

Bulletin:

Deutsche Bank Has Sufficient Capital To Absorb New Litigation Provisions

April 29, 2024

LONDON (S&P Global Ratings) April 29, 2024--S&P Global Ratings said today that Deutsche Bank AG (A/Stable/A-1) has sufficient capital flexibility to absorb the €1.3 billion litigation provision it has announced, although it will affect second-quarter earnings. The provision, which relates to long-standing claims that Deutsche Bank should have offered a higher price when it announced a voluntary takeover offer for the acquisition of all shares in Deutsche Postbank AG in 2010, were larger than we had expected.

The €1.3 billion provision charge represents the total value of all claims and does not assume a settlement will be reached. The court previously found in Deutsche Bank's favor in the case, but that judgement was set aside on appeal. On April 26, 2024, the court announced an initial assessment that supported the claimants' position. It intends to make a final decision in August 2024 and suggested that the parties enter settlement negotiations.

Although the provision charge will significantly diminish Deutsche Bank's second-quarter pretax earnings, we expect that it will remain profitable. Pro forma the provision, Deutsche Bank estimates that its March 31, 2024, common equity Tier 1 ratio would be lowered by about 20 basis points to 13.25%. This is solidly above the 11.1% minimum regulatory requirement. Similarly, although the provision is larger than we had anticipated, we forecast that our risk-adjusted capital ratio will remain at the top end of the 7%-10% range we consider consistent with our current ratings. Deutsche Bank announced that its plans for shareholder distributions in the medium term are unchanged, but it is too early to make a decision on a potential second share buyback in 2024.

Deutsche Bank also confirmed that it has not altered its 2025 financial targets, which include a return on tangible equity above 10%. Its robust first-quarter performance demonstrated further franchise growth and strong cost control--these were supportive factors when we upgraded the bank in December 2023 (see "Deutsche Bank Issuer Credit Ratings Raised To 'A/A-1' On Strengthening Performance And Resilience; Outlook Stable," published on Dec. 8, 2023). We still expect Deutsche Bank to maintain its disciplined strategic execution and strengthen its performance toward its 2025 targets.

Deutsche Bank has steadily reduced its litigation backlog in recent years; the Postbank case is one of its most-significant claims still outstanding. It already held €1.3 billion litigation provisions on March 31, 2024, and reported a further €1.9 billion of unprovisioned contingent legal liabilities. By recognizing a provision for the full cost of the Postbank case, the bank will reduce its contingent liabilities to €0.6 billion.

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