

Research Update:

Deutsche Bank Ratings Affirmed As Capitalization Strengthens; Outlook Stable

December 10, 2024

Overview

- Deutsche Bank's risk-adjusted capitalization is steadily strengthening according to our metrics.
- The bank continues to execute its strategy and build its franchise and earnings.
- We still see the bank's intrinsic creditworthiness as consistent with a 'bbb+' group stand-alone credit profile.
- We therefore affirmed our 'A/A-1' long- and short-term issuer credit ratings on Deutsche Bank and our issue ratings on all of its debt instruments.
- The stable outlook reflects our expectation that Deutsche Bank will maintain its disciplined strategic execution and strengthen its performance toward its 2025 targets.

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Rating Action

On Dec. 10, 2024, S&P Global Ratings affirmed its 'A/A-1' long- and short-term issuer credit ratings on Deutsche Bank AG and its branches. The outlook is stable.

At the same time, we affirmed our 'A+/A-1' resolution counterparty ratings on the bank, our issuer credit ratings on its European and U.S. subsidiaries, and our issue ratings on all related debt instruments.

Rationale

Deutsche Bank's core capitalization is on a steady upward path. We have become more confident that the bank's risk-adjusted capital (RAC) ratio will stand solidly above our 10% threshold and forecast that it will reach 10.5%-11.0% at year-end 2026. As a result, we now assess Deutsche Bank's capital and earnings as a relative rating strength. Factors underlying the improving RAC ratio include the bank's improving capital generation, regulatory risk-weighted asset (RWA) inflation that our RWA measure does not mirror, and a small increase in the

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regulatory Pillar 2 requirement for 2025. Our capital projections assume gradual asset growth and shareholder payouts in line with Deutsche Bank's distribution targets.

We still see Deutsche Bank's intrinsic creditworthiness as consistent with a 'bbb+' group stand-alone credit profile (SACP). The bank is executing a strategy that focuses on franchise growth, revenue momentum, and cost discipline. Although we see continuing progress, our view of Deutsche Bank's credit profile remains below that of peers with 'a-' group SACPs, including Barclays, Citigroup, and Goldman Sachs. Therefore, we offset our stronger capital and earnings assessment on Deutsche Bank by removing the positive one-notch comparable rating analysis adjustment that we previously included in the long-term rating.

Deutsche Bank's progress toward its 2025 performance targets would bolster its resilience.

The bank's ambitious objectives include a return on tangible equity above 10.0% and a cost-to-income ratio below 62.5%. Meeting these goals would represent a material step-up from the 6.0% and 73.2% outcomes in the first nine months of 2024. Deutsche Bank seeks €2 billion of incremental revenue in 2025 and continued cost efficiencies. It also expects litigation charges to fall from this year's elevated level. We see growing revenue momentum and cost discipline and think that the bank will strengthen its earnings materially from the 2024 level.

We think that Deutsche Bank can cope with Germany's underperforming economy and global trade uncertainties.

The 39 basis-point credit-loss provision charge in the first nine months of 2024 exceeded the bank's guidance and our expectation. The charge was inflated by provisioning on commercial real estate, two particular corporate impairments (of which hedge gains booked in revenue offset about 70%), and the Postbank IT integration. We think these items will diminish in 2025 and bring down the total provision charge, despite challenges from the German economic environment and global trade tensions. We note that well-collateralized mortgages represent about two-thirds of Deutsche Bank's domestic loan book and there is material risk mitigation on its diversified corporate exposure.

Deutsche Bank maintains solid funding and liquidity profiles. The 135% liquidity coverage ratio and 122% net stable funding ratio as of Sept. 30, 2024, were consistent with the bank's internal targets. We view positively that 69% of the deposit base came from the bank's home market, and, excluding bank deposits, 39% of the deposit base was insured.

Outlook

The stable outlook reflects our expectation that Deutsche Bank will maintain its disciplined strategic execution and strengthen its performance toward its 2025 targets. This progress would further improve the bank's resilience to unexpected stress. The outlook also assumes that the bank's asset quality will remain robust amid slow economic growth and geopolitical upheaval, and that it will maintain sound capital and liquidity ratios in line with management's guidance.

Downside scenario

We could lower the ratings if Deutsche Bank fails to deliver a stronger and more consistent performance, resulting in a material repositioning of its business and operating models. An escalation of economic and geopolitical risks could also pressure the ratings if this significantly weakens the bank's prospective asset quality and earnings.

Upside scenario

We could raise the ratings if Deutsche Bank positions its creditworthiness closer to peers with 'a-' group SACPs. We would look for evidence of franchise growth, a stronger and more consistent performance, balanced divisional earnings contributions, and robust balance sheet metrics.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	A/Stable/A-1	A/Stable/A-1
SACP	bbb+	bbb+
Anchor	bbb+	bbb+
Business position	Adequate (0)	Adequate (0)
Capital and earnings	Strong (+1)	Adequate (0)
Risk position	Moderate (-1)	Moderate (-1)
Funding and liquidity	Adequate and Adequate (0)	Adequate and Adequate (0)
Comparable ratings analysis	0	+1
Support	+2	+2
ALAC support	+2	+2
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017

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- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Banking Industry Country Risk Assessment: Germany, Aug. 7, 2024
- Deutsche Bank AG, June 18, 2024
- Deutsche Bank Issuer Credit Ratings Raised To 'A/A-1' On Strengthening Performance And Resilience; Outlook Stable, Dec. 8, 2023

Ratings List

Ratings Affirmed

Deutsche Bank AG

Issuer Credit Rating	A/Stable/A-1
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Turkey National Scale	trAAA/--/trA-1+
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Deutsche Bank AG

Deutsche Bank Luxembourg S.A.

Deutsche Bank AG (Milan Branch)

Deutsche Bank AG (Madrid Branch)

Deutsche Bank AG (London Branch)

Deutsche Bank AG (Cayman Islands Branch)

Deutsche Bank AG (Canada Branch)

Resolution Counterparty Rating	A+/--/A-1
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Deutsche Bank AG (Canada Branch)

Deutsche Bank Trust Corp.

Deutsche Bank Trust Co. Delaware

Deutsche Bank Trust Co. Americas

Deutsche Bank National Trust Co.

Deutsche Bank Luxembourg S.A.

Deutsche Bank AG (Milan Branch)

Deutsche Bank AG (Madrid Branch)

Deutsche Bank AG (London Branch)

Deutsche Bank AG (Cayman Islands Branch)

Issuer Credit Rating	A/Stable/A-1
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Deutsche Bank National Trust Co.

Deutsche Bank Trust Co. Delaware

Deutsche Bank Trust Co. Americas

Resolution Counterparty Rating	A/--/A-1
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Ratings Affirmed

Deutsche Bank Securities Inc.

Issuer Credit Rating	
Local Currency	A/Stable/A-1
Resolution Counterparty Rating	
Local Currency	A/--/A-1

Deutsche Bank AG

Resolution Counterparty Liability	A+
Senior Unsecured	A
Senior Subordinated	BBB
Subordinated	BBB-
Subordinated	BBB-p
Junior Subordinated	BB
Certificate Of Deposit	A
Certificate Of Deposit	A-1
Commercial Paper	A-1

Deutsche Bank AG (London Branch)

Resolution Counterparty Liability	A+
Senior Unsecured	A
Senior Subordinated	BBB

Deutsche Bank AG (New York branch)

Senior Unsecured	A
Senior Subordinated	BBB
Subordinated	BBB-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceid/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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