

DBRS Morningstar Confirms Deutsche Bank's A (low) Long-Term Issuer Rating, Trend Changed to Stable

BANKING ORGANIZATIONS

DBRS Ratings GmbH (DBRS Morningstar) confirmed the ratings of Deutsche Bank AG (DB or the Bank), including its Long-Term Issuer Rating of A (low) and its Short-Term Issuer Rating of R-1 (low). The trend on all long-term ratings was changed to Stable from Negative. The Intrinsic Assessment (IA) for the Bank is A (low), while its Support Assessment remains SA3.

KEY RATING CONSIDERATIONS

The trend change to Stable from Negative reflects the progress that has been made in de-risking the Bank and in executing the transformation plan, which in DBRS Morningstar's view has stabilised the franchise and helped DB take advantage of the strong global demand for investment banking services since the beginning of COVID-19 pandemic. The trend change also reflects the achievements made on the expense side, while maintaining a well managed credit and market risk profile, and solid balance sheet fundamentals.

DB's ratings continue to reflect the Bank's global franchise and strong position in Germany. DB's resilience in the face of wide-scale economic disruption caused by the pandemic underscores the benefits of a diversified business model, whereby strong investment banking results have offset pressure on net interest income and higher loan loss provisions. However, the ratings are constrained by DB's still weak profitability, as well as by the remaining work required to complete the Bank's transformation plan, and the Bank's need to further improve internal controls and processes.

RATING DRIVERS

The ratings would be upgraded if the Bank continues to execute the transformation plan resulting in higher and more sustainable profitability, while maintaining solid capital levels and further improving internal controls.

The ratings would be downgraded in case of a sustained revenue decline or material market share losses in the Bank's core businesses, or materially higher than anticipated credit losses. Any unexpected events that negatively impact the Bank's financial position or its reputation could also lead to a downgrade.

RATING RATIONALE

With total assets of EUR 1.3 trillion at end-Q1 2021, DB is one of the largest financial institutions globally and has a well-established global franchise across diverse products and geographies. In July 2019, DB announced a strategic transformation programme, which in DBRS Morningstar's opinion, should result in the Bank becoming a smaller, more focused, less risky and more efficient bank. Given the windfall profit for the Investment Bank from the COVID-19 pandemic, this unit's share of revenues has increased in 2020. However, rather than a sign of increased risk taking, in DBRS Morningstar's view this demonstrates the strength of a diversified business model given net interest income has come under pressure due to the negative interest rate environment. As

the economy is recovering, we expect the revenue contribution from traditional banking to increase.

DB's profitability has been significantly challenged in recent years by factors such as the low interest rate environment, the refocusing of businesses, and low capital levels, which have left DB with less flexibility to invest in its franchise compared to peers. However, in DBRS Morningstar's opinion 2020 has been a turning point for the Bank, as the increased revenues at the Investment Bank due to the COVID-19 pandemic helped offset continued margin pressure, higher provisioning needs and restructuring costs. In 2020 DB reported a EUR 113 million profit attributable to shareholders. Although still very modest, this was nevertheless the first annual profit since 2014. Strong revenue trends continued in Q1 2021 (up 13.9%). In our view the results indicate that DB has managed to stabilise its franchise and we consider some of the revenue improvement to be sustainable for the Bank. We also expect provisioning needs to decline in 2021 compared to 2020, and 2021 will also be the last year of heavy transformation-related costs with an estimated amount of EUR 1.1 billion (including severance and restructuring). This is somewhat offset by headwinds from continued margin pressure, higher regulatory levies and a recent German court ruling that affects account servicing fees.

In DBRS Morningstar's view, DB has maintained a good credit risk profile and has managed its market risk well, although operational risk issues persist. Given the likelihood of a delayed impact from the COVID-19 pandemic on asset quality we continue to monitor DB's credit risk. Following years of de-risking, DB's market risks and operational risk have declined. However, market risk can still potentially cause significant disruptions to investment banks, as demonstrated by recent market-related events that led to trading losses at some of DB's peers. Also, the scrutiny of DB's regulators in relation to Anti Money Laundering (AML) processes underscores the need for further improvements in operational risk. In 2020 the Bank provisioned EUR 1.8 billion or 41 basis points of total loans for credit losses. Stage 3 loans represented 2.9% of total loans in Q4 2020, flat QoQ compared to 2.2% a year earlier. In Q1 2021, loan loss provisions declined to EUR 69 million, a reduction of 86% on Q1 2020, due to a reduction in impairment events and an improved macroeconomic outlook, and the Stage 3 ratio declined slightly to 2.8% QoQ. The Bank guided towards full-year 2021 cost of risk of about 25 basis points. While provisions have likely peaked, further deterioration in asset quality metrics cannot be ruled out as support programs are phased out.

DB maintains a sound liquidity profile and has a comprehensive framework in place to manage its liquidity and funding needs. The Bank's deposit franchise continues to support the funding profile, with EUR 493 billion of deposits from customers and a loan-to-deposit ratio (based on DBRS Morningstar methodology) of 89% as of end-2020. The Bank reported liquidity reserves of EUR 243 billion at end-2020, up from EUR 222 billion at end-2019 supported by the Bank's participation in the ECB Targeted Long-Term Refinancing Operation (TLTRO) resulting in a strong liquidity coverage ratio (LCR) of 145%. The LCR ratio was comfortably above the 100% minimum and compares favourably to peers.

In DBRS Morningstar's opinion, DB's capital ratios are solid, but internal capital generation remains weak. At end-Q1 2021 DB's CET1 ratio was 13.7%, compared to a minimum regulatory requirement of 10.42%. However, the Bank guided towards a ca. 80 bps drop of the CET1 ratio in Q2 2021, as the ECB is expected to conclude its targeted review of internal models (TRIM) by issuing final decisions regarding leverage lending and banks and financial institutions, the implementation of the EBA guideline on definition of default and revised RWA calculations in relation to CRR2. This would still leave the Bank with a cushion of approximately 250 basis points over regulatory minimum requirements.

ESG CONSIDERATIONS

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework and its methodologies can be found at: <https://www.dbrsmorningstar.com/research/357792>

The Grid Summary Scores for DB are as follows: Franchise Strength – Strong/Good; Earnings Power – Good/Moderate; Risk Profile – Strong/Good; Funding & Liquidity – Strong; Capitalisation – Good.

Notes:

All figures are in EUR unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (8 June 2020).

<https://www.dbrsmorningstar.com/research/362170/global-methodology-for-rating-banks-and-banking-organisations>

Other applicable methodologies include the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (3 February 2021) <https://www.dbrsmorningstar.com/research/373262/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings>

For more information regarding rating methodologies and Coronavirus Disease (COVID-19), please see the following DBRS Morningstar press release: <https://www.dbrsmorningstar.com/research/357883>

The sources of information used for this rating include Company Documents, Deutsche Bank Annual Accounts (2015 - Q1 2021), Deutsche Bank Investor Presentations (2015 - Q1 2021), Dealogic and S&P Global Market Intelligence. DBRS Morningstar considers the information available to it for the purposes of providing this rating to be of satisfactory quality.

DBRS Morningstar does not audit the information it receives in connection with the rating process, and it does not and cannot independently verify that information in every instance.

Generally, the conditions that lead to the assignment of a Negative or Positive trend are resolved within a 12-month period. DBRS Morningstar's outlooks and ratings are under regular surveillance.

For further information on DBRS Morningstar historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: <http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>. DBRS Morningstar understands further information on DBRS Morningstar historical default rates may be published by the Financial Conduct Authority (FCA) on its webpage: <https://www.fca.org.uk/firms/credit-rating-agencies>.

The sensitivity analysis of the relevant key rating assumptions can be found at: <https://www.dbrsmorningstar.com/research/381115>

This rating is endorsed by DBRS Ratings Limited for use in the United Kingdom.

Lead Analyst: Sonja Förster, Vice President - Global FIG

Rating Committee Chair: Elisabeth Rudman, Managing Director – Global FIG

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DBRS Ratings GmbH

Neue Mainzer Straße 75

Tel. +49 (69) 8088 3500

60311 Frankfurt am Main Deutschland

Geschäftsführer: Detlef Scholz

Amtsgericht Frankfurt am Main, HRB 110259

For more information on this credit or on this industry, visit www.dbrsmorningstar.com.

Ratings

Deutsche Bank AG

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
01-Jul-21	Long-Term Issuer Rating	Trend Change	A (low)	Stb	EU U
01-Jul-21	Short-Term Issuer Rating	Confirmed	R-1 (low)	Stb	EU U
01-Jul-21	Senior Non-Preferred Debt	Trend Change	BBB (high)	Stb	EU U
01-Jul-21	Short-Term Debt	Confirmed	R-1 (low)	Stb	EU U
01-Jul-21	Short-Term Deposits	Confirmed	R-1 (low)	Stb	EU U
01-Jul-21	Long Term Critical Obligations Rating	Trend Change	A (high)	Stb	EU U
01-Jul-21	Short Term Critical Obligations Rating	Trend Change	R-1 (middle)	Stb	EU U
01-Jul-21	Long-Term Deposits	Trend Change	A (low)	Stb	EU U
01-Jul-21	Long-Term Senior Debt	Trend Change	A (low)	Stb	EU U

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Contacts

Sonja Förster

Vice President - Global Financial Institutions Group

+49 69 8088 3510

sonja.forster@dbrsmorningstar.com

Elisabeth Rudman

Managing Director, Head of European FIG - Global FIG

+44 20 7855 6655

elisabeth.rudman@dbrsmorningstar.com

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