MOODY'S RATINGS

ISSUER COMMENT

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Deutsche Bank AG

Litigation and restructuring charges mask sound underlying business performance

All figures in this report relate to Q4 2024 and comparisons are made with Q4 2023, unless otherwise indicated.

On 30 January, Deutsche Bank AG (DB, A1/A1 stable, baa2[1]) reported net income of €337 million in Q4 2024, down 76% year over year. On a Moody's-adjusted basis, net income of €1.0 billion increased 74% year over year and corresponded to an annualised net return on risk-weighted assets (RWA) of 113 basis points (bps), a return on assets of 29 bps and a net return on shareholders' equity of 6.2%.

The quarterly result was driven by significantly higher extraordinary expenses for litigation risk in the bank's Polish mortgage book as well as a single case in the Corporate Bank (CB) related to the RusChem Alliance litigation matter. This drove reported operating expenses to €6.2 billion in the quarter, up 14% from the year-earlier period. Adjusted for these litigation expenses as well as higher restructuring and severance payments from accelerating staff reductions, underlying operating expenses were in line with the bank's €5 billion target run rate by quarter. Revenue performance was strong, with overall group revenue up 8%, driven by another strong performance in the Investment Bank (IB) and Asset Management (AM) divisions, where revenue grew by 30% and 22%, respectively.

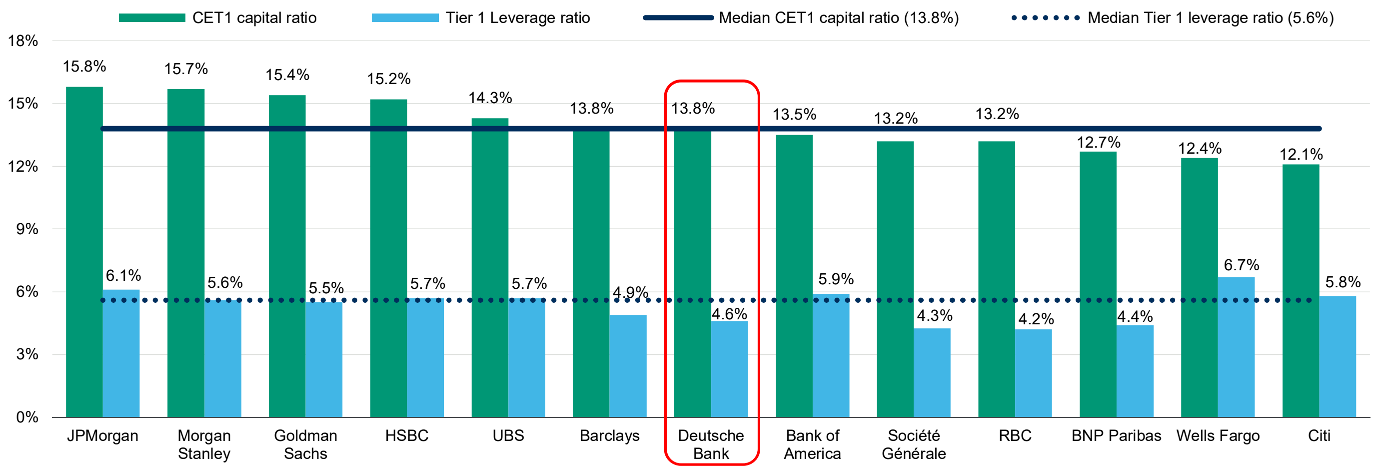
The IB's strong performance was boosted by higher Origination & Advisory (O&A) revenue, which was up 71% year over year, boosted by a growing industry fee pool and market share gains, while Fixed Income & Currencies (FIC) revenue was up a strong 26%, in particular because of higher Rates revenue. In AM, continued net new inflows, supportive markets and a significant performance fee supported related income. The CB (revenue down 2%) and Private Bank (PB; down 1%) divisions' performance reflected lower net interest (NII) and other income. We expect lower deposit cost inflation and some recovery in loan growth to help lift NII in 2025, supported by the bank's conservative hedging policy locking in NII tailwinds for coming years.

DB lowered its efficiency target for 2025, now expecting a cost-to-income ratio of less than 65%, up from its earlier target of less than 62.5% (Q4 2024: 68.7% adjusted for one-time items). The lower efficiency target is credit negative, although the bank has affirmed all of its other ambitious targets for 2025 and beyond.

DB's strong, high-quality liquid assets of €226 billion in Q4 2024 increased 3% (down 2% sequentially). The liquidity coverage ratio of 131% was down slightly from the previous quarter's 135%. DB's solid liquidity buffers and stable funding continue to support its credit profile, and deposit balances generated from its sizeable domestic and international corporate and retail banking franchises grew further in 2024. Deposit volumes increased by €44 billion, or 7%, while average loans were virtually flat, as high interest rates and subdued economic growth remain a constraint on a return to higher lending production.

In Q4 2024, DB's Tier 1 leverage ratio was virtually flat at 4.6% (Q4 2023: 4.5%), supported by higher retained earnings supporting Tier 1 capital, thereby offsetting higher leverage exposures (Exhibit 1). Its Common Equity Tier 1 (CET1) capital ratio was 13.8%, flat sequentially, because of lower RWA from market risk, in part offset by reduced regulatory capital following the €750 million share buyback announced for 2025, which gets immediately deducted from CET1 capital.

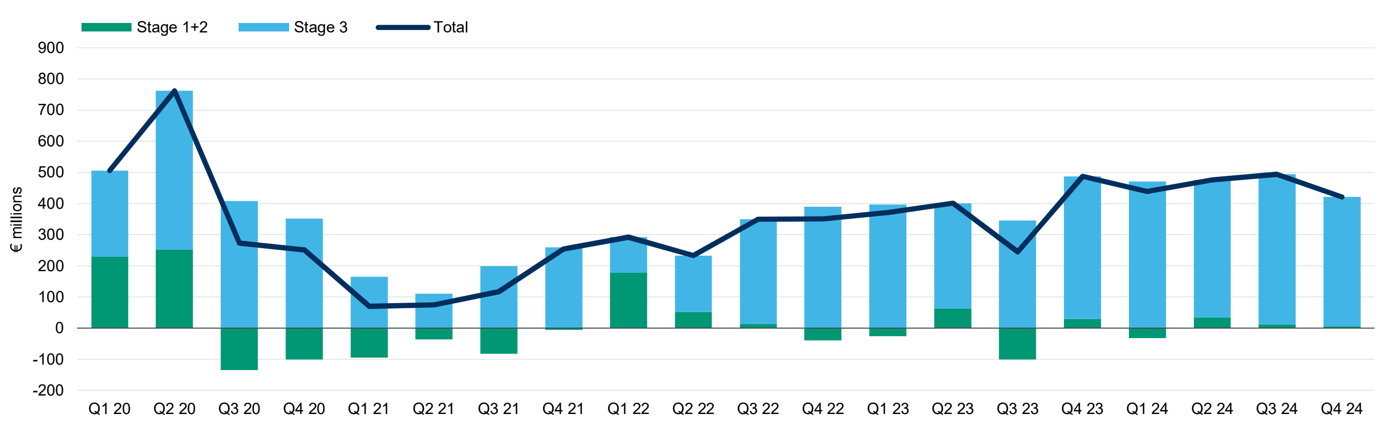
Exhibit 1
Common Equity Tier 1 ratio and Tier 1 leverage ratio for global investment banks, as of 31 December 2024



Notes: Q4 2024 for Deutsche Bank, JPMorgan, Goldman Sachs, Morgan Stanley, Bank of America, Wells Fargo, Citi and RBC; Q3 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

As an IFRS reporter, DB's Q4 loan loss charges declined to €420 million, down from €488 million in the year-earlier period and €494 million in Q3 (Exhibit 2), representing 35 bps of gross loans in the quarter (2024: 38 bps; 2023: 31 bps; 2022: 25 bps). The ratio of nonperforming loans (NPLs) to gross loans remained unchanged over the quarter at 3.3%, up from 2.8% the year prior, with total doubtful loans rising to €15.8 billion, from €13.6 billion a year earlier.

Exhibit 2
Provisions for nonperforming loans remain above the bank's usual run rate



Sources: Company reports and Moody's Ratings

The coverage ratio of Stage 3 loans declined to 29% (Q4 2023: 31%), a low level compared with peers, yet partly reflecting the highly collateralised nature of the bank's loan book. We expect NPL formation to slow down going into 2025 as higher formation from the turning credit cycle will likely be offset by declining formation in the bank's commercial real estate books. In addition, forward-looking provisions on performing Stage 1 and 2 loans of €1.2 billion continue to provide a decent buffer against unexpected shocks.

Noteworthy segment considerations

All figures relate to Q4 2024 and comparisons are made with Q4 2023, unless otherwise indicated.

The **Investment Bank** reported pretax profit of €519 million, up from a pretax loss of €267 million in Q4 2023. Adjusted revenue increased 30% to €2.4 billion, driven by double-digit growth in both O&A services (up 71% year over year), and FIC (up 26%). O&A's performance was underpinned by very strong growth in advisory revenue (up 124%), as well as good performances in income from debt origination (up 39%), which benefited from a stronger performance in Leveraged Debt Capital Markets, and in income from equity origination (up 121%).

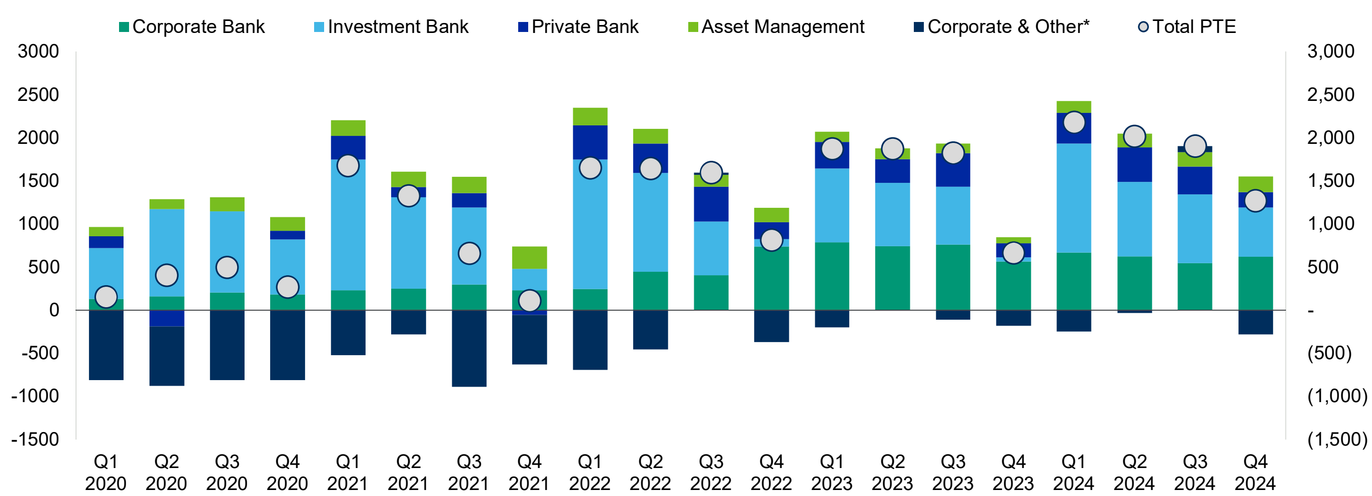
FIC's revenue was supported by improvements across all business lines, mainly because of heightened market activity and client engagement. DB outperformed its US peers in O&A, but showed a slightly weaker trend in FIC. O&A revenue increased 69% in $ terms compared with US peers' aggregate increase of 35%, while FIC revenue was up 25% in $ terms versus US peers' aggregate increase of 29%.

Asset Management reported pretax profit of €183 million, up 162% year over year. Revenue rose 22% to €709 million because of higher average assets under management (AuM), driving a 13% increase in management fees, the segment's main source of revenue. It also benefited from €108 million of performance fees, up from €41 million in the year-earlier period. In particular, assets under management increased by €49 billion, or 5% in the quarter and 13% year-over-year, to €1,012 billion. The quarter-over-quarter expansion was driven mainly by €18 billion net inflows, especially in Passive products, and by positive foreign exchange effects. Noninterest costs were roughly stable year over year.

Exhibit 3

DB's revenue benefited from strong performances in IB and AM

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.
* 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 **Corporate Bank** reported pretax profit of €333 million, down 45% from a year earlier. The decrease was driven by a 23% increase in noninterest expenses, driven by €287 million net litigation charges booked in the quarter. The segment's performance also suffered a 2% decline in revenue, mainly attributable to lower NII (down 4%), which was driven by the ongoing normalisation of deposit margins, although mitigated by hedging and an increase in volumes. Fee and commission income (up 2%) partially offset the decrease in NII, driven by Corporate Treasury Services, more than offsetting Business Banking and Institutional Client Services, whose revenues decreased by 11% and 3%, respectively. Loan loss provisions were down 68% because of a larger recovery and accounted for only 8 bps of average loans in the quarter.

The **Private Bank** reported pretax profit of €168 million, down 8% from a year earlier, mainly because of a 42% increase in loan loss provisions from workout activities of legacy cases in Wealth Management. Overall, revenue declined 1% and noninterest expenses fell by 5% (down 9% on an adjusted basis). Sequentially, AuM increased by a further €8 billion to €633 billion and by €55 billion or 10% year-over-year, the highest level recorded since 2018, when the Private Bank division was founded.

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

- » Deutsche Bank AG, November 2024

In-Depth Reports

- » Deutsche Bank AG: Higher profitability and diverse, highly collateralised loan book drive credit positive improvement in bank's solvency, October 2022
- » 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

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- » Alleged greenwashing at Deutsche Bank's asset management arm shows rising regulatory scrutiny of ESG disclosures, June 2022
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- » DB's accelerated adoption of environmental, social and governance criteria is credit positive, May 2021
- » Franchise stability and continued cost control will help support DB's credit profile, December 2020
- » Restructuring progress supports DB's asset performance, June 2020
- » Continued strong execution and client retention will help support DB's credit profile, December 2019
- » Discontinuation of merger talks with Commerzbank resets the focus to standalone execution and strategic options, April 2019

Latest Rating Action

- » Moody's Ratings affirms Deutsche Bank AG's long-term deposit ratings, outlook stable, June 2024

Rating Methodology

- » Banks Methodology, November 2024

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Endnotes

1 The ratings shown are the bank's deposit rating, senior unsecured debt rating and Baseline Credit Assessment.

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