Bulletin:

Deutsche Bank 2023 Results Show Revenue Momentum And Growing Shareholder Distributions

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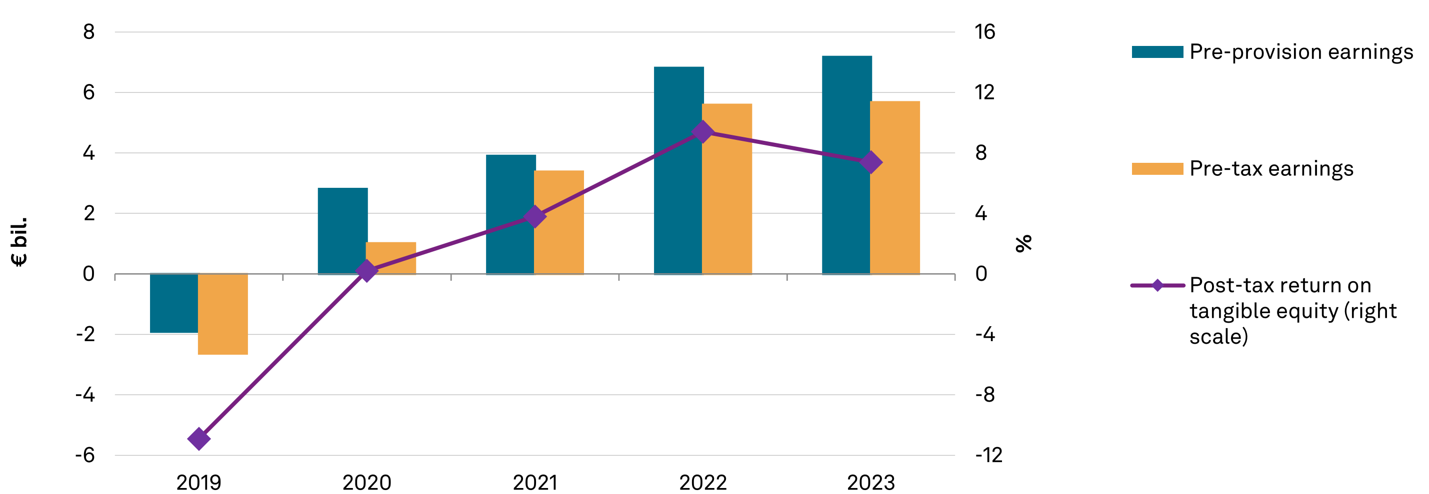
LONDON (S&P Global Ratings) Feb. 1, 2024--S&P Global Ratings said today that Deutsche Bank's 2023 earnings confirmed its improving resilience and pointed to further progress. Its performance and future guidance were consistent with our expectations when we raised our ratings on the bank in December 2023 (see "Deutsche Bank Issuer Credit Ratings Raised To 'A/A-1' On Strengthening Performance And Resilience; Outlook Stable," published on Dec. 8, 2023).

Deutsche Bank AG (A/Stable/A-1) today reported €5.7 billion pretax earnings in 2023 with a 7.4% return on tangible equity (RoTE) and 75.1% cost-to-income ratio (CIR). Its noisy fourth quarter income statement included material nonoperating items and, as in 2022, a deferred tax write-up boosted its RoTE as it became more confident in its earnings prospects. We think Deutsche Bank's underlying profitability remains on track to meet its 10% RoTE target for 2025, and achieving this goal would narrow the performance gap with peers.

Chart 1

Deutsche Bank--Growing earnings capacity
Trends in earnings and returns on capital



Source: Deutsche Bank.

Franchise growth and higher interest rates lifted Deutsche Bank's 2023 revenue by 6% to €28.9

billion. The bank projects growing non-interest income in 2024-2025 and expects that balance sheet hedges and volume growth will underpin net interest income as central banks cut their policy rates. Therefore, Deutsche Bank forecasts that its revenue will grow to about €32 billion in 2025.

Fourth-quarter costs were inflated by nonoperating items, including the impairment of goodwill from the recent Numis acquisition and restructuring charges, partly offset by a net release of litigation provisions. Deutsche Bank aims to lower the CIR below 62.5% in 2025 and will require strong cost discipline to achieve this challenging target. Nonoperating costs and franchise investments should decline in 2024-2025 and the bank's ongoing efficiency measures include reducing headcount by about 3,500, mainly in back-office roles.

The 2023 credit loss provision charge was 31 basis points (bps) of average loans, which marginally exceeded Deutsche Bank's 25 bps-30 bps expectation. Adverse model changes and higher U.S. commercial real estate (CRE) provisions lifted the fourth-quarter charge to 41 bps. The bank maintained its 25 bps-30 bps guidance for 2024 and we think the outcome could be around the top of this range, depending largely on developments in the CRE market and the German economy.

Deutsche Bank's common equity tier 1 ratio was a solid 13.7% at year-end 2023. As expected, it proposed a 50% increase in its annual dividend and announced a further €675 million share buyback. It intends to accelerate shareholder distributions through 2025, which we reflect in our risk-adjusted capital ratio forecast. The liquidity coverage ratio was 140% at year-end 2023 while the net stable funding ratio was 121%.

RELATED RESEARCH

- Update: Deutsche Bank AG, Dec. 12, 2023
- Deutsche Bank Issuer Credit Ratings Raised To 'A/A-1' On Strengthening Performance And Resilience; Outlook Stable, Dec. 8, 2023

This report does not constitute a rating action.