S&P Global Ratings

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Bulletin:

Deutsche Bank AG Meets Its 2022 Earnings Target And Eyes Further Progress

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LONDON (S&P Global Ratings) Feb. 2, 2023--S&P Global Ratings said today it considers Deutsche Bank AG (A-/Stable/A-2) has made a notable achievement in fulfilling its 2022 returns target, and that this lays the foundations for further improvement. Although net earnings were boosted by a write-up of deferred tax assets (DTAs), the result primarily reflects the disciplined execution of Deutsche Bank's transformation program, which has made it a more-focused and efficient bank. Nevertheless, Deutsche Bank's performance still lags that of most global peers. It is prioritizing further revenue growth and cost savings to narrow the gap, which may also be credit positive.

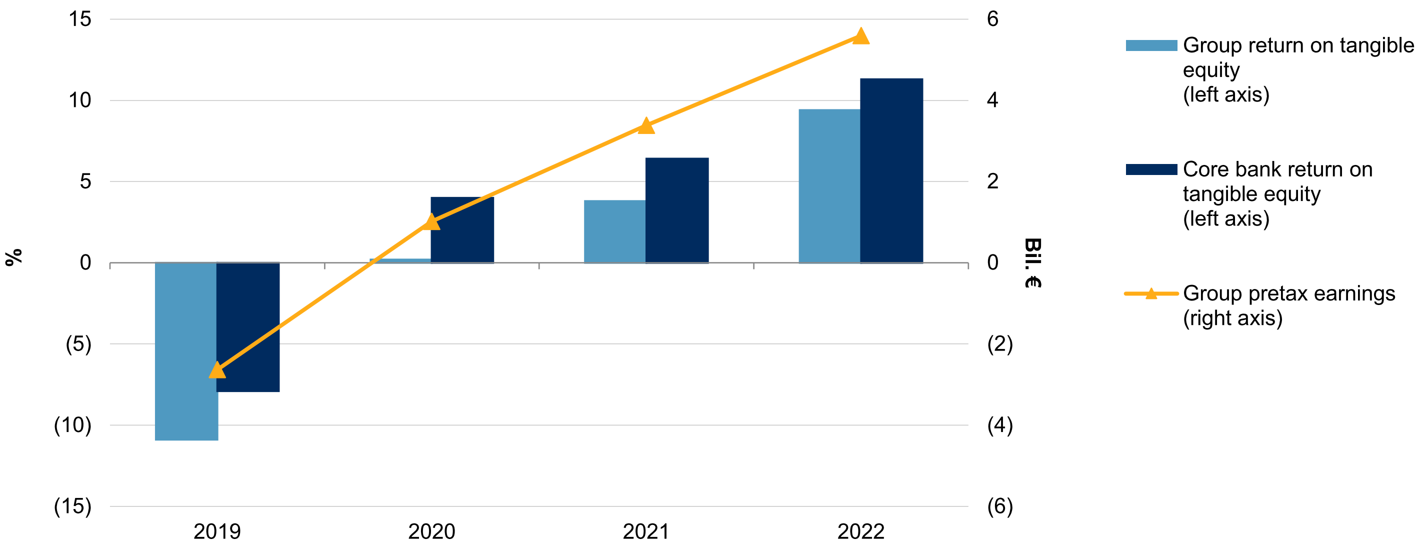
Deutsche Bank today reported a 9.4% return on tangible equity (RoTE) for 2022, comfortably above the 8% target set in its 2019 strategy overhaul. The bank's increased confidence in its U.S. earnings prospects led to a €1.4 billion revaluation of its DTAs: the 2022 RoTE would have been 6.7% without this gain. Revenue grew by 7% to €27.2 billion and Deutsche Bank expects it to reach €28 billion-€29 billion in 2023, bolstered by rising interest rates.

The 74.9% cost-to-income ratio (CIR) was slightly above our expectations, which we primarily attribute to subdued investment bank revenue and an above-average legal provision charge in the fourth quarter. Nevertheless, CIR has improved markedly from the 84.6% reported in 2021, based on Deutsche Bank's close management of controllable costs and a 5% cut in total noninterest expenses.

Chart 1

Deutsche Bank Has Strengthened Its Earnings Under Its Transformation Program

Trends in returns on tangible equity and pretax earnings



Source: Deutsche Bank AG.

The credit loss provision charge was 25 basis points (bps) of average loans in 2022--Deutsche Bank anticipates that it will be at the lower end of the 25 bps-30 bps range in 2023. Germany's diversification of energy sources and fiscal stimulus supported economic activity and helped to mitigate a sharp credit correction. As a result, asset quality indicators remain generally benign. Moderating headline inflation and China's decision to end its zero-COVID policy boosted sentiment for 2023, but macroeconomic and geopolitical conditions remain difficult. We forecast that GDP growth will be broadly flat in the eurozone (see "Global Macro Update: Post-Davos, We Reaffirm Our View," published on Jan. 26, 2023).

Deutsche Bank has reconfirmed its strategy and ambitions for the period to end-2025. Specifically, it targets compound annual revenue growth of 3.5%-4.5% for 2021-2025 and €2 billion of cumulative cost savings. In addition, by 2025, it targets RoTE of above 10% and CIR below 62.5%. Achievement of these objectives would likely put Deutsche Bank's performance on par with its closest European peers.

Deutsche Bank's 13.4% common equity Tier 1 ratio at year-end 2022 was about 230 bps above the increased minimum regulatory requirement applicable from January 2023. Management raised the 2022 dividend per share by 50%, as expected, but postponed a decision on share buybacks, citing uncertainties over the operating environment. Funding and liquidity metrics remained solid and in line with the bank's targets.

Our ratings on Deutsche Bank stand at the lower end of the range for global corporate and investment banks. We could consider a positive rating action if it continues to deliver on its strategy and looks set to sustain stronger, more consistent earnings.

Related Research

- Global Macro Update: Post-Davos, We Reaffirm Our View, Jan. 26, 2023
- Update: Deutsche Bank AG, Nov. 30, 2022

This report does not constitute a rating action.