

Earnings Commentary

Deutsche Bank: Q3 2024 Results Rebound Supported by Legal Provisions Releases

Morningstar DBRS
23 October 2024

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Credit Ratings

Issuer	Obligation	Credit Rating	Trend
Deutsche Bank AG	Long-Term Issuer Rating	"A"	Positive

Deutsche Bank (DB or the Bank) reported a net attributable profit of EUR 1,461 million in Q3 2024, compared with a loss of EUR 143 million in Q2 2024. This result also represents a steep 42% year-over-year (YOY) increase compared with a net attributable profit of EUR 1,031 million for the quarter last year, primarily driven by the improved performance of the Bank's investment banking and asset management divisions. During the quarter, the Bank was able to release EUR 440 million related to the Postbank litigation, following settlements reached in August and September. In the previous quarter, the Bank had incurred litigation costs to the tune of EUR 1.3 billion related to this case.

The Bank recorded a pre-tax profit of EUR 2.3 billion for the quarter, compared with EUR 1.7 billion in Q3 2023. However, excluding the Postbank-related legal provision releases, pre-tax profit was up 6% to EUR 1.8 billion. This still confirms the solid trend we have been observing in recent quarters (for more details, please see [Morningstar DBRS Changes Trend on Deutsche Bank AG to Positive from Stable, Confirms its Issuer Ratings](#)). Underlying results were supported by a moderate increase in revenues (up 5% YOY to EUR 7.5 billion) and lower noninterest expenses (down 8% YOY to EUR 4.7 billion), which offset higher credit costs (up 102% YOY to EUR 494 million). As anticipated, the robust performance of the Investment Bank division, fuelled by Origination and Advisory (O&A) and Fixed Income and Currencies (FIC), which outperformed peers, along with strong Asset Management activities, continued to counterbalance the weaker revenues from the Corporate Bank and Private Bank businesses. The return on equity (ROE) was 9.1% in Q3 2024, an increase of 2.5 percentage points YOY, primarily driven by the underlying performance in the mentioned divisions. Quarter-over-quarter, ROE rose 10 percentage points due to the Postbank-related litigation provisions booked in Q2 2024, as well as the releases in Q3 2024. In our view, the Bank's underlying earnings remain solid, bolstered by its ongoing efforts to enhance operating efficiency through cost optimisation, including branch closures and reductions in full-time employees. Additionally, the bank expects to maintain the ongoing momentum in net fee earnings that should complement the stabilisation in net interest income given the new interest rate environment. We note that the Bank's strategy over the years of leveraging strong fee-generating business lines to counteract lower interest rates scenarios has proven to be effective. With a CAGR of 5.6%, Deutsche Bank remains in line with its targets and communicated its revenue goal of EUR 30 billion for FY 2024, compared with a reported net revenue of EUR 28.9 billion in FY 2023.

The Corporate Bank revenues were EUR 1.8 billion, down 3% YOY, mainly driven by lower net interest income compared with the strong levels in the same quarter last year as a result of normalising deposit margins, which could be mostly offset by increased volumes. The weaker

results in the Corporate Treasury services and Business Banking were partially offset by better results from Institutional Client Services, which supported fee revenues during the quarter.

Private Bank revenues remained flat at EUR 2.3 billion YOY. Net interest income declined 6% because of stabilising interest rates, but this was offset by growth in investment products. Personal Banking revenues fell 5%, affected by higher costs and lower lending revenues, while Wealth Management & Private Banking revenues increased 5%, driven by strong growth in lending and investment products. Assets under management rose EUR 13 billion, with net inflows of EUR 8 billion.

The Investment Bank was as usual the main revenue driver, as net revenues increased 11% YOY to EUR 2.5 billion in Q3 2024 driven by growth in Fixed Income and Currencies (FIC) and Origination & Advisory. FIC revenues increased 11% to EUR 2.1 billion, with strong performance in Credit Trading and Emerging Markets. Origination & Advisory revenues grew 24% to EUR 401 million, with significant gains in Debt Origination and Advisory.

Provisions for credit losses were up to EUR 494 million in Q3 2024, compared with EUR 245 million in Q3 2023 and EUR 476 million in Q2 2024. The Bank expects to book loan loss provisions for FY 2024 of around EUR 1.8 billion, while it already booked EUR 1,410 million in 9M 2024. Compared with Q2 2024, we noted higher Stage 3 provisions in Q3 2024 mainly driven by the Private Bank, including transitional Postbank integration effects, while they remained stable at the Corporate Bank. In addition, Stage 3 provisions declined at the Investment Bank as the Bank booked lower CRE provisions. The cost of risk stood at 41 bps in Q3 2024, compared with 20 bps in Q3 2023 and 40 bps in Q2 2024.

The CET1 ratio further increased to 13.8% at end-Q3 2024 from 13.5% at end-Q2 2024 driven by strong Q3 2024 earnings and the adoption of transitional rules for unrealised gains and losses on certain debt instruments. The leverage ratio remained stable QOQ at 4.6% in Q3 2024, well above the 3.85% requirement. We note that Deutsche Bank is reconsidering its plans to repurchase additional shares. Initially, the Bank nearly cancelled these plans because of a setback in the Postbank case; however, it has now formally requested approval from the European Central Bank to proceed with the share buyback.

Note:
All figures are in Euros unless otherwise noted.

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