million for the quarter, compared with EUR 1.4 billion in Q2 2023. However, excluding the one-off, pre-tax profit was up 24% to EUR 1.7 billion, confirming the solid trend we have been observing in recent quarters (for more details, please see *Morningstar DBRS Changes Trend on Deutsche Bank AG to Positive from Stable, Confirms its Issuer Ratings*). Underlying results were supported by a moderate increase in revenues (up 2.4% YOY to EUR 7.6 billion) and lower noninterest expenses (down 4% YOY to EUR 5.4 billion), which offset higher credit costs (up 18.8% YOY to EUR 476 million). As expected, the strength in the Investment Bank division, driven by Origination and Advisory (O&A) as well as Asset Management businesses, continued to offset weaker Corporate Bank and Private Bank revenues. The return on equity (ROE) was 0.9%, down from 4.9% in Q2 2023 driven by the Postbank takeover litigation provision. The return on tangible equity (ROTE) was a negative 1.0%, or 6.9% when excluding the Postbank litigation charge, compared to 5.4% in Q2 2023. In our view, excluding the legacy Postbank charge, underlying earnings are solid and further place DB in line to reach its strategic targets of a revenue CAGR over 2021-2025 of 5.5-6.5% and operational efficiencies of EUR 2.5 billion by 2025.

The Corporate Bank revenues were EUR 1.9 billion, broadly flat YOY. This reflects solid growth in fees and commissions, up 9% YOY, driven by Trade Finance and Lending, which offset the weakness in net interest income (NII), which was down 2% YOY on the back of deposit revenue normalisation and the remuneration of reserves held at the ECB set at zero.

Private Bank revenues decreased by 3% YOY to EUR 2.3 billion, also affected by lower NII, which was down 7% because of normalising interest rates; however, this was partly offset by investment product growth. We note Personal Banking revenues were also down 7% YOY, reflecting the negative impact of higher hedging and funding costs. However, the segment benefitted from growth in Wealth Management and Private Banking revenues, boosted by lending growth and higher investment products revenues.

Investment Banking was the best performer this quarter with revenues up 10% YOY to EUR 2.6 billion. This was mainly driven by O&A, which saw revenues jump twofold to EUR 585 million, thanks to DB's ongoing market share gains. However, Fixed Income & Currency (FIC), IB's main revenue source, was down 3%. Emerging markets posted another strong quarter. Credit Trading and Financing experienced a slowdown and were stable YOY, offsetting Distressed revenues that were down from a very high base last year. However, both Rates and FX were down against a backdrop of uncertain market environment and lower volatility.

Non-interest expenses increased to EUR 6.7 billion, compared with EUR 5.6 billion in Q2 2023. However, excluding the Postbank litigation charge, non-interest expenses declined 4% to EUR 5.4 billion, reflecting DB’s strong cost discipline, with underlying nonoperating costs (i.e. ex-Postbank) down more than EUR 300 million. In addition, adjusted costs were EUR 5.0 billion, in line with the Bank’s quarterly cost guidance. This reflected higher compensation and benefits against a backdrop of higher wages, new staff, and the Numis acquisition, albeit this was largely offset by lower IT costs, thanks to the ongoing streamlining of the technology platform.

Provisions for credit losses were up to EUR 476 million in Q2 2024, compared with EUR 401 million in Q2 2023 and EUR 439 million in Q1 2024. Compared to Q1 2024, we note higher Stage 1 and Stage 2 provisions resulting from overlays and internal models’ enhancement. However, Stage 3 provisions were lower QOQ, thanks to the Private Bank, and mostly related to CRE, as in Q1 2024. The cost of risk stood at 40 bps, compared with 33 bps in Q2 2023 and 37 bps in Q1 2024 and is expected to remain slightly above 30 bps due to ongoing CRE pressure. The Stage 3 loan ratio has remained stable QOQ at 3.1%.

The CET1 ratio further increased to 13.5% at end-Q2 2024 from 13.4% at end-Q1 2024 despite the loss, as the Bank reported lower regulatory adjustments this quarter. The leverage ratio was also slightly up at 4.6% from 4.5% in Q1 2024 and well above the 3.85% requirement. We note that whilst DB completed its EUR 675 million share repurchase programme, as expected they decided not to proceed with a second share buyback following the Postbank-related litigation charge this quarter.

Note:
All figures are in Euros unless otherwise noted.

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