Banks
Universal Commercial Banks
Germany

Litigation Costs Overshadow Deutsche Bank's Satisfactory Performance

Credit Comment

Deutsche Bank AG's (DB) operating profit/risk-weighted assets ratio was stable at 1.7% in 2024, consistent with the bank's 'A-' Long-Term Issuer Default Rating. The ratio fell short of Fitch Ratings' forecast after the bank booked significant litigation, restructuring and levies expenses in 4Q24. These were in addition to the EUR0.9 billion litigation provisions related to the Postbank takeover reported at end-September 2024, which we treat as non-operating.

2025 Profitability Targets Rely on Ambitious Revenue Growth

A strong performance by the Investment Bank, which benefited from high trading volumes and a recovery of the origination and advisory businesses, drove DB's revenue to EUR30.1 billion in 2024, up by 4%. Net interest income (NII) was broadly stable, excluding accounting asymmetries, benefiting from deposit growth, lower unsecured funding spreads and higher gross margins. These largely offset rising deposit betas in the Corporate Bank and declining loans in the Private Bank. DB reiterated its ambitious EUR32 billion revenue target for 2025, with higher NII supported by the rollover of structural hedges and market share gains in fee products across all businesses.

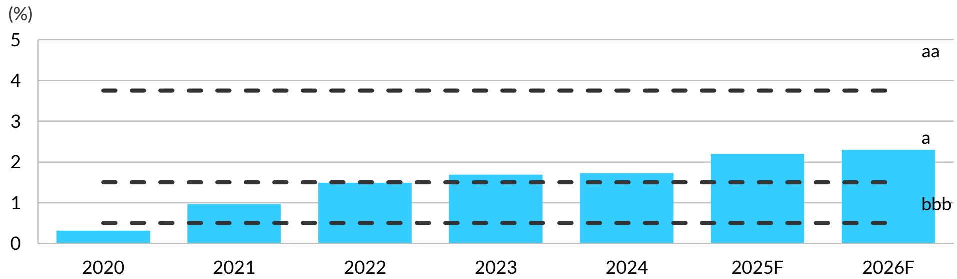
However, DB increased its 2025 cost/income ratio target to below 65%, from below 62.5% (2024: 76%, when including litigation costs), as it expects further pressure on costs from inflation and investments, partially offset by savings and lower bank levies. Litigation and restructuring expenses (EUR2.6 billion in 2024) should significantly decline in 2025, with new restructuring spending on the underperforming German retail unit. DB also gave a preview of its strategy beyond 2025, which will include reallocating capital to more profitable businesses and products, and further headcount reduction.

Weak Economy Not Yet Reflected in Asset Quality

DB guides for loan impairment charges (LICs) of 28bp–33bp of average gross loans in 2025. LICs rose to 38bp in 2024 (2023: 31bp), above the 30bp maximum stated at the beginning of the year, while the impaired loans ratio rose to 3.3% (end-2023: 2.8%). These higher impairments mainly resulted from the EUR36 billion non-recourse commercial real estate (CRE) portfolio, collection backlogs in German retail banking, and a small number of large defaults in the wealth management and corporate loan books, partially hedged by collateralised loan obligations.

CRE LICs declined by 37% in 2H24 versus 1H24, indicating that pressure on this portfolio has eased. We expect the quality of the bank's retail loans to remain strong. However, LICs could increase in the German corporate book (EUR54 billion, 3.1% impaired), which the bank plans to grow, if the economy remains weak, despite stable asset-quality indicators in this portfolio.

Operating Profit/Risk-Weighted Assets



Black dashed lines represent indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks.
Source: Fitch Ratings, Fitch Solutions, DB

Ratings

Foreign Currency	
Long-Term IDR	A-
Short-Term IDR	F2
Derivative Counterparty Rating	A(dcr)
Viability Rating	a-
Government Support Rating	ns
Sovereign Risk (Germany)	
Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	AAA
Country Ceiling	AAA
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Related Research

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