FitchRatings

Banks
Universal Commercial Banks
Germany

Deutsche Bank AG

Update

Key Rating Drivers

Restructuring Progress, Profitability Improving: Deutsche Bank AG's Issuer Default Ratings (IDRs) and Viability Rating (VR) reflect the bank's restructuring progress, and the stabilisation of its business model, with most significant revenue improvement and franchise stabilisation at the investment bank (IB). They also reflect the bank's sound asset quality, funding and liquidity as well as adequate capitalisation. The ratings remain constrained by weak four-year historical average profitability, which Fitch expects to improve as the restructuring nears completion.

Positive Outlook: The bank has the potential to further consolidate its market shares in the IB and improve its domestic operations' weak cost/income ratio (CIR). We expect the majority of revenue and cost measures to feed through the income statement by 2023. However, in the short term we expect domestic corporate and retail banking to remain subdued compared to the group's overall profitability. Improving pricing power and reducing costs in these segments will be crucial to mitigate the inherent volatility of the (downsized and refocused) IB operations.

Rating Strength Asset Quality: The bank's resilient loan quality through the pandemic reflects generally prudent underwriting in recent years and, similar to peers, extensive state support to the economy. We believe the group's loan impairment charges (LICs) will increase moderately in 2022, as the economic fallout from the conflict in Ukraine unfolds, but this is unlikely to weigh significantly on profitability.

Adequate Capitalisation: Deutsche Bank's 13.2% common equity Tier 1 (CET1) ratio at end-2021 offers sufficient headroom over the management's 12.5% floor and distribution-relevant requirements to accommodate a reasonable, unexpected adverse earnings development or RWAs volatility. The bank has maintained a satisfactory and higher-than-expected CET1 ratio through the pandemic.

Diversified Funding: We believe Deutsche Bank's funding remains more confidence-sensitive than that of its peer group of US and European global trading and universal banks (GTUB). Restructuring progress has led to tighter issuance spreads, which the bank exploits to pre-fund opportunistically. However, its market funding needs remain low as it continues to deleverage the exposure in its capital release unit.

Comfortable Liquidity: The bank's strong liquidity coverage ratio has benefitted from sound core deposit inflows and, similar to peers, extensive and opportunistic use of TLTRO III.

Rating Sensitivities

Successful Restructuring Completion: A rating upgrade requires sufficient evidence the bank has sustainably strengthened its franchise and business model, avoided revenue attrition and recouped lost ground relative to peers in the IB. This includes an operating profit/RWAs of close to 1.5% in 2022 with good prospects of resilient profitability thereafter, a reduction in non-core businesses according to plan, and cost reductions in line with the management's 70% CIR target. It would also have to maintain CET1 and leverage ratios of at least 12.5% and 4.5%, respectively.

Failure to Progress with Plan: The Positive Outlook and the ratings could come under pressure if the bank fails to adhere to its cost-reduction plan, if it significantly misses its revenue targets for its key business lines, or if we see evidence of franchise erosion in core businesses relative to peers. Rating pressure would also arise if economic setbacks hinder the maintenance of adequate profits in the medium term, e.g. by triggering persistently high LICs and, potentially, eroding the CET1 ratio materially below 12.5% without swift recovery prospects.

Ratings

Issuer Ratings

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

Sovereign Risk

Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	AAA
Country Ceiling	AAA

Outlooks

Long-Term Foreign-Currency IDR	Positive
Sovereign Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (November 2021)

Non-Bank Financial Institutions Rating Criteria (February 2021)

Related Research

Fitch Upgrades Deutsche Bank to 'BBB+; Maintains Positive Outlook (September 2021)

Deutsche Bank AG (October 2021)

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Debt Rating

Preferred Debt Rated One Notch Above the Long-Term IDR

The Derivative Counterparty Ratings (DCRs), long-term deposit and senior preferred debt ratings of Deutsche Bank and other group entities are one notch above their respective Long-Term IDRs. This uplift reflects the respective preferred creditors' preferential status over Deutsche Bank's large buffer of qualifying junior and senior non-preferred debt (18% of RWAs at end-1H21). The buffer is underpinned by Deutsche Bank's minimum requirement for own funds and eligible liabilities (MREL), which at 24.05% of RWAs is still more constraining than its total loss absorbing capacity (TLAC) requirement of 22.53% of RWAs.

Subordinated Debt Notched Down from VR

Deutsche Bank's Tier 2 notes are notched down twice from the VR to reflect their above-average loss severity resulting from their subordinated status. Deutsche Bank's additional Tier 1 (AT1) notes compliant with the Capital Requirements Regulation (CRR) and the legacy Tier 1 securities issued by Deutsche Postbank Funding Trust I and III are rated four notches below the VR. This consists of two notches for their deep subordination and two notches for non-performance risk given their non-easily activated coupon omission. Deutsche Bank's buffer over distribution-relevant requirements, which could trigger coupon restrictions on the CRR-compliant AT1s, slightly increased to a satisfactory 279bp at end-2021. The total capital and CET1 capital requirements are equally constraining. The CET1 requirement was lowered to 10.4% from 11.6% in 1Q20 and remained virtually unchanged since then. A countercyclical buffer of 0.75% for Germany and a sectoral systemic risk buffer of 2% for German residential real estate exposures will be effective from February 2023. Combined and based on its current German credit exposures, these requirements translate into approximately 50bps CET1 capital requirement for Deutsche Bank.

Subsidiaries and Branches

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 Deutsche Bank Securities, Inc., Deutsche Bank Trust Corporation and Deutsche Bank Trust Company Americas are equalised with Deutsche Bank's IDRs. This reflects, along with their Support Ratings, the subsidiaries' high integration and core roles in supporting the group's capital market activities.

Deutsche Bank's Debt Ratings

Rating level	Rating
Deposits	A-/F2
Senior preferred debt[a]	A-/F2
Senior non-preferred debt	BBB+
Tier 2 subordinated notes	BBB-
Legacy Tier 1 notes[b]	BB
CRR-compliant AT1 notes	BB
DSL state-guaranteed bonds	A+

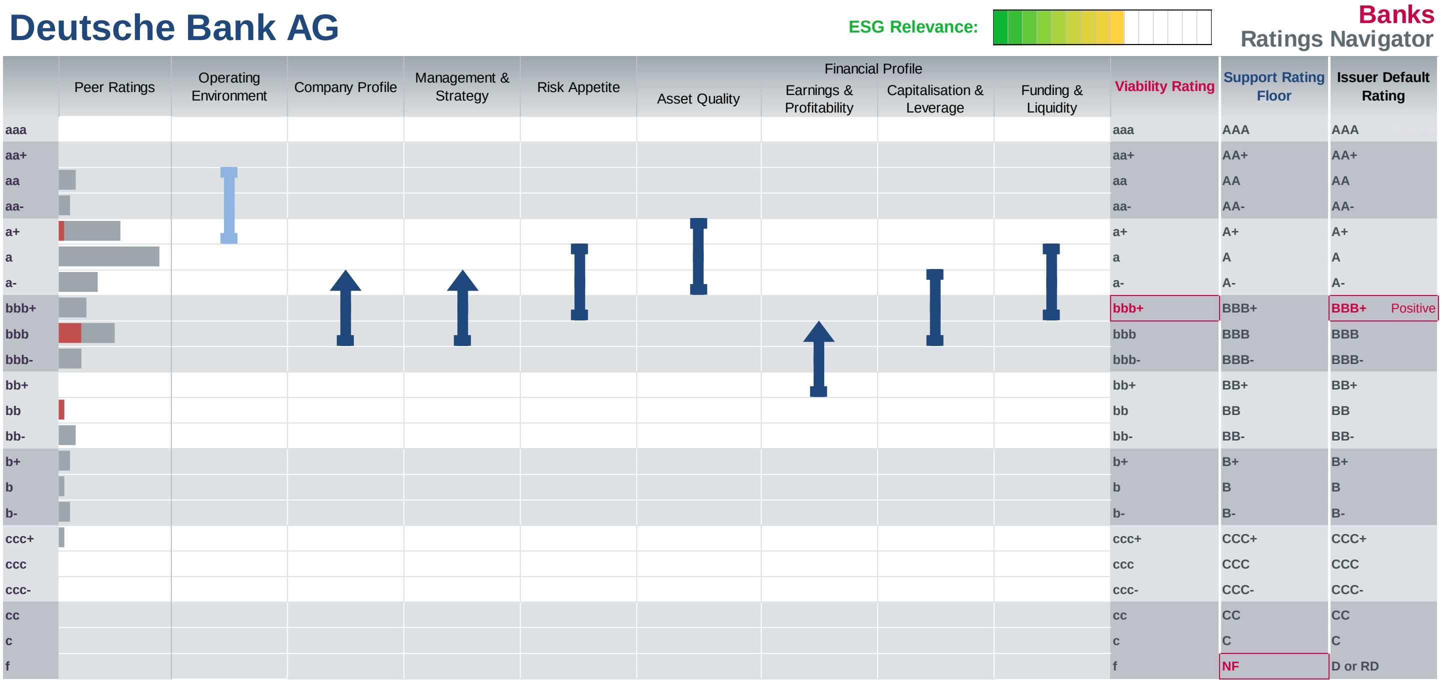
[a] Including subsidiaries' programme ratings
[b] Issuer: Deutsche Postbank Funding Trust I, III
Source: Fitch Ratings

Subsidiaries and Branches[a]

Rating level	Rating
Long-Term IDR	BBB+/Positive/F2
DCR[b]	A-(dcr)

[a] Deutsche Bank Securities, Inc.; Deutsche Bank Trust Corporation; Deutsche Bank Trust Company Americas
[b] Deutsche Bank AG, London Branch; Deutsche Bank Securities, Inc.
Source: Fitch Ratings

Ratings Navigator



Significant Changes

2022 Transformation on Track, New 2025 Strategic Targets

Deutsche Bank's 2021 performance and growth path towards its new 2025 targets are indicative of a durably strengthened franchise and business model as the bank progresses with its strategic overhaul, launched in 2019.

We view the revenue growth achieved in 2021 as sustainable alongside the maintenance of adequate capitalisation and leverage and the exiting of non-core businesses. We believe the bank is on track to reach an operating profit/RWA of close to 1.5% in 2022 – a key sensitivity for a rating upgrade – with good prospects of maintaining resilient and sound profitability thereafter. However, this assumes a moderate economic fallout from the conflict in Ukraine.

The final steps of the cost-cutting plan will be key to reducing Deutsche Bank's reported cost-to-income ratio (CIR) to 70% in 2022 (2021: 85%). Cost reduction includes the non-recurrence of last year's restructuring expenses (equivalent to 5bp of CIR), fewer staff, less real-estate expenses, and technology efficiencies. The management confirmed that the bank is on schedule to reduce costs by about EUR450 million qoq in 1Q22. However, execution of the full year plan is likely to face pressure from significant wage inflation. Deutsche Bank expects flat costs from 2022 to 2025 as it plans efficiency measures, including reducing the number of branches by about one third, to offset business growth, reinvestments and inflation.

Deutsche Bank is targeting 3.5%–4.5% revenue growth a year, up to EUR30 billion in 2025, aiming for a CIR below 62.5% and a Return on Tangible Equity of at least 10%. It has executed its revenue growth plan well so far, and the bank's management is confident that revenue will increase to EUR26 billion–27 billion in 2022 (2021: EUR25.3 billion) due to interest rate challenges and growth in retail and corporate banking. However, weaker market conditions will probably lower the income from asset and wealth management, despite clients looking for advice in rebalancing their portfolios.

The corporate and private banks drive the expected 2025 revenue growth. We believe the bank's comprehensive and sophisticated product suite and global network can translate into modest additional pricing power in corporate and private banking compared to domestic peers. However, we expect margins in these segments to remain under pressure from the structurally high price competition in the German market.

Bar Chart Legend

Vertical bars – VR range of Rating Factor

Bar Colours – Influence on final VR

- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook

- ⇧ Positive
- ⇩ Negative
- ⇳ Evolving
- ▫ Stable

The investment bank defended its market share gains under normalising market conditions in 2H21. January and February's strong trading performance have offset a weaker origination and advisory business. This increases the likelihood that the investment bank will come close to its EUR9 billion expected revenue for 2022. As the Ukrainian conflict is making the central banks' response to rising inflation more uncertain, we believe that a decoupling of the euro and US dollar interest rates could widen the profitability gap between US and European banks. This could limit Deutsche Bank's resources to compete for talent and invest compared to its US peers, in turn affecting its ability to consolidate its investment banking market shares globally. In this context it will be even more important for DB to focus on the businesses in which it has a competitive edge.

Manageable Direct Exposure to Russia

We estimate that Deutsche Bank's direct exposure to Russia, net of export credit agency coverage and other risk mitigation measures, accounts for less than 3% of the bank's total equity at end-2021, which is manageable. The bank has taken steps to mitigate this exposure by the early unwinding of its derivative positions and by limiting new business with Russian counterparties. In case of disruptions at its technology centre in Saint-Petersburg, we understand that IT transformation projects could be delayed, but without materially affecting the group's critical day-to-day operations.

Similar to its peers, the potential indirect impact on Deutsche Bank's asset quality and earnings from the economic shock, including rising energy and commodity prices and supply chains disruptions, that will result from the sanctions on Russia, remains unclear. However, contagion spreading to broad parts of the European economy would make the bank's strategic targets more challenging to attain.

Summary Financials and Key Ratios

		31 Dec 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018
	USDm	EURm	EURm	EURm	EURm
Summary Income Statement					
Net interest and dividend income	12,616	11,155	11,526	13,749	13,192
Net fees and commissions	12,366	10,934	9,424	9,520	10,039
Other operating income	3,757	3,322	3,079	36	1,959
Total operating income	28,740	25,411	24,029	23,305	25,190
Operating costs	24,343	21,523	21,247	24,056	23,461
Pre-impairment operating profit	4,397	3,888	2,782	-751	1,729
Loan and other impairment charges	558	493	1,761	706	525
Operating profit	3,840	3,395	1,021	-1,457	1,204
Other non-operating items (net)	-6	-5	0	-1,177	126
Tax	995	880	397	2,631	989
Net income	2,839	2,510	624	-5,265	341
Other comprehensive income	1,509	1,334	-1,386	-808	-43
Fitch comprehensive income	4,348	3,844	-762	-6,073	298
Summary Balance Sheet					
Assets					
Gross loans	544,552	481,478	431,803	427,630	404,544
- of which impaired	13,487	11,925	12,400	9,567	9,415
Loan loss allowances	5,377	4,754	4,808	3,990	4,247
Net loans	539,175	476,724	426,995	423,640	400,297
Interbank	8,304	7,342	9,130	15,837	8,881
Derivatives	338,997	299,732	343,455	332,931	320,058
Other securities and earning assets	254,019	224,597	249,755	258,443	316,965
Total earning assets	1,140,495	1,008,395	1,029,335	1,030,851	1,046,201
Cash and due from banks	217,176	192,021	166,208	137,592	188,731
Other assets	139,766	123,577	129,716	129,231	113,205
Total assets	1,497,437	1,323,993	1,325,259	1,297,674	1,348,137
Liabilities					
Customer deposits	587,481	519,435	492,599	499,352	482,425
Interbank and other short-term funding	161,149	142,484	124,643	124,171	150,618
Other long-term funding	169,819	150,149	154,634	144,626	152,083
Trading liabilities and derivatives	386,605	341,826	372,091	353,571	369,426
Total funding and derivatives	1,305,055	1,153,894	1,143,967	1,121,720	1,154,552
Other liabilities	114,843	101,541	117,775	111,781	121,680
Preference shares and hybrid capital	9,990	8,833	7,145	6,678	7,843
Total equity	67,549	59,725	56,372	57,495	64,062
Total liabilities and equity	1,497,437	1,323,993	1,325,259	1,297,674	1,348,137
Exchange rate		USD1 = EUR0.884173	USD1 = EUR0.821963	USD1 = EUR0.89015	USD1 = EUR0.873057

Source: Fitch Ratings, Fitch Solutions, Deutsche Bank

Summary Financials and Key Ratios

	31 Dec 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018
Ratios				
Profitability				
Operating profit/risk-weighted assets	1.0	0.3	-0.5	0.3
Net interest income/average earning assets	1.1	1.1	1.3	1.2
Non-interest expense/gross revenue	85.0	88.9	103.7	94.0
Net income/average equity	4.3	1.1	-8.6	0.5
Asset quality				
Impaired loans ratio	2.5	2.9	2.2	2.3
Growth in gross loans	11.5	1.0	5.7	-0.3
Loan loss allowances/impaired loans	39.9	38.8	41.7	45.1
Loan impairment charges/average gross loans	0.1	0.4	0.2	0.1
Capitalisation				
Common equity Tier 1 ratio	13.2	13.6	13.6	13.6
Fully loaded common equity Tier 1 ratio	13.2	0.0	13.6	13.6
Tangible common equity/tangible assets	3.9	3.7	3.8	3.9
Basel leverage ratio	4.9	4.8	4.3	4.3
Net impaired loans/common equity Tier 1	15.4	17.0	12.6	10.9
Funding and liquidity				
Gross loans/customer deposits	92.7	87.7	85.6	83.9
Liquidity coverage ratio	133.1	144.8	141.2	145.0
Customer deposits / total non-equity funding	59.3	59.8	61.5	56.0
Net stable funding ratio	121.0	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, Deutsche Bank

Sovereign Support Assessment

Support Rating Floor:			NF
Support Factors	Positive	Neutral	Negative
Sovereign ability to support system			
Size of banking system relative to economy			✓
Size of potential problem	✓		
Structure of banking system		✓	
Liability structure of banking system		✓	
Sovereign financial flexibility (for rating level)	✓		
Sovereign propensity to support system			
Resolution legislation with senior debt bail-in			✓
Track record of banking sector support	✓		
Government statements of support			✓
Sovereign propensity to support bank			
Systemic importance		✓	
Liability structure of bank		✓	
Ownership		✓	
Specifics of bank failure		✓	

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

Environmental, Social and Governance Considerations

FitchRatings **Deutsche Bank AG**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Deutsche Bank AG has 5 ESG potential rating drivers

- 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.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
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.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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.

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