

ISSUER COMMENT

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Deutsche Bank AG

Continued solid operating performance partly offset by elevated risk charges

All comparisons in this report are made versus Q3 2023 unless otherwise indicated.

On 23 October, [Deutsche Bank AG](#) (DB, A1/A1 stable, baa2¹) reported a pretax profit of €2.3 billion in the third quarter of 2024, up 31% from the year-earlier period, but up only 6% to €1.8 billion when excluding the partial release of Postbank-related litigation provisions booked in the previous quarter. The profit increase mostly reflects sustained positive business momentum, leading to a 5% revenue increase, combined with continued cost discipline in line with the bank's previous guidance. These effects more than offset elevated loan loss charges in the quarter.

Net revenue rose 5%, benefiting from solid fee generation that was up 5% year-over-year, and broadly flat net interest income, despite continued interest rate normalisation, which mainly weakened the corporate banking margin in Q3. The revenue growth was reflected in stronger revenue performances in the Asset Management (AM) and Investment Bank (IB) divisions rather than the Corporate Bank (CB) and Private Bank (PB) divisions. Operating expenses decreased 8%, but adjusted for litigation provisions and restructuring costs, they increased only 2% and were flat sequentially, in line with the €5 billion quarterly run-rate guidance.

Risk charges were up 102% year-over-year, from a low base in 2023, to 41 basis points (bps) of gross loans, and were also up sequentially from 40 bps in Q2, stemming mainly from stage 3 provisions, which increased mostly due to idiosyncratic default events in the CB division and some remaining transitory effects of the Postbank integration in the PB division. In contrast, loan loss provisions declined sequentially in the IB division, as provisions for commercial real estate (CRE) were down 34% compared with the previous quarter.

The Common Equity Tier 1 (CET1) capital ratio improved to 13.8% in the quarter from 13.5% in Q2, as higher risk-weighted assets (RWA) were more than offset by strong earnings, continued progress in capital optimisation measures and the adoption of transitional rules for unrealised gains and losses of certain debt instruments.

Adjusted revenue increased 5%² to €7.5 billion. Performance in the quarter was particularly strong for IB (adjusted revenue up 11%) and AM (adjusted revenue up 11%), while CB (adjusted revenue down 3%) and PB (adjusted revenue down 1%) were more affected by lower net interest income. The performance in CB and PB also reflected loan volumes that were respectively 2% and 3% lower year-over-year. Corporate loan demand remained muted and the strategy in PB continues to drive growth in wealth management against reductions in mortgages. This performance was more than offset by the normalisation of AM revenue, reflecting stronger management fees on increasing average assets under management and rising market levels, as well as the IB division's strong performance.

Origination & Advisory (O&A) revenue was up 24% year-over-year, boosted by a growing industry fee pool and market share gains in advisory, while Fixed Income & Currencies (FIC) revenue was up 11% (above US peers' average year-over-year broadly flat performance), driven mainly by strong credit trading flows, foreign exchange revenue and rising emerging markets revenue, which more than offset lower rate business.

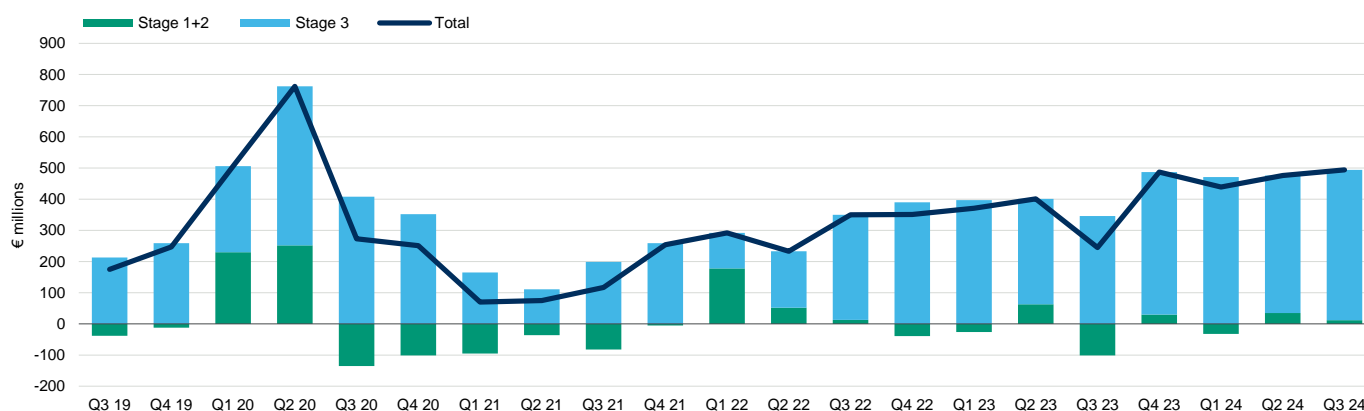
While the group's net interest margin and net interest income in the banking book remained broadly stable quarter-over-quarter, we expect the normalisation of deposit costs and subdued lending volumes in CB and PB to continue to weigh on net interest income over 2025. However, we believe net interest income sensitivity to declining interest rates has reduced as the interest margin will be partly protected by a long-term hedge portfolio that increased to around €230 billion notional. The 9% rise in fees in the first nine months of 2024 has also been in line with the bank's expectations and continues to support its revenue growth target of 5.5%-6.5% in 2021-25, which will remain challenging to achieve in a context of subdued economic growth and muted lending.

Group adjusted³ operating costs were up 2% to €5 billion, in line with the bank's quarterly run rate target in 2024. The modest increase in adjusted costs reflects a 4% increase in compensation and benefits stemming from wage inflation and business growth. The rise in adjusted costs was partly offset by continued progress in DB's €2.5 billion operational efficiency programme by 2025, in which savings realised or expected from completed measures rose to 70%. The achievement of a cost-to-income ratio of less than 62.5% by 2025 remains an ambitious target compared with the 75% ratio reported in 2023 and 69% in Q3 2024 (excluding Postbank litigation).

Credit impairment charges rose to €494 million during Q3, up from €245 million the previous year and from €476 million in the previous quarter (Exhibit 1), representing 41 bps of gross loans (31 bps for full-year 2023 and 25 bps in 2022). While the increase in risk charges in the CB division from a very low base in 2023 stems mostly from a few large corporate defaults, the bank indicated that around 70% of the large corporate defaults were hedged, which would significantly reduce the loan loss charge related to these idiosyncratic defaults. The ratio of nonperforming loans (NPLs) to gross loans increased from the previous quarter to 3.3% from 3.1%. Although the bank had previously expected the risk charge for the year to be slightly above 30 bps, we expect it to be higher.

Exhibit 1

Provisions for nonperforming loans are gradually increasing (€ millions)



Sources: Company reports and Moody's Ratings

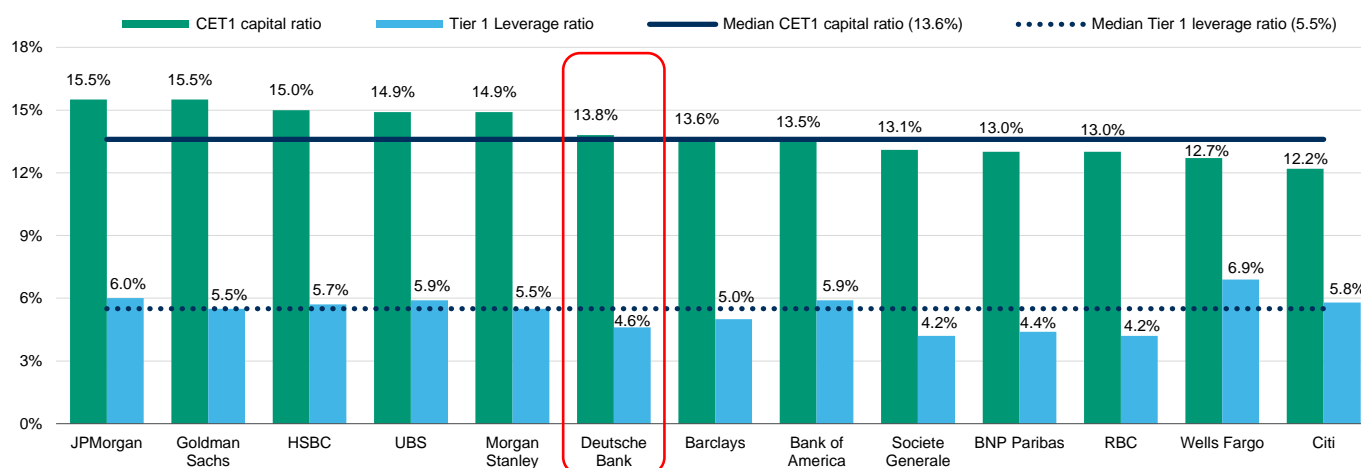
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Pretax income was up 31% and post-tax profit increased 39% to €1.7 billion, as a result of the higher operating performance and the exceptional release of litigation provision in the quarter. DB reported a net return on tangible equity (ROTE) in the quarter of 7.6% excluding the Postbank litigation release, still lower than the 10% target set for 2025. ROTe reported for full-year 2023 was 7.4%, down from 9.4% in 2022. At the group level, DB reported an adjusted net return⁴ on shareholders' equity of 7.9% (in line with Q3 2023), a net return on total assets of 0.37% and a net return on RWA of 1.42%.

DB's CET1 capital ratio ended the quarter at 13.8%, up 30 bps sequentially and around 260 bps above its minimum regulatory requirement in 2024. Strong quarterly earnings and the bank's adoption of transitional rules for unrealised gains and losses of certain debt instruments more than offset slightly higher RWA. Considering the bank at the end of Q3 2024 had already achieved around €22 billion (up from €19 billion at the end of June 2024) of its €25 billion-€30 billion RWA reduction target by 2025, it keeps some capacity to grow business and distribute capital above the level envisaged by the bank at the beginning of the 2022-25 strategic plan. In February 2024, DB announced a capital distribution of around €1.6 billion in the first half of the year, including €675 million of share buybacks, which were completed in July. The bank applied for further share buybacks in 2025 and maintains a CET1 ratio target of above 13% at year-end 2025. The leverage ratio was 4.6%, broadly stable sequentially, one of the lowest among peers (Exhibit 2).

Exhibit 2

Common Equity Tier 1 ratio and Tier 1 Leverage Ratio for global investment banks, as of end-September 2024



Notes: 1) Q3 2024 for Deutsche Bank, Morgan Stanley, JPMorgan, Goldman Sachs, Bank of America, Wells Fargo and Citi; Q2 2024 for all others. 2) The Tier 1 leverage ratios of UK and European banks are calculated per the Capital Requirement Regulations, and they exclude certain central bank balances as temporarily allowed; for US banks we show the supplemental leverage ratio (SLR). 3) The CET1 ratio for US banks is calculated under the advanced approach.

Sources: Company reports and Moody's Ratings

DB's strong, high-quality liquid assets of €230 billion in Q3 2024 increased 4% sequentially. The liquidity coverage ratio was stable compared with the previous quarter's 135%, representing an excess of €60 billion above the minimum, and the Net Stable Funding Ratio remained stable at 122%, above the bank's managed target of 115%-120%. Deposit volumes increased by €9 billion, or 1%, in the quarter (up 6% over 12 months), while average loans were down 1% sequentially and broadly flat over the full year, as high interest rates and subdued economic growth remain a constraint to a return to higher lending production.

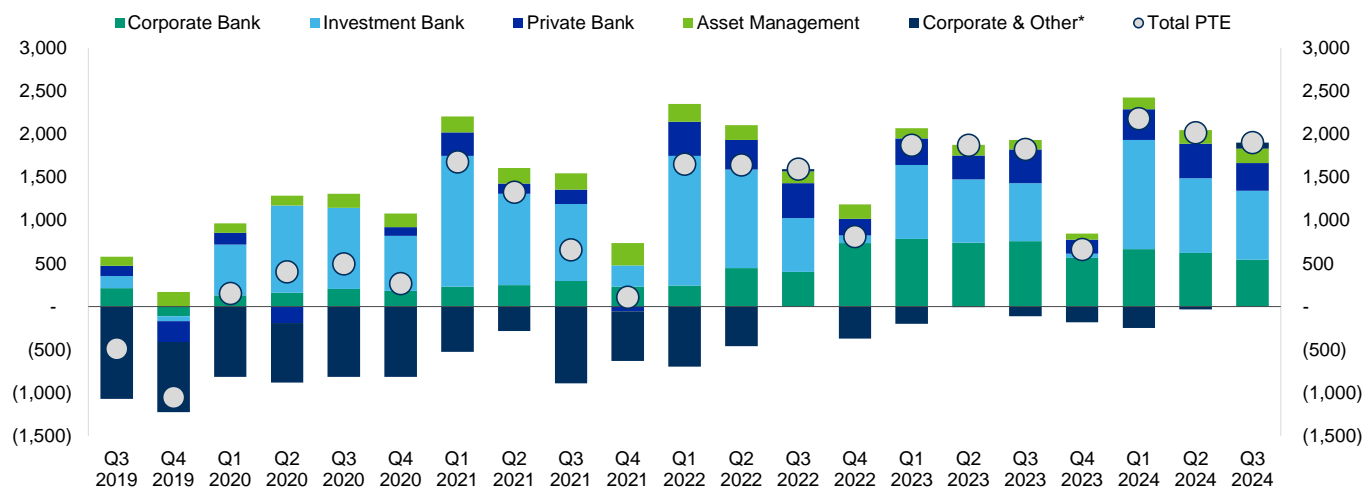
Noteworthy segment considerations

Unless indicated otherwise, figures displayed below are on a DB reported basis and comparisons are made versus Q3 2023.

Exhibit 3

DB's revenue benefited from continued strong performances by IB in Q3

Adjusted quarterly pretax profit by business line (excluding litigation, impairments, DVA and one-offs), € millions



Restatement for 2023 numbers are in line with the new bank's divisional reporting.

Q2 and Q3 numbers adjustments include Postbank litigation provisions under Corporate & Other.

* Capital Release Unit (CRU) discontinued from 2023 and restated in 2022 (moved to C&O). Quarterly 2019-21 figure for C&O reflects combined CRU and C&O.

Sources: Company reports and Moody's Ratings

The **Investment Bank** reported a pretax income of €813 million, up 21% from €674 million in Q2 2023. Adjusted revenue increased 11% to €2.5 billion, driven by double-digit growth in both O&A services (up 24% year-over-year), and FIC (11% increase). O&A's performance recovered versus a weak prior year and was underpinned by a 20% increase in income from debt origination, which is its main source of revenue, as well as good performances in equity origination (up 42% year-over-year) and advisory (32% increase). FIC's revenue was supported by higher profitability in distressed and flow businesses, as well as a stronger performance in emerging markets and foreign exchange, which more than offset the lower contribution from rates revenues. DB outperformed its US peers in FIC, but showed a slightly weaker trend in O&A. FIC revenue increased 12% in dollar terms compared with US peers' average year-over-year broadly flat performance, while O&A revenue was up 25% in dollar terms versus US peers' aggregate increase of 29%. Adjusted costs increased by 3% from the prior year but decreased by 2% sequentially. Provisions for credit losses more than doubled to €135 million year-over-year, or 52 bps of average loans in the quarter (25 bps in Q3 2023), despite lower CRE provision than in previous quarters. This was mainly because of model changes occurred in the prior year, which resulted in extraordinary provision releases and a lower cost of risk.

The **Corporate Bank** reported pretax income of €539 million, down 29% from a year earlier. The decrease was driven by a 3% decline in revenue, a 5% increase in noninterest expenses (6% when considering adjusted costs) and a more-than-tenfold increase in provisions, which reflects some large idiosyncratic impairments and the nonrecurring releases in the prior year due to model changes. The weaker operating performance is mainly attributable to lower net interest income, down 3% year-over-year due to the normalisation of deposit margins, although it was mitigated by an increase in deposit volume. Fees and commissions partially offset the decrease in net interest income, recording a 4% increase year-over-year, driven by growth in the Institutional Client Services business. Loan stock in the segment decreased by 2%, reflecting subdued demand, selective underwriting and foreign exchange movements. The most affected businesses were Business Banking and Corporate Treasury Services, whose revenue decreased by 9% and 3%, respectively, year-over-year, while Institutional Client Services revenue rose 3%. The 6% increase in adjusted costs was mainly driven by front office investments and higher internal service cost allocations. Loan loss provisions faced an 11-fold increase to €126 million (from €11 million in Q3 2023), accounting for 44 bps of average loans in the quarter. The increase in provisions was mainly driven by a large corporate restructuring event in Germany, which had already impacted Q2, and the extraordinary releases related to model changes in the prior year.

The **Private Bank** reported a pretax profit of €319 million, down 18% from a year earlier because of a 1% decrease in revenue, 1% increase in noninterest expenses and an 18% increase in provisions. Revenue in Personal Banking decreased by 5% year-over-year, given higher funding and hedging costs as well as lower lending revenue, which were not fully offset by higher deposit revenue. Wealth Management and Private Banking revenue increased by 5%, driven mainly by double-digit growth in revenue from lending and investment-related products. In Q3, assets under management increased by €13 billion to €625 billion, the highest level recorded since 2018, when the Private Bank division was founded. Adjusted costs increased by 2% year-over-year, mainly because of the increase in cost allocations to the division for internal services, higher compensation costs and the remaining cost for service remediation, which more than offset the normalisation of investment spending and the benefits stemming from cost saving programmes, including reductions in branches and staff. Provisions for credit losses increased by 18% from a year earlier and 38% sequentially to €205 million, or 32 bps of average loans in the quarter. Provisions in the quarter rose because of high transitory effects stemming from the integration of Postbank, which we expect to decline gradually in coming quarters.

Asset Management reported a pretax profit of €168 million, up 54% year-over-year. Revenue rose 11% to €660 million because of higher average assets under management, driving a 6% increase in management fees, the segment's main source of revenue. In particular, assets under management increased by €30 billion (3%) in the quarter and 12% year-over-year to €963 billion. The quarter-over-quarter expansion was driven mainly by €18 billion net inflows, especially in Passive and Fixed Income products, and by the positive market value on the outstanding portfolio, partly offset by negative foreign exchange effects. Adjusted costs were roughly stable year-over-year.

Rating considerations

Deutsche Bank has a BCA of baa2 and is rated A1 for deposits, A1 for senior unsecured debt and Baa1 for junior senior unsecured debt, and is assigned a Counterparty Risk Assessment of A1(cr)/P-1(cr) and Counterparty Risk Ratings of A1/P-1. The long-term senior debt and deposit ratings carry a stable outlook.

Moody's Related Research

Credit Opinion

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In-Depth Reports

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- » [Biggest banks retain competitive advantage, but stiff obstacles loom post pandemic](#), October 2021
- » [Deutsche Bank AG: Strides in profitability show bank's credit positive restructuring is solidly on track](#), August 2021
- » [BNP Paribas, Deutsche Bank, HSBC Holdings and UniCredit: Tech investment and expansion outside core euro area markets will drive increased returns from corporate banking](#), April 2021
- » [Rapid restructuring progress and clean balance sheet set bank on stable course to complete strategic overhaul](#), November 2020
- » [Sweeping revamp of business model will be credit positive when and if achieved](#), July 2019

Issuer Comments

- » [Deutsche Bank's €1.3 billion provision for Postbank litigation will reduce Q2 profit](#), April 2024
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Rating Methodology

- » [Banks Methodology](#), March 2024

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Endnotes

- [1](#) The ratings shown are the bank's deposit rating, senior unsecured debt rating and Baseline Credit Assessment.
- [2](#) Stated revenue also increased 5%; minor adjustments were made for specific items as disclosed by DB.
- [3](#) In Q3 2024, adjustments reflect some material items, including a €344 billion litigation charge release (€105 million charge in Q3 2023), €42 million of restructuring and severance costs (€94 million in Q3 2023).
- [4](#) We assume an average tax rate net of deferred tax asset effects of 35%.

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