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Bulletin:

Deutsche Bank Targets Revenue Growth And Stronger Returns In Strategic Update

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LONDON (S&P Global Ratings) March 10, 2022--S&P Global Ratings said today that Deutsche Bank AG (A-/Stable/A-2) has potential to improve its creditworthiness and performance closer to global peers' if it delivers on the strategic plan announced today. However, geopolitical and market conditions present a difficult operating environment for the global banking sector. The duration and consequences of the conflict in Ukraine are not yet clear. Prolonged uncertainty could constrain banks' earnings by delaying interest rate hikes, increasing clients' risk aversion, and raising credit loss charges (see "How The Conflict In Ukraine Is Affecting Financial Institutions Ratings," published on March 4, 2022).

2022 is the final year of Deutsche Bank's existing transformation plan, and today's strategy update outlines its ambitions through 2025. Subject to external events, it is positioned for stronger earnings this year as restructuring charges fall away and the capital release unit winds down. Its healthy reported earnings for the first two months of 2022 indicate that it is on track to meet its 8% return on tangible equity (RoTE) and 70% cost-to-income ratio (CIR) targets for the full year. That said, the first quarter is typically the strongest for investment banks.

Deutsche Bank's 2025 strategy aims to build on recent progress and further strengthen performance. Specifically, it targets 3.5%-4.5% compound annual revenue growth in 2021-2025, with a RoTE above 10% and a CIR below 62.5% in 2025. It has identified €2 billion in annual operating costs that it plans to cut by 2025 and intends to reinvest most of this in growth initiatives, particularly technology. The cost savings would also provide a buffer against rising inflation. If it achieves these targets, Deutsche Bank's performance would likely be on a par with its closest European peers. It intends to increase its shareholder payout ratio to 50% and maintain the Common Equity Tier 1 ratio at about 13% in 2025, after absorbing about €25 billion of additional risk-weighted assets from Basel III implementation. This implies that our risk-adjusted capital ratio should remain at least in line with the current level.

Separately, Deutsche Bank disclosed details of its direct exposures to Russia and Ukraine, which include a €1.4 billion gross loan exposure to Russia (€0.6 billion net of risk mitigants) and a €0.2 billion capital investment in Russian subsidiaries. We see these as manageable amounts. It operates technology centers in Russia that work on system enhancements, and is assessing options for these functions, including reassigning activities to other locations.

We raised our long-term issuer credit rating on Deutsche Bank in November 2021 because we think it is becoming a more profitable, more focused, and better-controlled group. The rating remains at the lower end of the range for global corporate and investment banks, and we could consider a further positive rating action if Deutsche Bank executes its strategy well in a supportive operating environment. Conversely, a protracted economic and market downturn would likely delay any rating upside and could add risks and complexity.

RELATED RESEARCH

- How The Conflict In Ukraine Is Affecting Financial Institutions Ratings, March 4, 2022
- Update: Deutsche Bank AG, Nov. 24, 2021
- Research Update: Deutsche Bank Long-Term Rating Raised To 'A-' On Improved Performance And Strategy Execution; Outlook Stable, Nov. 9, 2021

This report does not constitute a rating action.