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Bulletin: Deutsche Bank's Fourth-Quarter Costs Pave The Way For Stronger 2025 Earnings

January 30, 2025

LONDON (S&P Global Ratings) Jan. 30, 2025--Deutsche Bank's fourth-quarter result included material nonoperating costs that weighed on reported profit but support its future earnings prospects. S&P Global Ratings expects a material pickup in the bank's performance in 2025, on the back of favorable revenue trends and improving operating efficiency.

Deutsche Bank AG (A/Stable/A-1) today reported €583 million pretax earnings for the fourth quarter of 2024, which was below expectations. This was due to almost €1 billion of litigation and restructuring provisions and a further €234 million of costs in respect of office closures and the U.K. bank levy. In our view, these nonoperating charges will bolster Deutsche Bank's 2025 earnings by reducing residual legal risks and facilitating further cost savings. The bank's underlying performance was solid, including 8% year-on-year revenue growth as the investment bank and asset management divisions benefited from higher business volumes.

Deutsche Bank affirmed its 10% return on tangible equity target for 2025 and revised its cost-to-income ratio target to 65% from 62.5%, which we view as a more achievable level. These objectives represent a material step up from the 4.7% and 76% outcomes for 2024. Deutsche Bank predicts €2 billion of incremental revenue in 2025 and continued cost discipline, and expects significantly lower nonoperating charges than in 2024.

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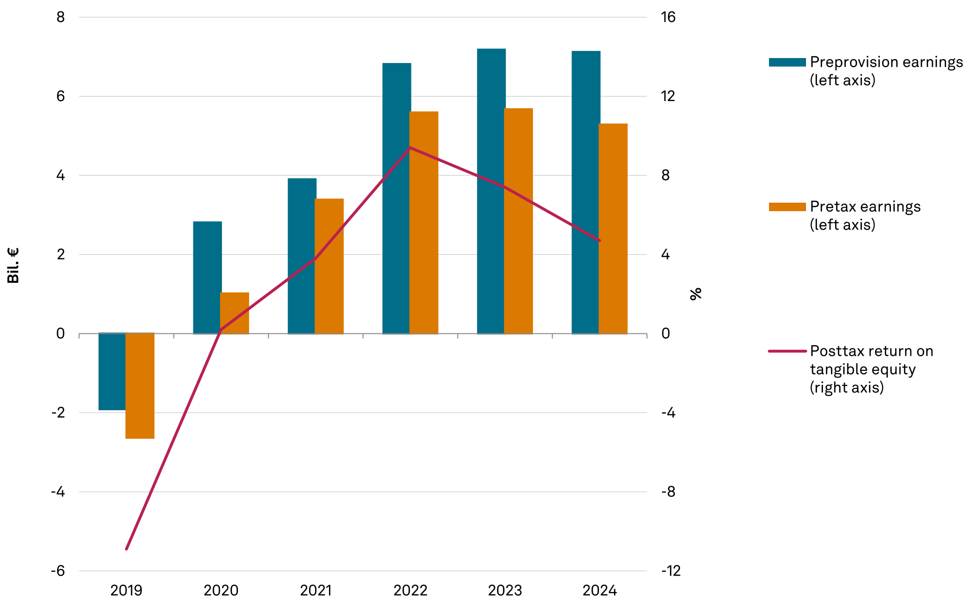
Chart 1

Deutsche Bank's material nonoperating costs weighed on 2024 profits
Trends in earnings and returns on capital



Return on tangible equity was boosted in 2022-2023 by deferred tax write-ups. Source: Deutsche Bank.
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The 38 basis-point credit loss provision charge in 2024 exceeded the bank's guidance and our expectation at the beginning of the year. It was inflated by provisioning on commercial real estate, two particular corporate impairments (of which hedge gains booked in revenue offset about 70%), and the Postbank IT integration. We think these items will likely diminish in 2025 and lower Deutsche Bank's overall credit loss provision charge, despite challenges from the German economic environment, global trade tensions, and potential higher-for-longer interest rates.

The common equity Tier 1 (CET1) ratio was 13.8% at year-end 2024 and stood 254 basis points (bps) above the minimum regulatory requirement applicable from January 2025 on a pro forma basis. It incorporated a proposed 50% dividend increase and a new €750 million share buyback under Deutsche Bank's enhanced shareholder distribution plan, which we reflect in our existing risk-adjusted capital ratio projection. The bank guided that the initial implementation of the updated EU Capital Requirements Regulation will lower the CET1 ratio by about 15 bps in the first quarter of 2025. Market risk-weighted assets are also likely to grow as trading activity normalizes from the relatively subdued year-end 2024 level.

The stable outlook on our ratings reflects our expectation that Deutsche Bank will maintain its disciplined strategic execution and strengthen its performance toward its 2025 targets. This progress would further improve the bank's resilience to unexpected stress.

Related Research

- German Banking Outlook 2025: Resilient In The Face Of Adversity, Jan. 23, 2025
- Update: Deutsche Bank AG, Dec. 16, 2024
- Deutsche Bank Ratings Affirmed As Capitalization Strengthens; Outlook Stable, Dec. 10, 2024

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