Deutsche Bank AG (DBK), Europe’s biggest investment bank, reported revenue from debt trading that beat analysts’ estimates in the second quarter as pretax profit rose 16 percent.

Income from trading debt and foreign exchange was 1.83 billion euros ($2.5 billion), little changed from a year earlier and exceeding the 1.63 billion-euro average estimate of eight analysts surveyed by Bloomberg News. Profit before tax climbed to 917 million euros compared with an estimate of 702 million euros.

Global investment banks are seeking to boost revenue and cut expenses amid tougher regulation and as record low interest rates pare returns from lending. Deutsche Bank is spending some proceeds from an 8.5 billion-euro share sale during the quarter to expand in the fixed income market’s most profitable businesses as competitors pull back.

“The pleasant surprise was that second-quarter debt sales and trading revenues were flat year-on-year, whereas I think expectations were for a negative 10 percent to 15 percent for the European banking sector as a whole,” Neil Smith, an analyst with Bankhaus Lampe in Dusseldorf who recommends investors hold the shares, said by telephone.

Pretax profit at the investment banking and trading business increased 17 percent to 885 million euros. That beat the 703 million-euro average estimate of six analysts surveyed by Bloomberg.

Deutsche Bank’s shares have declined 19 percent this year, the fifth-biggest decrease among 43 companies listed on the Bloomberg Europe Banks and Financial Services Index, which rose 0.8 percent. The shares fell 0.2 percent to 26.68 euros in Frankfurt yesterday.

**Costs Fall**

Non-interest expenses dropped 4 percent to 6.69 billion euros as legal costs fell 25 percent to 470 million euros and staff compensation slid 7 percent to 3 billion euros.

“Costs were under control, so I think we’re beginning to see the benefits of some of the cost savings starting to come through,” Smith said.

A 49 percent increase in tax payments led to a drop in overall second-quarter net income, which fell 29 percent to 237 million euros. That missed the 470 million-euro average estimate of eight analysts surveyed by Bloomberg.
Debt Business

Deutsche Bank’s debt business accounted for 23 percent of total revenue of 7.86 billion euros in the second quarter. That compared with 21 percent of 31.9 billion euros in revenue reported last year.

The five biggest U.S. banks saw their combined revenue from trading fixed income, currencies and commodities fall 9.4 percent to $12.1 billion in the second quarter from a year earlier, data compiled by Bloomberg Intelligence show. In Europe, Credit Suisse Group AG (CSGN) last week posted higher-than-forecast profit at its investment bank, benefiting from a 14 percent increase in fixed-income revenue.

The bank’s common equity Tier 1 ratio, a key measure of financial strength, was 11.5 percent at the end of June. It stood at 9.5 percent on March 31, the lowest level of all but one of 17 global banks tracked by Bloomberg Intelligence. Royal Bank of Scotland Group Plc posted the lowest figure.

Deutsche Bank sold 299.8 million shares at 22.50 euros a piece last month after raising 1.75 billion euros in May selling stock to an investment vehicle of Qatar’s former prime minister, Sheikh Hamad bin Jassim bin Jabr Al Thani. It had also sold almost 3 billion euros of stock in April last year to raise capital levels.

Legal Expenses

Reserves for litigation expenses rose 450 million euros from the first quarter to 2.2 billion euros. The bank said litigation costs for the rest of the year were “unpredictable.”

Contingent liabilities rose to 3.2 billion euros from 2 billion euros over the period to reflect potential costs from regulatory investigations, the company said.

Legal costs, which totaled 3 billion euros last year, are hampering efforts to build capital and increase returns for investors. Deutsche Bank has yet to resolve probes into its role in industrywide attempts to manipulate benchmark interest rates and currency markets and faces lawsuits which allege it didn’t make adequate disclosure of U.S. mortgage-backed securities.

The company says it’s cooperating with investigations of the alleged manipulation attempts.

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