Earnings Commentary

Deutsche Bank Q3 2023 Results: Gradual Progress But Headwinds Are Increasing

DBRS Morningstar
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Ratings

Debt	Rating	Trend
Long-Term Issuer Rating	A	Stable
Short-Term Issuer Rating	R-1 (low)	Stable

Deutsche Bank (DB or the Bank) reported a Q3 2023 pre-tax profit of EUR 1.7 billion up 7% YOY, but the profit of EUR 1.2 billion was down by 3% as the shift in geographic profit contribution led to the tax rate increasing to 30% from 23% a year earlier. Results were supported by a moderate increase in revenues, up by 3% YOY to EUR 7.1 billion, while noninterest expenses increased by 4% to EUR 5.1 billion and credit costs declined by EUR 105 million to EUR 245. As expected, the Corporate Bank and the Private Bank continue to offset weaker Investment Banking and Asset Management results. The return on equity (ROE) was 6.5%, down from 7.4% in Q3 2022 on higher taxes and higher capital levels. The return on tangible equity (ROTE) was 7.3%, and the Bank reiterated its ROTE goal of at least 10% by 2025.

The Corporate Bank was again the strongest performer with YOY revenue growth of 21% in Q3 2023 to EUR 1.9 billion, benefitting from significantly higher margins. However, sequentially, revenues declined by 3% as the net interest margin declined. Nevertheless, the Bank is seeing good revenue momentum, offsetting expected deposit cost increases.

Private Bank revenues increased by 3% YOY (9% excluding Q3 2022 benefits from Sal. Oppenheim) to EUR 2.3 billion, but declined by 2% sequentially. The segment benefitted from higher rates, partly offset by headwinds from lower fees, exchange rate movements, the sale of a financial advisor business in Italy, and lower demand in Asia. Given the high rate environment loan demand and the Bank's risk appetite have been subdued, while deposits and investment products have experienced inflows.

Investment Banking (IB) revenues were down 4% YOY to EUR 2.3 billion (flat adjusted for a Debt Valuation Adjustment benefit in Q3 2022). Fixed Income & Currency (FIC) Sales and Trading, DB's dominant source of IB revenues, declined by 12% to EUR 1.9 billion from a strong Q3 2022, with Rates, FX and Emerging Markets Trading down YOY, but Credit Trading improved, driven by flow business and recovering Distressed demand. Revenues from Origination and Advisory were EUR 323 million for the quarter, up 11% sequentially and not comparable to the prior year period due to a write-down in Q3 2022. DB closed the acquisition of Numis, a UK boutique investment bank, which should contribute to a higher revenue diversification within IB.
Asset Management reported a 10% YOY drop in revenues to EUR 594 million, reflecting lower performance fees, the mark-to-market of co-investments and foreign exchange rate movements,

while assets under management remained stable with positive inflows during the quarter. However growth is directed towards lower margin passive investments.

Provisions for credit losses declined significantly to EUR 245 million compared to EUR 401 million in Q2 2023 and EUR 350 in Q3 2022, representing 20 basis points (bps) in terms of cost of risk (CoR). However, provisions for Stage 3 loans increased slightly from the previous quarter to EUR 346 million, while EUR 101 million in reserves were released for Stage 1 and 2 loans. Most of the provisions accrued in the Private Bank. The Stage 3 loan ratio improved somewhat to 2.6% compared to 2.7% in the previous quarter. The full-year guidance for CoR remained in the 25-30 bps range.

Non-interest expenses increased by 4% YOY to EUR 5.2 billion, as compensation and benefits increased by 2% and other expenses by 7%. This includes litigation costs and of EUR 105 million and restructuring and severance payments of EUR 94 million. Adjusted for non-operating items costs increased by 2% YOY. Favourable exchange movements helped offset inflationary pressure and investments in growth, technology and controls. Headcount increased by 2,204 to 89,260 during the quarter, reflecting strategic hiring, the onboarding of graduates and external staff joining the Bank. The cost/income ratio for 9M 2023 was 73%, flat YOY, which remains on the high side. The Bank remains confident to achieve operational efficiency targets of EUR 2.5 billion by 2025.

The CET1 ratio further increased to 13.9% at end-Q3 2023 from 13.8% at end-Q2 2023 as the Bank has been able to offset the adverse impact from regulatory changes through data and process improvements and, to a lesser extent, capital retention. The leverage ratio remained stable at 4.7%, well above the 3.75% requirement. The Bank has increased its RWA reduction target for 2025 to 25-30 billion, of which EUR 10 billion has been achieved by end Q3 2023. Another EUR 10-15 billion will come from an improved final Basel III impact assessment. Combined, this would free up an additional EUR 3 billion in capital, and give the bank leeway to return capital to shareholders while also investing in growth in a capital neutral manner.

Notes:
All figures in Euros unless otherwise noted
Sources: Company documents
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