FitchRatings

Deutsche Bank AG

Ratings

Foreign Currency

Long-Term IDR	BBB
Short-Term IDR	F2
Derivative Counterparty Rating	BBB+(dcr)
Viability Rating	bbb
Support Rating	5
Support Rating Floor	NF

Sovereign Risk

Long-Term Foreign-Currency IDR	AAA
Country Ceiling	AAA

Outlooks

Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Foreign-Currency IDR	Stable

Key Rating Drivers

Ambitious Restructuring: Deutsche Bank AG's ratings reflect progress but also continued challenges associated with the bank's ambitious multi-year restructuring. The restructuring should result in a more focused and profitable business model, but is weighing on the bank's financials in the near-term, at a time when the operating environment has been under the shock of the pandemic and the related lockdowns.

Progress with Targets: Fitch Ratings sees the bank on track with its turnaround plan, having progressed with the cost reduction and demonstrated reasonable ability to increase core investment banking revenues in favourable market conditions in 1Q20. Larger expected credit losses (ECLs) will deepen the bank's operating loss in 2020. Beyond this, continued disciplined reduction of operating costs, lower, though still significant, transformation-related charges and some core revenue growth should allow the bank to improve its profitability in 2021.

Reasonable Credit Losses: We view the guided 35bp-45bp ECLs for 2020 as credible. This is in the context of the bank's good asset quality, fairly modest exposure to sectors under heavy pressure (the largest being commercial real estate), and modelling approach, which dampens some of the IFRS 9 pro-cyclicality. However, we see downside risk to the guidance given the still unknown path of the pandemic.

Capital Buffers Under Pressure: Capitalisation will continue to come under pressure in 2020 due to larger credit losses eroding Deutsche Bank's low pre-provision profitability. The bank now expects the CET1 ratio (12.8% at end-1Q20) to decline by a further 50bp this year. Although deviations from the original 12.5% target are small, and there is more flexibility to meet regulatory requirements with non-CET1 capital, we see medium-term risks from larger-than-forecast credit losses, or failure to progress with cost or deleveraging targets.

Solid Liquidity & Funding: Access to funding and liquidity is supported by a conservative liquidity position, negative net refinancing needs in 2020 (including the ability to lower the proportion of more expensive senior non-preferred debt) and access to liquidity facilities offered by the ECB and other central banks. The liquidity coverage ratio (LCR) of 132% at end-1Q20 is comparable to higher-rated European peers. The relative strength of Deutsche Bank's liquidity at this rating level underpins the 'F2' Short-Term Issuer Default Rating (IDR).

Rating Sensitivities

Progress with Strategy: The ratings could be downgraded if there is no meaningful cost reduction, if there is evidence of revenue and franchise erosion in the core businesses relative to peers, if the CET1 ratio falls significantly below 12.5% without a clear plan to restore it swiftly, or if the bank does not progress with key business line targets, notably to generate synergies in retail banking and strengthen the corporate bank's profitability.

Effects of the Coronavirus: Rating pressure would also arise if deteriorating economic conditions make it more difficult for the bank to restore adequate profitability. Ratings could be affirmed with a Stable Outlook if the bank manages its pre-tax profitability and asset quality well during the current crisis.

Strategic Targets Are Positive Sensitivity: Upward pressure on the ratings would require evidence of growing revenue, further progress with cost reduction and reduction of the non-strategic businesses. Sustainably achieving the bank's longer-term target of 8% return on tangible equity would be commensurate with an 'a' score for profitability, and significant progress towards it could drive an upgrade of the ratings.

Applicable Criteria

Bank Rating Criteria (February 2020)

Non-Bank Financial Institutions Rating Criteria (February 2020)

Related Research

Fitch Affirms Deutsche Bank at 'BBB', Outlook Negative (May 2020)

German Banks' Weaknesses Exposed as Economic Outlook Worsens (April 2020)

Fitch Ratings Completes Review of European Global Trading and Universal Banks' Ratings (June 2020)

Large European Large European Banks Quarterly Credit Tracker - 1Q20 (June 2020)

Global Economic Outlook (June 2020)

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Issuer and Debt Ratings

Rating level	Deutsche Bank AG, Deutsche Bank AG - London Branch	Subsidiaries: Deutsche Bank Securities, Inc Deutsche Bank Trust Corporation Deutsche Bank Trust Company Americas Deutsche Bank Australia Ltd.
Long-Term Foreign-Currency IDR	BBB	BBB
Outlook	Negative	Negative
Short-Term Foreign-Currency IDR	F2	F2
Viability rating	bbb[a]	-
Support rating	5	2
Support rating floor	NF	-
Derivative Counterparty Rating (DCR)	BBB+(dcr)	BBB+(dcr)[c]
Deposits	BBB+/F2	-
Senior non-preferred (SNP) debt	BBB	-
Senior preferred (SP) debt	BBB+/F2	F2[d]
Tier 2 subordinated notes	BB+	-
Legacy Tier 1 securities	BB-[b]	-
CRR-compliant AT1 securities	B+[a]	-
DSL state-guaranteed bonds	A[a]	-

[a] Ratings assigned to Deutsche Bank AG only
[b] Issued by Deutsche Postbank Funding Trust I, II and III
[c] DCR assigned to Deutsche Bank Securities, Inc only
[d] Programme rating assigned to Deutsche Bank Trust Company Americas and Deutsche Bank Australia Ltd.
Source: Fitch Ratings

Debt Ratings

Preferred Debt Rated One Notch Above the Long-Term IDR

The DCRs, long-term deposit and SP debt ratings of Deutsche Bank and other group entities are one notch above their respective Long-Term IDRs. This uplift reflects the respective creditors' preferential status over Deutsche Bank's large buffer of qualifying junior and senior non-preferred debt. The buffer amounted to 19% of risk-weighted assets (RWAs) at end-1Q20, and is underpinned by Deutsche Bank's high minimum requirement for own funds and eligible liabilities (MREL), equivalent to 28% of end-1Q20 RWAs. Although the bank is allowed to meet some of this with SP debt, we expect the junior and SNP portion to remain above the 10% required by our criteria for one notch uplift.

The DCR of Deutsche Bank Securities, Inc. also reflects the protection that could accrue to derivative counterparties from the build-up of bail-in debt and equity buffers at the level of the intermediate holding company DB USA Corporation.

Subordinated Debt Notched Down from VR

Deutsche Bank's Tier 2 subordinated notes are notched twice from the bank's VR to reflect the notes' higher loss severity.

The legacy Tier 1 securities issued by Deutsche Postbank Funding Trust I, II and III are rated four notches below Deutsche Bank's VR. This reflects the securities' higher-than-average loss severity (two notches) and high risk of non-performance (an additional two notches) given their partial discretionary coupon omission.

We apply a wider notching of five notches below Deutsche Bank's VR to the CRR-compliant AT1 securities, due to their relatively higher non-performance risk. Fitch could upgrade Deutsche Bank's AT1 notes to four notches below the VR in certain circumstances. These are if the bank proves its ability to maintain a CET1 buffer in excess of 100bp over the maximum distributable amount (MDA)-relevant capital requirements through its restructuring, and if its ability to replenish this buffer through profits improves. At end-1Q20, the bank had 159bp headroom over its binding total capital requirements of 15%. The headroom has been further reinforced by EUR1.25 billion Tier 2 debt issued in May 2020 and USD0.5 billion in June 2020 (together equivalent to 50bp of end-1Q20 RWA), which can be used to meet part of the Pillar 2 requirement.

Guaranteed Bonds Issued by DSL Bank

Four senior unsecured and one Tier 2 subordinated bond initially issued by Deutsche Siedlungs- und Landesrentenbank (DSL Bank) are notched up three times from Deutsche Bank's Long-Term IDR, reflecting the outstanding recovery prospects arising from the guarantee. The German government has guaranteed these bonds until their maturity and we see an extremely high probability that the government would fully reimburse grandfathered creditors, should the guarantee ever be triggered by a default of Deutsche Bank.

However, we believe that the DSL Transformation Act (DSL Bank-Umwandlungsgesetz) from 1999, on which the state guarantee is based, does not oblige the government to honour the guarantee on first demand. Therefore, in our opinion, there is no certainty that a reimbursement would be carried out on a timely basis.

No Sovereign Support Assumed in Ratings

Deutsche Bank's Support Ratings (SRs) of '5' and Support Rating Floors (SRFs) of 'No Floor' reflect our view that senior creditors cannot rely on receiving full extraordinary support from the sovereign if the bank becomes non-viable. This is due to the resolution legislation in place in Germany since 2015.

Subsidiaries Equalised with Deutsche Bank's Ratings

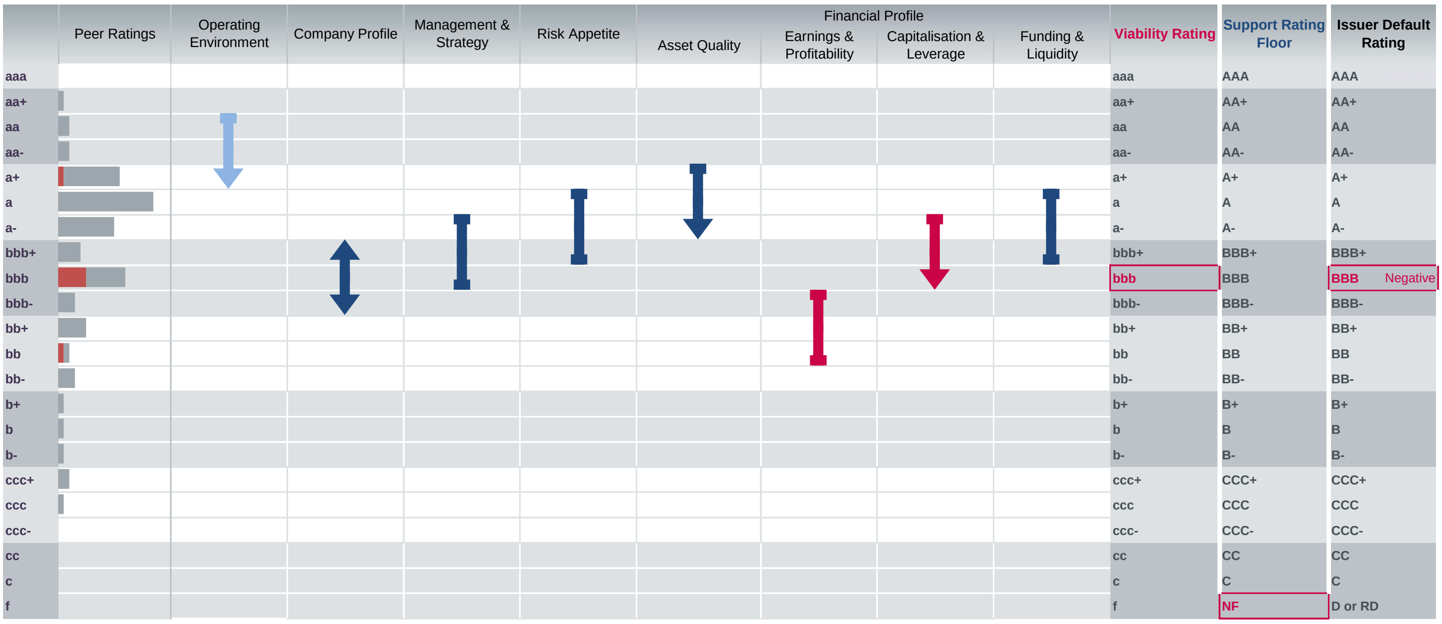
Deutsche Bank AG, London Branch's ratings are equalised with Deutsche Bank's as they refer to the same legal entity. The ratings of Deutsche Bank's US subsidiaries are equalised with Deutsche Bank's IDRs, which, along with their SRs, reflect the subsidiaries' high integration with the group, and core roles, especially in supporting capital market activities.

Ratings Navigator

Deutsche Bank AG

ESG Relevance:

Banks
Ratings Navigator



Significant Changes

Negative Outlook Reflects Additional Challenges from Coronavirus

Fitch has reviewed Deutsche Bank's ratings in light of the coronavirus outbreak in March 2020 and affirmed the ratings as part of a review of the bank's ratings in May 2020. The affirmation reflects our expectation that the bank will continue to progress with its strategic turnaround despite additional challenges from the coronavirus crisis. However, the Negative Outlook continues to reflect medium-term risks to Deutsche Bank's strategy and financial profile.

Fitch expects Germany's GDP to shrink by 6.3% in 2020 (eurozone: minus 8%) and bounce back by 5% in 2021 (eurozone 4.5%). The swift and comprehensive fiscal support and regulatory forbearance measures made available by the German government, the European Commission, the central banks and the banking regulators show considerable commitment to alleviating the impact of the crisis on the German economy and protecting the banking sector's ability to transmit this support to the economy. We expect this support to mitigate the deterioration of banks' asset quality.

Despite this, structural weaknesses including years of underperformance resulted in a lowering of our assessment of the German banking sector's operating environment to 'aa-'/Negative from 'aa'/Stable in March 2020. We could lower the score further if there are signs that the domestic economy will suffer from the crisis for longer than we currently expect, or if the banking sector is unable to restore acceptable profitability post-crisis.

Coronavirus Crisis to Add Higher ECLs to 2020 Loss; Capital under Pressure

The Negative Outlook on our assessment of Deutsche Bank's asset quality reflects a likely deterioration from a strong starting point. Deutsche Bank's relatively conservative underwriting standards and controls over the past years and its low stock of non-performing loans should keep its asset quality metrics comparable with better-rated peers'. Exposure to individual sectors under stress is moderate: commercial real estate (CRE) is the largest, while aviation and leisure are relatively small.

Deutsche Bank's full-year 2020 ECL guidance (of up to around EUR2.1 billion) is credible, but is subject to uncertainties around the path of the crisis and the effectiveness of government support. ECLs were EUR506 million in 1Q20, 3.6x higher yoy, and would have been about

Bar Chart Legend

Vertical bars – VR range of Rating Factor
Bar Colors – Influence on final VR
Higher influence
Moderate influence
Lower influence
Bar Arrows – Rating Factor Outlook
⇧ Positive ⇩ Negative
⇳ Evolving ▫ Stable

EUR100 million higher if the bank had considered weaker April macroeconomic forecasts. The bank expects ECLs to increase to about EUR800 million 2Q20 before subsiding.

The stable outlook on the low Earnings & Profitability score indicates our expectation that earning will improve in 2021, after a significant loss in 2020. In 2019, the bank was deeply loss-making because it incurred a large share of the transformation-related charges, including impairment of goodwill, deferred tax assets and software intangibles, upfront. Pre-coronavirus, 2020 was planned to be a transitional year with initial restructuring benefits, but earnings would continue to be burdened by the wind-down of the Capital Release Unit (CRU) and further transformation costs. We now expect higher ECLs to deepen the full-year loss.

The pre-tax profit of EUR206 million and net income of EUR66 million reported in 1Q20 beat market expectations and are ahead of the plan, but were quite low and benefited from the positive impact of crisis-driven market volatility on trading performance. We expect 2021 to be modestly profitable, but still well below ambitions and peers. Achieving 8% return on tangible equity (RoTE) in 2022 would be commensurate with an ‘a’ score for profitability (a more than 1.5% operating return on RWA), and is a positive ratings sensitivity.

Deutsche Bank went into the crisis with good capital buffers, but RWA inflation from drawdowns on committed credit facilities and prudential valuation adjustments started eroding its CET1 ratio, which fell to 12.8% at end-1Q20. This included a decline of about 40bp related to COVID-19. We expect further pressure in 2020, mitigated by more lenient requirements.

Some weakening in liquidity metrics was reported, due to around EUR18 billion drawdowns on revolving credit facilities, but the LCR of 132% at end-1Q20 is comparable to higher-rated European peers. In May 2020, Deutsche Bank merged its two German legal entities, which will reduce duplication of operating costs as well as net stable funding ratio inefficiencies.

Restructuring on Track

Fitch expects that progress with the bank’s turnaround will continue despite the considerably weaker economic environment. We have therefore revised the outlook on the Management & Strategy score to stable. In 1Q20, core bank revenue growth (+5% yoy ex DVA, the second consecutive quarter of revenue growth) indicates that the downward revenue trajectory has been interrupted, though helped by capital market volatility. Cost reduction also progressed, with ‘adjusted’ costs down by 4% yoy, benefiting from headcount reduction implemented in 2019, a reduction in infrastructure costs and continued simplification.

Cost reduction remains the biggest driver of Deutsche Bank’s performance improvement, but the latter is also contingent on maintaining a positive income trajectory in the core investment bank and demonstrating the benefits of the core corporate bank franchise. The lower-for-longer interest rate outlook and the weaker growth environment will be challenging for the corporate bank, but the division can also benefit from its franchise to support German businesses through the pandemic and deepen client relationships. So far, the private bank has achieved a small fraction (EUR240 million at 1Q20, annualised) of the cost synergies and targeted additional savings, and we will look for progress on this front in 2020.

The CRU’s wind-down was slightly ahead of plan, with RWA down to EUR44 billion at end-1Q20 (end-2019 target: EUR52 billion; 2022: EUR32 billion) and leverage exposure to EUR118 billon (2019 target: EUR140 billion; 2022: EUR10 billion). We expect deleveraging to continue, although market moves may continue to offset or slow down some of the progress.

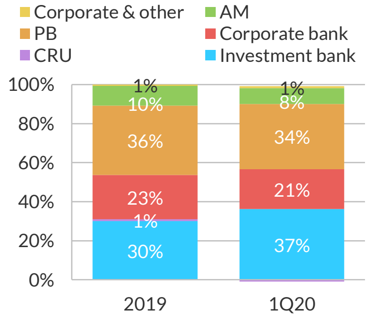
Restructuring to Reshape Business Model

Core Sales and Trading Shows Signs of Improvement; Overall Weight to Decrease

Deutsche Bank’s high reliance on capital market businesses from which it struggles to generate sufficient earnings, weigh on the ratings and on our assessment of the bank’s company profile. The restructuring should lower the weight of the investment banking (IB) divison in the business mix, but its relative weight will remain at the upper end of the peer group.

Following its previous restructuring, the bank decided to only compete in IB businesses where it has a top five position (which generate 80% of the IB’s revenue) and exit most of the rest.

Revenue Divisional Split



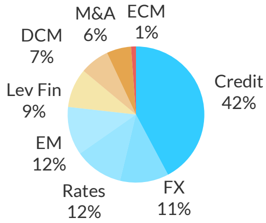
Source: Fitch Ratings, Deutsche Bank

The bank remains committed to offering foreign-exchange (FX) and more focused rates and flow credit products. Primary market debt underwriting and advisory, which includes large and profitable franchises in leveraged finance, structured finance, asset-backed securities and CRE, also remain strategic. The bank retains small equity capital markets operations, mostly in Europe. These activities are reported in the Core IB.

The Core IB made up 39% of RWA and 37% of revenue in 1Q20. Like most of its peers, the division benefitted from heightened volatility and customer transaction volumes and reported a 13% increase in revenue yoy, before debit valuation adjustments (DVA). Better-performing products included rates, foreign exchange and emerging markets trading (which benefited from counterparties re-adjusting their hedges during the 1Q20 volatility), offset by weaker credit products due to mark-to-market losses on inventory positions. Underwriting also increased sharply, but advisory fees were lower. The momentum continued in April, according to the management.

The CRU consists mainly of non-core IB activities in run-down: lower-yielding, long-dated rates contracts, capital-intensive securitised bonds as well as legacy portfolios from prior restructurings. Residual equities sales and trading, including the prime finance business whose transfer to BNP Paribas in 2021 was agreed, is also reported here. The CRU's EUR0.8 billion pre-tax loss in 1Q20 (EUR3.2 billion in 2019) reflects negligible revenue contribution and a cost drag. The CRU will continue to drive losses in 2020 and beyond, and its ability to release RWA will gradually decrease.

Core IB Revenue Split



Note: Approximate revenue split by product in FICC (blue, total EUR4.3bn) and Origination and Advisory (orange, EUR1.3bn) in 9M19
Source: Fitch Ratings, Deutsche Bank

Corporate Bank Gains Importance; Still Suboptimal Performance

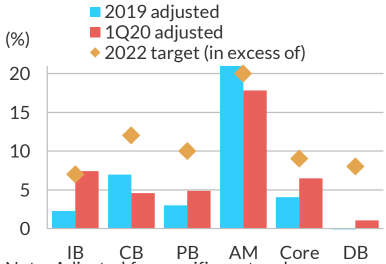
The corporate banking (CB) division has become more important under the new strategy, but is pressured by the lower interest rates and the cost of investments in technology and controls. It was lowly profitable in 1Q20 (3.4% RoTE, or 4.6% excluding transformation charges, and absent notable one-offs). Progress toward its medium-term return target will depend on how much the division can grow in target areas (including rates and FX products for corporates, Asia and payments), reprice deposits to offset the interest rate pressure, and achieve cost efficiency gains from 2H20 onwards.

The lower interest rate outlook and growth environment will weigh on the CB, but the division can also benefit from its support to German business through the pandemic. Deutsche Bank's ability to offer complex, global, bespoke solutions is an advantage at a time of uncertainty for corporates, and this, rather than pricing, gives them a competitive edge. Asia's quicker recovery from the pandemic might also support revenue growth.

Private Bank (PB) Integration Remains a Priority

Deutsche Bank is by a wide margin Germany's largest consolidated banking group by assets and number of clients, but its pricing power in domestic retail banking is weak given the savings and cooperative banks' market dominance. Deutsche Bank's retail banking is also fairly cost-inefficient, due to a large workforce, dual headquarters and functions that have become redundant since the decision to retain Postbank. As a result, the domestic private bank is a weak performer (3% RoTE in 1Q20). The RoTE target of at least 12% by 2022, primarily through restructuring and integration synergies, already appeared ambitious before this crisis.

Divisional Returns & Targets



Note: Adjusted for specific cost and revenue items, assuming a tax rate of 28%.
Source: Fitch Ratings, Deutsche Bank

The domestic retail legal entity was merged into its parent Deutsche Bank AG in May 2020. This will help manage funding costs, while loan growth and higher wealth management revenues should help offset interest rate pressures. Integrating systems, processes and sales organisations, as well as staff reductions, remain part of the plan.

PB generates about 60% of its revenue in Germany, 20% in international private and commercial banking and 20% in wealth management. The group maintains international operations mainly in Italy, Spain, Belgium and India, and these are targeted for growth through lending (especially higher-margin loans), investment products, SME banking, but from a relatively low base. The foreign operations generate about 50% more revenue and business volume per client on average than German clients despite Deutsche Bank's modest franchises in Italy, Spain and Belgium, and the fact that these countries are equally exposed to the eurozone's low-rate environment.

Wealth management is a growth business targeting 6% annual revenue growth, which should benefit from investments and hires made in 2019, collaboration with other divisions and willingness to achieve 12% loan growth a year with a focus on structured lending solutions. The business is skewed toward ultra-high net worth individuals and generates a high share of its revenues in emerging markets.

Asset Management (AM) Targets Growth and Efficiency Improvement

DWS, Deutsche Bank's 79.5%-owned AM business with EUR700 billion assets under management at end-1Q20, is a reliable but modest revenue contributor. The group wants DWS to become a top-10 global asset manager and expand its international reach, particularly into Asia. DWS has good market shares in Germany, where it is a leading provider of retail funds and, to a lesser extent, in Europe, where it is the second-largest provider of retail exchanged-traded funds. DWS also focuses on cost efficiency to cut its cost/income ratio to 65% (67% in 1Q20).

Risk Controls Improving; Conduct Risk Lower but Inherent in Business Model

Progress in improving risk controls, in particular with respect to updating and improving Deutsche Bank's IT infrastructure, automating processes and strengthening anti-money-laundering and know-your-customer controls, continues. The bank is committed to spending EUR13 billion on IT over 2019-2022, and in 2019 it created a Chief Technology officer role in charge of overseeing its IT transformation. IT costs have remained broadly stable since 2016, despite a focus on shrinking the cost base.

Strengthening anti-money-laundering and know-your-customer controls remain an area of high priority, and one where Deutsche Bank's technical capabilities and resource allocation have increased significantly. Deutsche Bank has tripled its investments in this area since 2013 to about EUR600 million in 2019 to remediate shortcomings. The bank has also retreated from higher-risk business areas, jurisdictions and clients over time.

Passing the qualitative assessment in the Federal Reserve's Comprehensive Capital Analysis and Review for the second time in 2020 shows improved controls in its US business, although more remains to be done. Liquidity risk controls have also improved, allowing faster reporting across legal entities. During 1Q20, when markets were especially volatile, risk management proved effective, helped by relatively restrained appetite for market and credit risk.

Deutsche Bank has resolved a large proportion of its legacy conduct issues, but its business model continues to expose it to significant conduct risk, as shown by ongoing regulatory investigations. At end-1Q20, the bank had EUR1 billion balance sheet provisions against future penalties from civil litigations and regulatory enforcement. It also estimated at EUR2 billion its contingent liabilities pertaining to litigation or redress issues.

Major outstanding conduct cases include an ongoing investigation into Deutsche Bank' role as a correspondent bank for large suspicious transfers from Danske Bank's Estonian branch prior to 2015. An investigation by the US Department of Justice into a money-laundering scheme involving sizeable transactions between Deutsche Bank's clients in Russia and the UK is also still outstanding. The bank has booked an undisclosed provision in relation to this.

In late 2019, the German prosecutor dropped a criminal charge against the bank in an investigation that involved a raid on its Frankfurt office, and issued a EUR15million fine. Other investigations and litigation cases include alleged manipulations of interbank or dealer-offered rates, foreign-currency markets, and referral hiring practices.

Traded Market Risk Metrics Increase from Historical Lows

The bank is exposed to market risk through trading operations in IB and non-traded market risk. De-risking measures reduced traded market risk metrics in 2019. Maximum value at risk (VaR; 99% confidence, 10-day holding period) was EUR35 million and maximum stressed VaR (99.9%, 10 days) was EUR104 million at end-2019. The incremental risk charge (99.9%) that captures credit risk in the trading book also declined to EUR480 million (average).

VaR rose sharply toward the end of 1Q20 due to high market volatility and remained elevated in 2Q20. This will lead to higher model-driven market-risk RWA over the next quarters.

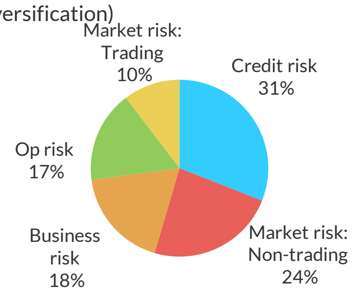
Interest-Rate Risk

	-200bp		+200bp	
(EURbn)	2018	2019	2018	2019
EVE	-3.2	0.5	0.8	-4.2
Net interest income	-0.8	-0.8	2.9	3.0

Note: Impact of a parallel shift on banking book across all currencies; floored at zero
Source: Fitch Ratings, Deutsche Bank's 2019 annual report

Economic Capital Usage

(EUR35bn at end-2019, excluding diversification)



Source: Fitch Ratings, Deutsche Bank

Interest-rate risk in the banking book arises from mismatches in the maturities and repricing of assets and liabilities. The bank reports that a 200bp parallel upward/downward shift (floored at zero) of the yield curve would affect the economic value of its equity by EUR4.2billion/EUR0.5 billion at end-2019, which is significant in the context of competing claims on its capital buffers. This effect is directionally offset by the fact that higher interest rates would augment the bank's net interest income by EUR3 billion in a 200bp up scenario and decrease it by EUR0.8 billion in a 200bp down scenario (floored at zero).

Asset Quality Under Pressure, but a Rating Strength

The bank reported IFRS 9 Stage 3 financial assets, including purchased or originated credit-impaired (POCI), of 2.2% of gross loans at end-1Q20. The ratio ticked down because of loan growth, but Stage 3 and POCI loans increased by 4% from end-2019. Stage 2 assets increased sharply (by 78%) to 6% of financial assets at amortised cost (9.5% of loans). Loans at amortised cost grew by EUR25bn, mainly due to increased demand from customers towards the end of 1Q20, often as precauttionary drawdowns at the peak of the pandemic uncertainty.

The EUR506 million ECLs booked in 1Q20 include an overlay to give more weight to longer-term projections by averaging three-year GDP and unemployment expectations. The ECLs are also estimated on a case-by-case basis, mainly in the investment and corporate bank, to assess which borrowers will remain viable thanks to the authorities' temporary coronavirus relief measures. In line with regulatory guidance, moratoriums and forbearance did not trigger stage migration where the borrower is deemed to remain viable. This approach seems reasonable, although subject to risks of misjudgement depending on the shape of the economic recovery.

Good Quality Domestic Retail Credit Risk

The quality of Deutsche Bank's German retail and SME loan books is strong. Its smaller international retail and SME books (about 13% of the total retail and wealth management exposure) are somewhat weaker. Mortgages, in particular in Germany, are low-risk and extended at conservative loan-to-value (LTV) ratios. The PB had 67% of mortgages below 50% LTV and an acceptable 8% above 90% LTV. Wealth management includes lombard loans, mortgages and structured loans, 98% of which are collateralised, with a median rating of 'A', and 3bp average cost of risk over the last 5 years.

Unsecured consumer finance (10% of PB's loan book) consists mainly of unsecured loans and, to a lesser extent, credit cards. The majority of loans are in Germany (EUR15 billion, of which 0.5% was 90-day past due at end-1Q20). The biggest foreign exposures are to Italy (EUR7 billion, of which 1.5% 90-day past due, mainly personal loans), and Spain (EUR1 billion, 0.6% 90-day past due, mainly personal, car and point-of sale loans).

Well-Controlled Wholesale Credit Risk

The quality of Deutsche Bank's corporate and investment banking credit exposure is reasonable, with about two thirds rated investment grade overall, and 55% in corporate loans. The exposure is well-diversified, with extensive use of risk mitigation. Weaker sectors have been reduced over the last years (e.g. shipping, certain emerging markets). The bank manages this exposure, and single name concentrations, with synthetic collateralised loan obligations and credit derivatives, whose notional was EUR31 billion at end-2019 (14% of corporate loans and 5% of total credit exposure).

Sectors more vulnerable to coronavirus disruptions make up a moderate share of the exposure at amortised cost (23% of the bank's net loans). The largest is CRE (EUR33 billion as defined by the bank). The IB's CRE business (EUR24 billion) is more concentrated in the US, with New York, Los Angeles, San Francisco representing just over half of the US book, and it is well-diversified by property. Exposure to hotels (EUR5 billion) and retail (EUR2 billion) are most under pressure, although over time this can extend to other segments. The bank had approved 75 loan modifications by June 2020, but the book's moderate average LTV of around 60% should mitigate the extent of potential losses.

The bank also has CRE underwriting commitments (EUR3.8 billion), of which about a quarter is affected by the pandemic and likely to face delays in sell-down. CRE exposure outside the IB (EUR10 billion, average LTV of 55%) is predominantly domestic and includes a small amount of junior tranches. CRE loans are generally secured by first-lien mortgages.

Exposure Vulnerable to Coronavirus

Loans at amortised cost at end-1Q20	(EURbn)	% of net loans	% of CET1
Retail, leisure, tourism,	7	1.5	16
Aviation, shipping, transport	4	0.9	9
Oil & gas	8	1.8	18
Leverage lending (hold book)	11	2.4	25
Leveraged lending (underwriting commitments)	4	0.9	9
SME, business banking	10	2.2	23
Unsecured retail	25	5.5	57
CRE (hold)	33	7.3	76
CRE (underwriting)	4	0.8	9
Total	109	23.3	249

Source: Fitch Ratings, Deutsche Bank

The oil & gas exposure is relatively low at EUR8 billion, focused on oil majors and national players, and over 80% of limits pertain to investment-grade entities. The exposure to retailers (excluding the more resilient food retail) was EUR5 billion and focused on strong global names. Two-thirds of the aviation exposure (EUR4 billion) is secured by aircraft financing with 70% average LTV, and the unsecured portion is focused on developed markets' flag carriers. The small leisure exposure (EUR2 billion), relates mainly to hotels and casinos.

The leverage finance hold book amounted to EUR11 billion at end-1Q20 (drawn commitments only). It mostly consists of reasonably diversified and granular revolving credit facilities, with less than EUR2 billion of exposure to the sectors most affected by the pandemic. The bank incurred write-downs on its EUR4.1 billion leverage finance underwriting commitments in 1Q20, which were mitigated by hedges. About a fifth of the commitments are to names affected by the crisis, which the bank expects to de-risk in 2H20.

Level 3 fair-valued assets increased to EUR28 billion in the quarter from EUR24 billion at end-2019 because of market price dispersion. These include derivatives, trading securities and other illiquid instruments such as leveraged loans, residential and commercial mortgage loans. The bank's sensitivity analysis revealed a potential fair-value loss of EUR1.2 billion if it used more conservative but reasonable alternative valuation inputs for these assets at end-2019. In 1Q20, the bank had capital deductions for prudent valuation of level 3 balances of EUR0.7 billion.

ECLs to Inflate 2020 Loss, but Costs Remain the Main Lever

ECLs will surge in 2020, and likely run above historical levels in 2021, weighing on profitability. However, the main drivers of the turnaround remain the ability to significantly cut costs, reduce the capital deployed in loss-making or underperforming businesses pooled in the CRU, and stabilise and ultimately grow the core bank's revenues.

The ambitious cost-cutting plan targets an adjusted cost base (excluding litigation, goodwill and intangibles impairment, restructuring and severance) of EUR17 billion in 2022. This will require further EUR4 billion of cost reductions by 2022, of which about EUR1.7billion in 2020. These numbers exclude costs associated with the prime finance and equities platform whose sale to BNP Paribas was agreed, as Deutsche Bank is being compensated for these. The bank booked large restructuring costs and write-downs on software intangibles and on deferred tax assets in 2019, and these will continue to a lower extent in 2020 and 2021.

The EUR0.4 billion cost reduction achieved in 1Q20 was on track with the year's plan, and management confirmed its initial target, including the intention to resume staff reductions. In addition, the new chief transformation officer is looking at other sources of savings, suggesting that costs could even be further reduced.

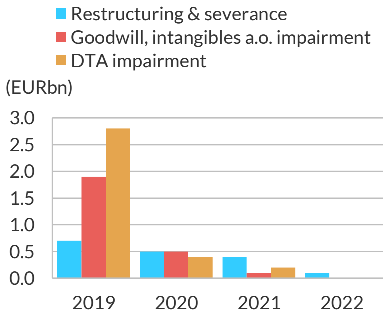
Cost savings will mainly come from the IB, PB and CRU. In IB front office staff is not targeted, which suggests that revenue should not be affected. PB cost savings are more challenging, as shown by the protracted synergies from Postbank's merger. Lowering the drag from the CRU will likely take time, and lag the reduction in exposures.

Moderate Revenue Growth Targeted

Revenue growth targets are not ambitious but are back-loaded to make up for negative growth in 2019. Growth targets need to be carried by the IB and CB, while PB's ambitions are lower. The IB appears on a good footing to deliver revenue growth after a strong 1Q20, although it depends on a persistence of market volatility and wider spreads. Core IB revenue increased by 13% yoy in 1Q20 before DVA, within which fixed income and currencies trading (FIC) increased by 7% (driven by strong rates, foreign exchange, emerging markets trading, but also mark-to-market losses in credit) and origination and advisory by 10%, driven by DCM. The persistence of strong activity in 2Q20 could help the IB beat the initial expectations for the full year.

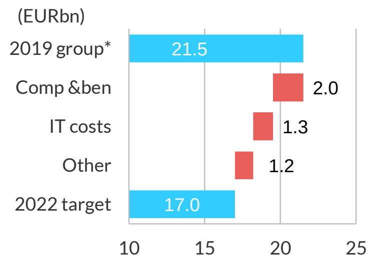
Other divisions struggled because of lower interest rates in 1Q20, e.g. the CB's revenue decreased by 1% despite progress with passing on negative rates to corporate customers and intensifying its cooperation with the IB. PB revenues increased by 2%, driven by wealth management and international business early in the year, while the German retail business

Transformation Charges



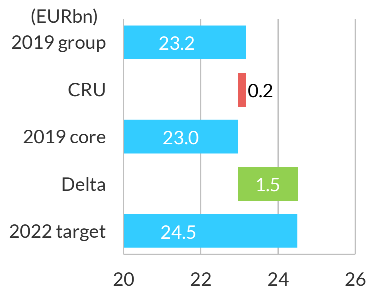
Source: Fitch Ratings, Deutsche Bank

Cost Path to 2022 Target



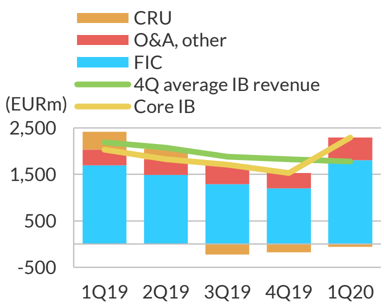
*Note: ex. costs associated with platform to be transferred to BNPP.
Source: Fitch Ratings, Deutsche Bank

Revenue Gap to 2022 Target



Source: Fitch Ratings, Deutsche Bank

IB Net Revenue



Note: Ex.CVA/DVA
Source: Fitch Ratings, DB

decreased 1% despite loan growth and growth in investment products. AM revenues were flat as interest-rate related changes in the fair value of guarantees offset higher management fees.

CET1 Ratio Under Pressure, More Flexible Requirements

The bank's restructuring was initially expected to take the CET1 ratio down to 12.5%-12.7% in 2020 as negative capital generation and higher RWAs (including regulatory inflation) put peak pressure on the ratio. These effects are now being compounded by coronavirus and other effects. Consequently, management remains committed to the 12.5% CET1 ratio target in the longer term, but now expects the ratio to fall to 12.3% in 2020, which seems plausible.

In 1Q20, the CET1 ratio declined to 12.8% from 13.6%. Of this amount, about 30bp were due to securitisation rules in force since 1 January 2020, 40bp due to coronavirus and 10bp due to business growth. Coronavirus-related RWA growth was mainly driven drawdowns on revolving credit facilities (RCFs) at the start of the pandemic outbreak, but which have since stabilised, and a modest increase from net internal rating downgrades.

For the remainder of 2020, the bank expects coronavirus-related effects to account for a further CET1 ratio erosion of about 40bp. This will include high ECLs, further rating migration, as well as higher market-risk RWA, as elevated VaR levels feed through the models. The bank has earmarked EUR20 billion for lending through government programmes, but the associated RWA growth should be limited as these programmes are predominantly state-guaranteed. The run-down of the CRU should help neutralise RWA growth in the core bank, although the CRU is likely to consume capital for the year overall.

The CET1 ratio should gain 20bp-30bp from new EU legislation that introduces exceptions on deduction of software intangibles from capital, and to a lesser extent from transitional add-back on Stage 1 and 2 ECLs. Moreover, the ECB delayed EUR8 billion of regulatory inflation initially due from the targeted review of internal models in 2020.

A CET1 ratio of 12.3% is still well above the regulatory requirement, which was lowered to 10.44% from 11.6% in January as the ECB brought forward CRD V Article 104(a), which allows EU banks to meet Pillar 2 requirements with non-CET1, and because countercyclical buffers were reduced. Because of this, total capital has become Deutsche Bank's most constraining requirement. The bank reacted by issuing Tier 2 debt in May and June 2020 to maximise the volume of Tier 2 debt with Pillar 2 recognition. We do not expect the bank to dip into its Pillar 2 guidance buffer during the crisis, despite the ECB's allowance.

CRU Supports Deleveraging, but Core Balance Sheet Is Expanding

The leverage ratio decreased to 4.0% from 4.2% in 1Q20. Leverage exposure increased by EUR77 billion, of which about half was due to coronavirus (drawdowns on RCFs, higher derivative and trading exposure, higher pending settlements) and half to seasonality. This was mitigated by AT1 issuance, and the bank's decision not to call an AT1 at the first call date.

The bank will miss its 4.5% leverage ratio target in 2020 due to balance sheet growth (notably due to the take-up of government-backed programmes). However, relief should come from the deleveraging measures and the transfer of the prime brokerage business to BNP Paribas in 2021.

The bank targets a fully loaded leverage ratio of 5% from 2022 by improving capital generation, stabilising leverage exposure and new issuance. This would allow for a reasonable buffer above regulatory requirements (3.75% from 2023, including the surcharge for systemically important banks) and be more comparable with global peers.

Liquidity Remains Comfortable Despite Drawdowns

Deutsche Bank has defended its solid liquidity since the outbreak of the coronavirus crisis despite a material EUR18 billion depletion of its liquidity reserve to EUR205 billion due to RCF drawdowns. The liquidity reserve had already been on a declining path during 2019, following a decision to reduce liquidity costs by partly redeploying surplus cash to higher-yielding, high-quality liquid assets. The bank is also investing in non-LCR eligible assets, including securities and loans. At end-1Q20, 55% of the liquidity reserve was still in cash, and 45% in securities.

Liquidity Metrics

Metric	1Q20	Change vs. 2019	LT target
LCR (%)	132	-8	~130
Liquidity reserves (EURbn)	205	-18	>200
sNLP	-7.6	-32	>0

Source: Fitch Ratings, Deutsche Bank

Headroom Above Requirements

	Requirements (%)	End-1Q20 (%)	1Q20 headroom (%)
CET1	10.4	12.8	2.4
AT1	2.0	2.0	0.0
Tier 2	2.6	1.7	-0.9[a]
Total	15.0	16.6	1.6

[a] Not accounting for Tier 2 issuance in 2Q20 equivalent to 50bp
Source: Fitch Ratings, Deutsche Bank

Deutsche Bank's stressed net liquidity position (sNLP), an internal metric that assumes further four weeks of combined market and Deutsche Bank-specific stress, declined by EUR32 billion, including EUR18 billion from RCFs, EUR7 billion of lending triggered by the stressed environment, and increased modelled outflows. Outflows incurred in 1Q20 were mostly lower or in line (RCFs) with modelled outflows.

Lower Funding Needs

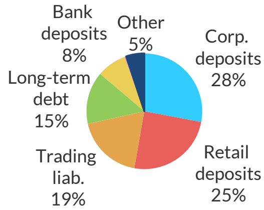
Deutsche Bank's funding is diversified and matched by types of funded assets, but also reliant on wholesale funding. At end-1Q20, the bank had external funding of EUR0.93 trillion (netted by legal netting agreements, cash collateral and pending settlement balances). Client and bank deposits accounted for 61% of this amount, long-term senior and subordinated debt for 15%, and the remaining 24% consisted of repos, short-term borrowing, trading and other liabilities.

At end-2019, 47% of deposits were from retail clients, and the rest from corporate and transaction banking clients. Deposits are well in excess of gross loans. Given the negative interest rate environment and pressure on profitability, the bank has started passing on negative rates mostly to corporate deposits. At end-1Q20, it had put in place about EUR40 billion of charging agreements, generating about EUR32 million in revenue in the quarter.

The EUR136 billion long-term senior and subordinated debt also provides stable funding and partly qualifies for MREL requirements. At end-1Q20, the bank's MREL-eligible buffer exceeded by EUR18 billion (including EUR3 billion SP debt) its transitional requirement of 8.58% of total liabilities and own funds for 2020, which was equivalent to EUR94 billion. The MREL requirement is more constraining than the total loss absorbing capacity (TLAC) requirement of 6% of leverage exposure or 6.75% of leverage exposure by 2022 (equivalent to EUR84 billion).

The deleveraging driven by maturing trading liabilities, long-term debt and structured notes has lowered the bank's funding needs. For 2019, the revised issuance target of EUR10 billion-EUR12 billion was well below the maturing EUR22 billion. For 2020, the issuance plan of EUR10 billion-15 billion is also less than the EUR17 billion maturing liabilities. The bank also expects to roll over EUR16 billion of its outstanding EUR23 billion of Targeted Longer-Term Refinancing Operations (TLTRO) 2 funding into TLTRO 3. To manage its funding costs down, the bank plans to use low-cost funding options such as structured covered bonds, TLTRO 3 and has some scope to replace MREL-eligible debt with cheaper senior preferred debt. In May 2020, it initiated a buyback of up to EUR2 billion SNP notes.

Liabilities Split
(EUR929 billion at end-1Q20)



Note: After cash collateral, legal netting agreements, and pending settlement balances
Bank and customer deposits as at end-2019
Source: Fitch Ratings, Deutsche Bank

Summary Financials and Key Ratios

	31 Mar 20		31 Dec 19	31 Dec 18	31 Dec 17	31 Dec 16
	3 months - 1st quarter	3 months - 1st quarter	Year end	Year end	Year end	Year end
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)	(EURm)
	Unaudited	Unaudited	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement						
Net interest and dividend income	3,562	3,251	13,749	13,192	12,378	14,707
Net fees and commissions	2,672	2,439	9,520	10,039	11,002	11,744
Other operating income	646	590	36	1,959	2,719	3,142
Total operating income	6,880	6,280	23,305	25,190	26,099	29,593
Operating costs	6,177	5,638	24,056	23,461	24,652	27,812
Pre-impairment operating profit	703	642	-751	1,729	1,447	1,781
Loan and other impairment charges	554	506	706	525	525	1,383
Operating profit	149	136	-1,457	1,204	922	398
Other non-operating items (net)	77	70	-1,177	126	306	-1,208
Tax	153	140	2,631	989	1,963	546
Net income	72	66	-5,265	341	-735	-1,356
Other comprehensive income	107	98	-808	-43	-3,157	-1,365
Fitch comprehensive income	180	164	-6,073	298	-3,892	-2,721
Summary balance sheet						
Assets						
Gross loans	502,864	458,984	427,658	404,544	405,620	413,455
- Of which impaired	11,068	10,102	9,681	9,415	7,010	7,931
Loan loss allowances	4,893	4,466	4,018	4,247	3,921	4,546
Net loans	497,971	454,518	423,640	400,297	401,699	408,909
Interbank	14,826	13,532	15,837	8,881	9,265	11,606
Derivatives	475,323	433,846	332,931	320,058	361,032	485,150
Other securities and earning assets	282,515	257,863	258,443	316,965	356,073	356,023
Total earning assets	1,270,635	1,159,759	1,030,851	1,046,201	1,128,069	1,261,688
Cash and due from banks	133,537	121,885	137,592	188,731	225,655	181,364
Other assets	229,593	209,559	129,231	113,205	121,008	147,494
Total assets	1,633,765	1,491,203	1,297,674	1,348,137	1,474,732	1,590,546
Liabilities						
Customer deposits	621,108	566,910	499,352	482,425	483,832	550,204
Interbank and other short-term funding	15,710	14,339	124,171	150,618	195,085	97,030
Other long-term funding	149,186	136,168	136,473	152,083	159,714	172,317
Trading liabilities and derivatives	572,248	522,314	361,725	369,426	424,796	531,574
Total funding	1,358,252	1,239,731	1,121,721	1,154,552	1,263,427	1,351,125
Other liabilities	203,848	186,060	111,780	121,680	137,715	168,229
Preference shares and hybrid capital	8,621	7,869	6,678	7,843	10,166	11,042
Total equity	63,044	57,543	57,495	64,062	63,424	60,150
Total liabilities and equity	1,633,765	1,491,203	1,297,674	1,348,137	1,474,732	1,590,546
Exchange rate		USD1 = EUR0.91274	USD1 = EUR0.89015	USD1 = EUR0.873057	USD1 = EUR0.83382	USD1 = EUR0.9487

Source: Fitch Ratings, Fitch Solutions, Deutsche Bank

Summary Financials and Key Ratios

	31 Mar 20	31 Dec 19	31 Dec 18	31 Dec 17	31 Dec 16
Ratios (annualised as appropriate)					
Profitability					
Operating profit/risk-weighted assets	0.2	-0.5	0.3	0.3	0.1
Net interest income/average earning assets	1.2	1.3	1.2	1.0	1.1
Non-interest expense/gross revenue	90.0	103.7	94.0	95.0	95.5
Net income/average equity	0.5	-8.6	0.5	-1.2	-2.2
Asset quality					
Impaired loans ratio	2.2	2.3	2.3	1.7	1.9
Growth in gross loans	7.3	5.7	-0.3	-1.9	-4.5
Loan loss allowances/impaired loans	44.2	41.5	45.1	55.9	57.3
Loan impairment charges/average gross loans	0.5	0.2	0.1	0.1	0.3
Capitalisation					
Fully loaded common equity Tier 1 ratio	12.8	13.6	13.6	14.0	11.8
Tangible common equity/tangible assets	3.3	3.8	3.9	3.5	3.0
Basel leverage ratio	4.1	4.3	4.3	4.1	4.1
Net impaired loans/common equity Tier 1	12.9	12.8	10.9	6.1	7.1
Funding and liquidity					
Loans/customer deposits	81.0	85.6	83.9	83.8	75.2
Liquidity coverage ratio	133.0	142.0	145.0	144.0	128.0
Customer deposits/funding	68.3	61.5	56.0	52.0	61.3

Source: Fitch Ratings, Fitch Solutions, Deutsche Bank

Environmental, Social and Governance Considerations

ESG issues are credit neutral or have only a minimal credit impact on Deutsche Bank, either due to their nature or the way in which they are being managed. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

In May 2020, we revised the Management and Strategy ESG score to '3' from '4' because we no longer see the operational implementation of the strategy as a factor of higher importance at the current rating. This reflects evidence of progress with the implementation of the strategy, and emergence of economic risks as a driver of the Negative Outlook.

FitchRatings **Deutsche Bank AG**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Credit-Relevant ESG Derivation				Overall ESG Scale
Deutsche Bank AG has 5 ESG potential rating drivers	key driver	0	issues	5
Deutsche Bank AG has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.	driver	0	issues	4
Governance is minimally relevant to the rating and is not currently a driver.	potential driver	5	issues	3
	not a rating driver	4	issues	2
		5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Company Profile; Management & Strategy; Risk Appetite	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Company Profile; Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board(SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.