

## ISSUER COMMENT

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## Deutsche Bank AG

### Solid fee generation and controlled operating costs support profit despite elevated risk charges

*All comparisons in this report are made versus Q1 2023 unless otherwise indicated.*

On 25 April, [Deutsche Bank AG](#) (DB, A1/A1 stable, baa2<sup>1</sup>) reported a pre-tax profit of €2 billion in Q1 2024, up 10% from the prior year, mainly reflecting steady business performance and lower operating costs which more than offset some exceptional litigation costs, and higher loan loss charges. Net revenues rose 1%, benefitting from solid fee generation that was up 11% year-on-year, partly offset by a 9% decline in net interest income mainly due to temporary accounting effects and the stabilisation of interest rates. This trend was reflected in stronger revenue performances in the Asset Management (AM) and Investment Bank (IB) divisions than in the Corporate Bank (CB) and Private Bank (PB) divisions. Operating expenses decreased 3% as reduced bank levies more than offset rising compensation and wages and higher litigation and restructuring costs in the quarter, the latter being part of the bank's operational efficiency program. Cost of risk increased 20% year-on-year to 37 basis points (bps) of gross loans (but down 10% from the previous quarter) mainly driven by continued provisions booked against US commercial real estate (CRE) risks and some related to the operational backlog in PB that could be reversed in future. DB confirmed its expectation of risk charge at the high end of the 25-30 bps range in 2024. Strong quarterly earnings partly offset deductions for dividends, €675 million share buybacks approved by the European Central Bank (ECB) and a €5 billion increase in risk-weighted assets (RWAs) driven by business growth, resulting in a Common Equity Tier 1 (CET1) ratio of 13.4%, down 30 bps from the previous quarter.

Adjusted revenue increased 2%<sup>2</sup> to €7.8 billion and benefitted from rising fees more than offsetting declining net interest income. Performance in the quarter was particularly strong for IB (adjusted revenue up 14%) and AM (adjusted revenue up 5%), while CB (adjusted revenue down 5%) and PB (adjusted revenue down 2%) were more affected by lower net interest income. The performance in CB and PB also reflected loan volumes respectively 4% and 1% lower year-on-year. However, loan volumes stabilised from the previous quarter. This performance was more than offset by the normalisation of AM revenues, reflecting consecutive quarters of positive net inflows and rising market levels, and by the strong performance of the IB division. Fixed Income & Currencies (FIC) revenues were up 7%, while Origination & Advisory (O&A) revenues were up by 54%, boosted by a strong recovery in leveraged debt origination. While the group's net interest margin remained broadly stable, we expect the normalisation of deposit costs and subdued lending volumes in CB and PB to continue to negatively affect net interest income over 2024, though DB expects it will remain 15% higher than in 2022 and 40% above 2021. The 11% rise in fees is also in line with the bank's expectations and will continue to support its revenue growth target of 5.5%-6.5% in 2024-25, which may be challenging to achieve if economic growth does not recover rapidly and lending activity remains low.

Group adjusted<sup>2</sup> operating costs were down 6% to €5 billion in the quarter, in line with the bank's quarterly run rate target in 2024. The decline in adjusted costs reflects the reduction in bank levies, which more than offset a 9% increase in compensation and benefits. DB continues to progress its €2.5 billion operational efficiency program, of which measures representing €1.4 billion of realised or expected savings have already been completed. The achievement of a cost to income ratio of less than 62.5% by 2025 remains an ambitious target from the 75% ratio reported in 2023 and 68% in Q1 2024.

Credit impairment charges increased to around €439 million during the quarter, up from €372 million the previous year but down from €488 million in the previous quarter (Exhibit 1), representing 37 bps of gross loans (31 bps for full-year 2023 and 25 bps in 2022). The increase from the previous year stems from stage 3 provisions on impaired loans, driven by the US CRE (€121 million out of the €146 million provisions for CRE risks) exposure and the operational backlog in PB. The ratio of nonperforming loans to gross loans slightly deteriorated to 3.1% in Q1 2024 from 2.8% in the previous quarter. DB expects its cost of risk for full-year 2024 to be at the high end of the 25-30 bps loan loss rate.

Pretax income was up 10% in the quarter and post-tax profit rose 10% to €1.5 billion, which also incorporates some nonrecurring litigation costs reported in the quarter for €166 million. DB reported a net return on tangible equity (ROTE) in the quarter of 8.7%, 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 return<sup>4</sup> on shareholders' equity of 9.1% (up from 7.9% in Q1 2023), a net return on total assets of 0.44% and a net return on RWAs of 1.67%.

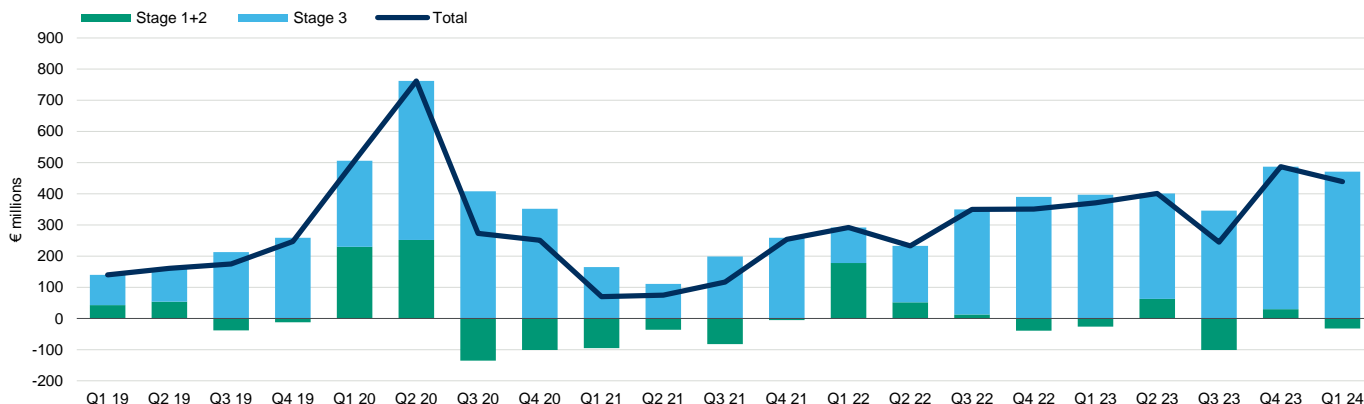
Earnings in the quarter were more than offset by capital distribution and RWA inflation, leading to a decrease in capital ratios. DB's CET1 capital ratio ended the quarter at 13.4%, down 30 bps sequentially and around 230 bps above its minimum regulatory requirement in 2024 of around 11.1%. Considering the bank at the end of Q1 2024 had already achieved around €15 billion (up from €13 billion at year end 2023) of its €25-€30 billion RWA reduction target by 2025, it now has greater capacity to grow business and distribute capital than anticipated at the beginning of the 2022-25 strategic plan. DB last year announced a capital distribution of around €1.6 billion in the first half of the year, including €675 million share buybacks (up from €450 million in 2023), which the ECB approved in the first quarter. The bank maintains a CET1 ratio target of above 13% at year-end 2025. The leverage ratio was 4.5%, down 8 bps sequentially, one of the lowest among peers (Exhibit 2).

DB's strong, high-quality liquid assets of €222 billion in Q1 2024 increased €3 billion sequentially. The liquidity coverage ratio (LCR) declined slightly to 136% from 140% in the previous quarter, representing an excess of €58 billion above the minimum, and the Net Stable Funding Ratio remained broadly stable at 123%, above the bank's managed target of 115%-120%. Average deposit volumes increased by €9 billion, or 1%, in the quarter (+7% over 12 months), while average loans were broadly flat sequentially and down 2% over the full year, as high interest rates and subdued economic growth remain a constraint to a return to higher lending production.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

Exhibit 1

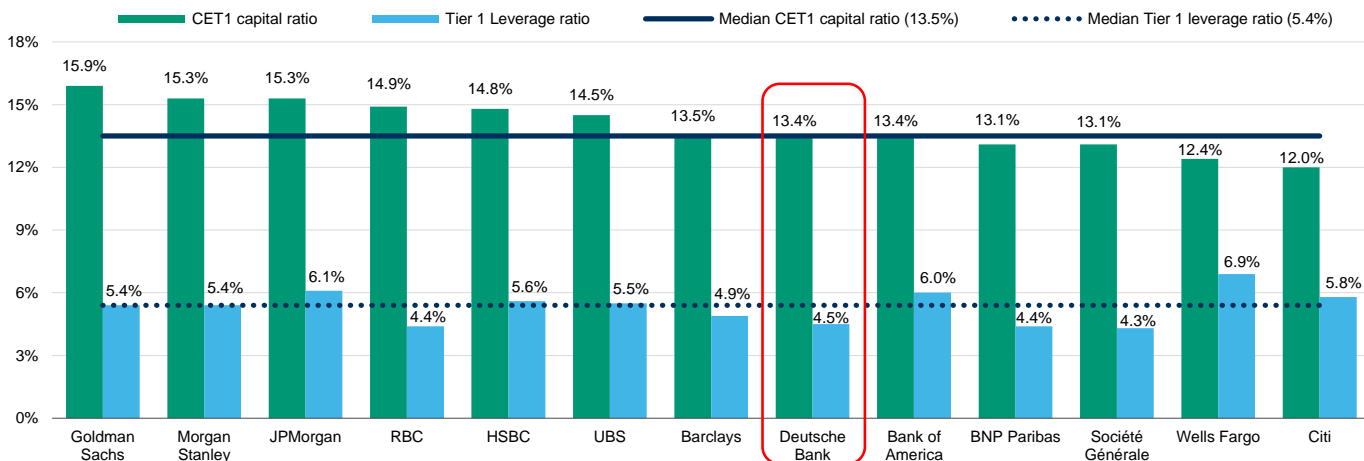
Loan loss charges (LLC) remain low, but provisions for nonperforming loans are gradually increasing (€ millions)



Sources: Company reports and Moody's Ratings

Exhibit 2

Common Equity Tier 1 (CET1) ratio and Tier 1 Leverage Ratio for global investment banks, as of end-March 2023



Notes: 1) Q1 2024 for Deutsche Bank, BNP Paribas, Barclays, Morgan Stanley, JPMorgan, Goldman Sachs, RBC, Bank of America, Wells Fargo and Citi; Q4 2023 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

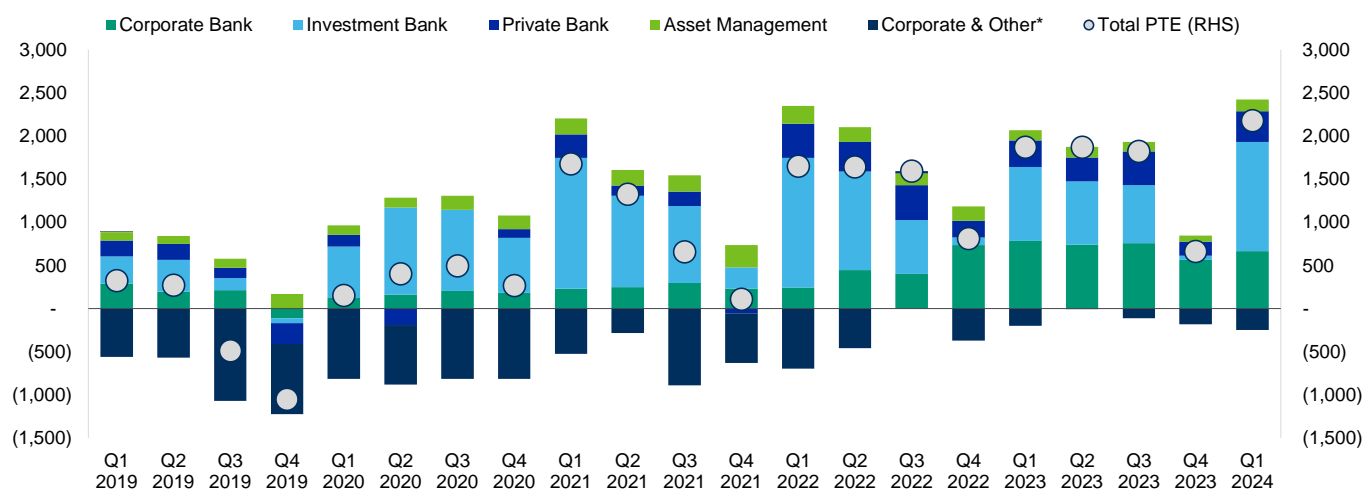
## Segmental results commentary

Unless indicated otherwise, figures displayed below are on a DB reported basis and comparisons are made versus Q1 2023.

Exhibit 3

### DB's profitability benefits from strong revenue performance by IB in Q1

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 **Investment Bank** reported a pretax income of €1,264 million, up 44% from €878 million in the same quarter the prior year. Adjusted revenues increased 14% to €3 billion, driven by a significant recovery in Origination and Advisory (O&A) services, whose revenue was 54% higher than a year earlier, and some improvements in Fixed Income and Currencies (FIC), which increased 7% year-over-year. O&A's performance was mainly supported by the more favourable leveraged debt market and increasing investment-grade issuances. FIC was underpinned by stronger securitisation and issuance activities, which boosted its financing revenues, and higher inflows from emerging markets, foreign exchange and credit trading, which more than offset the decline in rates revenues (given the volatility in interest rates that characterised Q1 2023). DB outperformed its US peers in both FIC and O&A. O&A revenue increased 56% in dollar terms compared with an aggregate US peers' increase of 26%, and FIC revenues were up 9% in dollar terms versus a relatively stable US peers' aggregate. Adjusted costs decreased 9% from the prior year and by 2% sequentially, driven by lower bank levies. Provisions for credit losses increased to €150 million year-over-year, or 59 bps of average loans in the quarter, from €41 million the prior year, mainly because of higher impairments on the nonperforming US CRE portfolio.

The **Corporate Bank** reported a pretax income of €604 million, down 23% from the same quarter the prior year, which recorded the highest revenues of the current interest rate cycle. The decrease in pretax income was driven by 5% lower revenues, 2% higher adjusted costs and €61 million additional litigation charges booked in the quarter (compared with a €1 million release the prior year). The weaker performance is mainly attributable to lower net interest income, down 3% year-over-year, given the normalisation of deposit revenues, lower revenues from loans (loan stock down 4% year-over-year but stable quarter-over-quarter), and the discontinuation of the remuneration of minimum reserves by the ECB. The decrease in NII was only partly offset by a recovery in fees and commission income, which increased by 3% year-over-year. The most affected businesses were Corporate Treasury Services, whose revenue decreased by 10% year-over-year, while Institutional Client Services and Business Banking revenue rose 4% and 3%, respectively. The increase in adjusted costs was driven by internal service cost allocation, which was partly offset by lower bank levy charges. Loan loss provisions in the segment were relatively stable year-over-year, amounting to €63 million, accounting for 22 bps of average loans in the quarter.

The **Private Bank** reported a pretax profit of €348 million, up 24% compared with the previous year, albeit adjusted revenue decreased by 2%. Revenues in Personal Banking decreased by 4% year-over-year, as higher funding and hedging costs were not fully offset by higher deposit revenues, while Wealth Management and Private Banking revenue remained stable. Assets under management

increased by €27 billion to €606 billion, the highest level recorded since 2018, when the Private Bank division was founded. Adjusted costs were down 6% year-over-year, mainly because of the normalisation of investment spending, benefits stemming from cost saving programs and lower bank levies. Provisions for credit losses decreased 18% from the previous year, resulting in a 7 bps decrease in cost of risk, but increased 12% sequentially (4 bps increase in cost of risk sequentially). Provisions in this quarter included temporary effects from operational backlogs in personal banking and a workout activity in wealth management.

**Asset Management** reported a pre-tax profit of €122 million, up 6% year-over-year. Revenue rose 5% to €617 million due to higher average assets under management, driving a 4% increase in management fees, the segment's main source of revenue. In particular, assets under management increased 12% year-over-year to €941 billion and by around €45 billion sequentially, driven by €8 billion of net inflows, positive market impact and favourable exchange rate movements. Adjusted costs were up 3% year-over-year, driven by higher variable compensation and IT costs.

### 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](#), December 2023

### 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

- » [Alleged greenwashing at Deutsche Bank's asset management arm shows rising regulatory scrutiny of ESG disclosures](#), June 2022
- » [Deutsche Bank AG: Strategic evolution moves revenue growth to the forefront as cost inflation bites](#), March 2022
- » [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 upgrades Deutsche Bank AG's long-term ratings, outlook stable](#), October 2022

### 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 in this report are the bank's deposit rating, senior unsecured debt rating and Baseline Credit Assessment).
- [2](#) Stated revenue increased 1%; minor adjustments were made for specific items as disclosed by DB.
- [3](#) In Q1, adjustments reflect some material items, including €166 million litigation costs (€66 million in Q1 2023), some €95 million of restructuring and severance costs (€23 million in Q1 2023). Also bank levies materially declined to €23 million in Q1 2024 from €473 million in Q1 2023..
- [4](#) We assume an average tax rate net of deferred tax asset effects of 35%.

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