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## Weak Results expected for Deutsche Bank's Second Quarterly Earnings

- Deutsche Bank which has often been seen as prominent bank in Europe, reports its second-quarter figures on July 27 with its share price near an all-time year low (currently €13.22) and faces stern warnings from the International Monetary Fund. Reuters has projected that Deutsche Bank is expected to report pre-tax profits of €840 million, compared to €2.46 billion in the second quarter of 2015 y-o-y on revenue of €8.15 billion compared to a prior €9.18 billion.
- Low interest rates and depressed client activity pose challenges for many banks in Europe but are severe challenges for Deutsche Bank as it revamps its businesses under difficult conditions.
- Additionally, litigation costs continue to hit the group's bottom line, while earnings for the European banking sector as a whole are expected to stay weak for some time to come.
- Adding to Deutsche Bank's ongoing woes, in its annual review of the German financial sector, the International Monetary Fund labelled the bank the "most important net contributor to systemic risk".
- While the IMF acknowledged that the ongoing European Central Bank liquidity injections are ensuring a high level of liquidity in the system, the agency has noted that markets will continue to face challenges as they adapt to new bank liquidity and leverage regulations.
- S&P last week lowered its credit outlook for Deutsche Bank AG to "Negative" from "Stable", saying market conditions and the U.K.'s decision to leave the European Union are expected to complicate the German lender's restructuring plans. The agency maintained its BBB+ credit rating for Deutsche's Bank's long- term unsecured debt.

- The negative outlook reflects S&P's view that a credit downgrade could follow "if market conditions challenge Deutsche Bank's ability to preserve its capital and maintain its franchise while implementing its restructuring plans.
- Deutsche risk level measured by CDS points peaked in February 2016. Year-On-Year shows a 152.14% (↑126bps) increase in 5 Year CDS.

## 5 Year CDS: Europe Financial Sector vs. Deutsche Bank AG



Source: Bloomberg



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