Commentary

Deutsche Bank Already on Track to Achieve 2025 Targets Following Record Q1

Morningstar DBRS
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Key Highlights

- Deutsche Bank AG posted its highest quarterly profit in 14 years in Q1 2025, placing the bank well in line to achieve its 2025 profitability and capital targets.
- The bank showed strong revenue dynamics in all business lines, notably in investment banking, following high market volatility heightened by U.S. tariffs.
- Improved operating efficiency on good cost discipline reflect the bank's ongoing optimisation efforts.
- Higher loan loss provisions, mainly in Stage 1 and Stage 2 loans, can build up overlays amid the challenging geopolitical situation.

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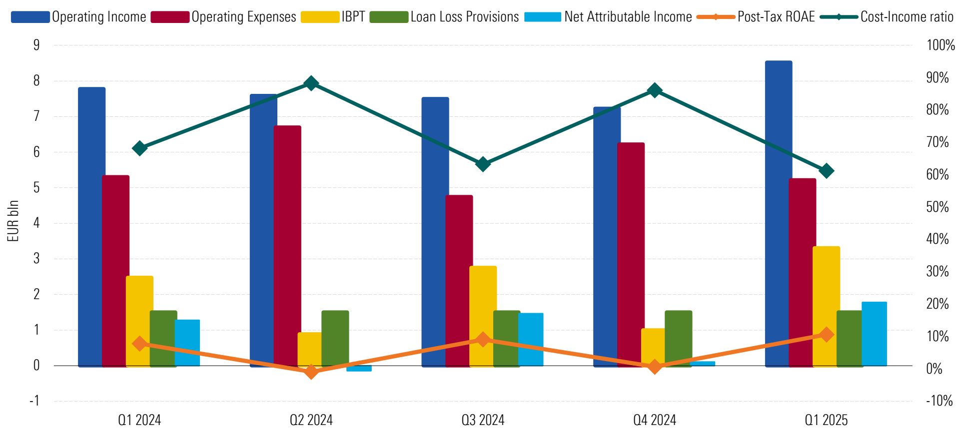
Overview

In Q1 2025, Deutsche Bank AG (DB or the Bank; rated "A" with a Positive trend) reported its highest quarterly profit in 14 years at EUR 2,012 million, up from EUR 1,451 million in Q1 2024. The Bank achieved this through a combination of strong revenue growth and lower operating expenses, which largely offset higher loan loss provisions. DB was also not affected by significant one-off items as in previous quarters. As a result, the bank's return on equity was 11.9% in Q1 2025, much improved from 4.7% in 2024 and 7.4% in 2023 and above its target of 10.0% for 2025. We expect continued revenue growth and previous cost optimisation efforts to improve the Bank's profitability this year and provide leeway to navigate the challenging geopolitical environment. This places DB in a good position to achieve its 2025 targets.

Exhibit 1 Quarterly Profitability Evolution



Source: Morningstar DBRS; company documents.

Revenue Growth Driven by Good Dynamics in Almost All Business Lines

The Bank recorded a pre-tax profit of EUR 2,837 million for the quarter compared with EUR 1,036 million in Q1 2024. Revenues grew 10% by year over year (YOY) as the Bank delivered EUR 0.7 billion of incremental revenues in Q1 2025 out of the total EUR 2.0 billion planned for the year. This was driven by strong dynamics in almost all business lines, with a robust Investment Bank performance, fuelled by Origination and Advisory (O&A); strong growth in Asset Management revenues; and a rebound in the Private Bank division while Corporate Bank revenues remained fairly stable YOY. In our view, this reflects solid momentum and previous efforts implemented to optimise its franchise, thanks to DB's strategy of leveraging strong fee-generating business lines over the years. We view this as key for the Bank to offset the pressure in net interest income from the lower interest rate environment.

Corporate Bank revenues were EUR 1.9 billion for the quarter, essentially flat YOY, due to mixed trends. Business Banking revenues posted an 9% revenue decline amid the lower interest rate environment and deposit income normalisation. However, Institutional Client Services revenues rebounded on higher fees and commissions, up 6% YOY, while Corporate Treasury Services continued to prove resilient.

The Investment Bank division remained the key contributor this quarter, benefitting from heightened market volatility most notably related to recent events, including U.S. tariffs. Revenues were up 10% YOY to EUR 3.4 billion in Q1 2025, mainly driven by a strong performance in Fixed Income and Currencies (FIC), up 17% YOY; solid dynamics in Rates and Foreign Exchange amid higher market activity; and higher financing revenues. While O&A continued to post solid underlying revenues, up 5% YOY, a loss on a specific loan negatively affected the stated performance in Q1 2025.

The Private Bank division experienced good dynamics this quarter, with revenues up 3% YOY, mainly driven by a strong performance in Wealth Management and Private Banking. This compensated for the slight decrease in Personal Banking, which reflected the intended run-off of capital-intensive loan products and higher deposit revenues. We note that assets under management (AUM) stood at EUR 632 billion in Q1 2025, stable quarter over quarter (QOQ) but up 4% from Q1 2024.

Asset Management was a key driver in Q1 2025 with strong revenue growth, up 18% YOY, driven by higher management fees against higher AUM and improvements in other revenues.

Ongoing Cost Measures Place the Bank in Line With 2025 Operating Efficiency Targets

Exhibit 2 2025 Targets vs. Q1 2025 Achievements

	Official 2025 Targets	Achieved Q1 2025
Revenue Compound Annual Growth Rate (%)	5.5 to 6.5	6.1
Cost-to-Income Ratio (%)	<65%	61.2
Risk-Weighted Asset Reductions (EUR billions)	25 to 30	28
Post-Tax ROTE (%)	>10	11.9
CET1 Ratio (%)	~13	13.8

Source: Morningstar DBRS; company documents.

DB has continued to improve its operating efficiency with cost discipline supported by ongoing optimisation initiatives, notably branch closures and reductions in full-time employees. In line with its guidance for 2025, noninterest expenses were down 2% YOY while adjusted costs were up 2% YOY, mainly driven by higher compensation and benefits. As a result, the Bank's cost-to-income ratio was 61% in Q1 2025, below its target of 65% and much below 2023 and 2024 figures of 75% and 76%, respectively. This supports our view that DB has taken the necessary steps in terms of cost optimisation to improve its operating efficiency going forward.

Higher Provisions to Build Overlays Amid the Challenging Geopolitical Situation

Provisions for credit losses were up 7% YOY to EUR 471 million in Q1 2025. Stage 3 provisions further decreased, in line with previous quarters; however, Stage 1 and 2 provisions were higher because of overlays instituted to anticipate potential tariff-related impacts but also potential corporate defaults amid the current challenging environment. The cost of risk was 39 basis points in Q1 2025, in line with levels reported in 2024.

Solid Capital Position Helped by Lower Risk-Weighted Assets

The Bank's CET1 ratio stood at 13.8% at the end of Q1 2025, in line with the end of 2024 and well above the target of 13% for 2025. This was supported by lower risk-weighted assets, mainly on lower market risk, which absorbed various impacts from the adoption of Capital Requirements Regulations 3 (CRR 3), dividends, share buybacks, and Additional Tier 1 coupon deductions. DB's leverage ratio remained stable QOQ at 4.6% in Q1 2025, still well above requirements.

Notes:
All figures in euros unless otherwise noted.

Source: Company documents.

For more information on this industry, visit https://dbrs.morningstar.com.

Related Research

- *Stronger Capital Market Revenue Outlook for European Banks Amid U.S. Tariffs and Elevated Market Volatility*, 22 April 2025
- *Higher Tariffs Could Increase European Banks' Low Cost of Risk*, 15 April 2025
- *Record European Capital Markets Revenues in 2024; Heightened Volatility to Drive 2025*, 6 March 2025
- *Gender Diversity in EU Banks: Some Progress in Meeting Targets*, 5 March 2025
- *Rethinking Bank Funding to the European Defence Sector*, 5 March 2025
- *Synthetic SRTs: A Well-Established Capital Management Tool for European Banks*, 10 February 2025
- *Global 2025 FIG Credit Outlook: Financial Institutions Benefitting from Benign Operating Environment, but Downside Risks Increase*, 30 January 2025
- *Deutsche Bank: Q4 2024 Results Affected by One-Off Legal Provisions Offsetting Solid Revenue Growth*, 30 January 2025

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