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Morningstar DBRS Changes Trend on Deutsche Bank AG to Positive from Stable, Confirms its Issuer Ratings

BANKING ORGANIZATIONS

DBRS Ratings GmbH (Morningstar DBRS) confirmed the credit ratings on Deutsche Bank AG (DB or the Bank), including the Bank¿s Long-Term Issuer Rating of ¿A¿ and the Bank¿s Short-Term Issuer Rating of R-1 (low). The trends on both the Issuer ratings have been revised to Positive from Stable. The Intrinsic Assessment (IA) for the Bank has also been maintained at ¿A¿, while the Support Assessment remains SA3. A full list of the rating actions is included at the end of this press release.

KEY CREDIT RATING CONSIDERATIONS

The change in trend to Positive reflects the continued progress the Bank has made in implementing its strategic transformation programme and meeting its medium-term profitability targets. In Morningstar DBRS¿ view, DB has simplified and reoriented its business mix towards more predictable revenue sources, focusing on key growth areas. This, combined with the volatility in the capital markets since 2020 and higher interest rates since 2022, has enabled the Bank to grow revenues despite the volatile market conditions, increased geopolitical tensions, and the uncertainty surrounding the macroeconomic environment. Morningstar DBRS considers this places the Bank in a good position to reach its 2025 revenue target, despite the less favourable market environment and normalising net interest income. The Positive trend also takes into account the progress made on the cost side, which should help improve operating efficiency, and Morningstar DBRS¿ expectation that DB will maintain its cost discipline. Morningstar DBRS considers this provides DB with extra room to absorb a potential deterioration in the cost of risk in the current environment and unforeseen events such as the one-off EUR 1.3 billion provision for litigation in the Postbank case. Nevertheless, the current credit rating level also reflects that despite experiencing profitability improvement, DB continues to lag other global peers. At the same time, the Bank has maintained a conservative risk profile and a diversified loan book, which has so far mitigated potential asset quality deterioration.

The Positive trend also incorporates the progress made in addressing certain corporate governance issues, notably the Bank¿s Anti Money Laundering (AML) procedures, through significant investments in internal controls. In Morningstar DBRS¿ view, this has restored confidence in the Bank¿s franchise, despite litigation costs linked to legacy issues.

The confirmation of DB¿s credit ratings reflects the Bank¿s global franchise and leading position in Germany as well as a high degree of business diversification. In addition, DB continues to benefit from a sound funding profile, thanks to a large and stable deposit base mostly in Germany, supplemented by a diversified and moderate reliance on wholesale funding. On top of this, the Bank maintains a strong liquidity cushions. Finally, the credit ratings reflect the Bank¿s solid capital levels, with ample buffers over regulatory requirements and supported by sound internal capital generation.

CREDIT RATING DRIVERS

An upgrade of the credit ratings would require the Bank to successfully deliver on its medium-term targets, and especially further demonstrate recurrent profitability improvement while continuing investments on digital and internal controls. It would also require the Bank to maintain solid asset quality and capital ratios in the current environment.

Morningstar DBRS would change the trend back to Stable if the Bank deviates substantially from its medium-term targets. A downgrade of the credit ratings would occur in the case of a signification deterioration in the risk profile or higher-than-expected litigation charges.

CREDIT RATING RATIONALE

Franchise Combined Building Block (BB) Assessment: Very Strong/Strong

With total assets of EUR 1.3 trillion at end-Q1 2024, DB operates globally, but has a regional focus on Europe, and Germany in particular. The Bank offers a wide range of products and services across Investment Banking, Private Banking (including Retail), Corporate Banking, and Asset Management. After the successful implementation of a strategic transformation programme, which has helped stabilise the Bank and put it on a growth path, DB has established new profitability targets for 2025, including a return on tangible equity of at least 10% and a cost/income ratio (CIR) below 62.5%. This is expected to be achieved mainly through revenue growth, as the Bank has regained financial flexibility to invest, but also cost containment through significant cost savings initiatives put in place. DB has set specific targets for 2025, which include a post-tax RoTE of at least 10% and a CIR of less than 62.5% and a CET1 ratio of around 13%. DB plans to realise further cost savings of around EUR 2.5 billion to be partly reinvested in the franchise, notably through the integration of Postbank¿s IT and digitalisation. The Bank has so far achieved EUR 1.4 billion and is on track to deliver on further cost savings. However, Morningstar DBRS views the target of flat operating expenses between 2022 and 2025 as ambitious, given the current inflationary environment and the Postbank related one-off charge in 2024. On top of this, the goals are also based on a revised compound annual growth rate of 5.5% to 6.5%, aiming at revenues of around EUR 32 billion by 2025 compared with EUR 25.4 billion in 2021. The Bank remains on track to achieve these targets with revenues of around EUR 30 billion expected for 2024

Earnings Combined Building Block (BB) Assessment: Good/Moderate

In Morningstar DBRS¿ view, DB¿s core profitability has improved significantly over recent years driven by the restructuring programme implemented since 2019. This continued in 2023 and Q1 2024, although the overall profitability in 2024 will be affected by the Postbank one-off litigation provision. Higher rates have benefited net interest income since 2022, although this should be normalising in 2024. On top of this, increased capital market volatility since 2020 has overall benefited results from financial activities and contribution from the investment banking activities. The significant cost savings programmes have also supported results as operating efficiency continued to improve whilst leaving room for additional investments in the franchise and to absorb inflationary pressures.In 2023, the Bank reported a net attributable income of EUR 4.9 billion compared with EUR 5.5 billion in 2022 due to higher income tax expense. However, pre-tax profit was EUR 5.7 billion, in line with 2022 and significantly up from previous years. The return on average equity (ROAE) was 6.7% in 2023 compared with 8.4% in 2022, which remains well above the run rate of 2021 and 2020. Results benefited from higher revenues, driven by strong performances of the private bank and the corporate bank as well as positive operating jaws despite higher loan loss provisions resulting from the still challenging macroeconomic environment. Net attributable income was EUR 1.3 billion in Q1 2024, up 10% compared with Q1 2023 and further evidencing the progress made by the bank. The ROAE was 7.8%, up from 7.4% in Q1 2023. This was mainly driven by revenue resiliency, aided by the investment bank and asset management business, and lower operating expenses, which offset higher provisions for credit losses.

Risk Combined Building Block (BB) Assessment: Good

In Morningstar DBRS¿ view, DB¿s credit risk profile is sound, benefitting from a large exposure to its stable German home market, and a diversified loan book in terms of geographies and business segments. Since the financial crisis, risk management has improved further, with refined systems, reduced concentration risk, and collateral or hedges. Despite current challenges such as a weaker global economy, geopolitical conflicts and supply chain disruptions and more recently, turmoil in the commercial real estate markets, Morningstar DBRS views the bank¿s starting point as sound, leaving enough room to absorb a deterioration in asset quality. Operational risk has decreased in Morningstar DBRS¿ view, as DB has made progress in improving its anti-money laundering (AML) and other internal control procedures and has been resolving outstanding litigation cases. Whilst this is an ongoing process with legacy issues still impacting, as illustrated by the Postbank litigation provision to be booked in Q2 2024, Morningstar DBRS expects this to be much less of a burden compared with past years. Despite the challenging environment, asset quality metrics have only slightly deteriorated, mainly due to the bank¿s exposure to commercial real estate (CRE). The Bank¿s Stage 3 loan ratio was 3.1% in Q1 2024 from 2.8% at end-2023 and 2.7% in Q1 2023. Nevertheless, Morningstar DBRS continues to view this as manageable. The annualised cost of risk (CoR) stood at 37 basis points (bps), a level still high compared with global peers. This was driven by Bank¿s CRE portfolio in the investment bank and operational backlog in the private bank. Despite this, Morningstar DBRS expects the CoR to normalise and sit at the higher end of the 25-30 bps guidance for 2024, as provisions should decline, thanks to the anticipated improvement in CRE and partial releases of provisions in the Private Bank.

Funding and Liquidity Combined Building Block (BB) Assessment: Strong
Morningstar DBRS views DB¿s funding profile as robust and well-managed, supported by a diverse and stable deposit franchise and a modest reliance on wholesale funding. The Group has a large customer base, which is the Bank¿s main source of funding, with consolidated customer deposits of EUR 635 billion at end-March 2024, up from EUR 622 billion at end-2023, and accounting for around 51% of total liabilities. At end-March 2024, the bank¿s loan-to-deposit (LTD) ratio (as calculated by Morningstar DBRS) of 75%, fairly stable from end-2023. Another factor supporting the credit ratings is the Bank's solid liquidity position. At end-March 2024, DB¿s total high quality liquid assets (HQLA) remained high at around EUR 222 billion. Also confirming a solid liquidity position, the Bank reported LCR and NSFR ratios well above the regulatory requirements of 136% and 123%, respectively, at end-March 2024.

Capitalisation Combined Building Block (BB) Assessment: Strong/Good
DB¿s capitalisation remains robust, thanks to an improving internal capital generation capacity and regular access to wholesale capital markets. At end-March 2024, the CET1 capital ratio was 13.4%, down 31 bps since end-2023, driven by a share buyback of EUR 675 million (approved by the ECB), which more than offset organic capital generation. Morningstar DBRS also notes that DB reported higher risk-weighted assets, up 1.5% QOQ, on the back of business growth. The total capital ratio was 18.2% at end-March 2024. As a result, the bank maintained comfortable buffers over the minimum SREP CET1 capital ratio requirement of 11.13%, and of 15.79% for Total Capital ratio. In addition, Morningstar DBRS notes that DB comfortably meets the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) standards with the MREL ratio being 35% over risk-weighted assets (RWAs), well above the 30% requirement. Finally, DB¿s total loss-absorbing capacity (TLAC) at 31% is sound, compared with a requirement of 24% over RWAs.

Further details on the Scorecard Indicators and Building Block Assessments can be found at https://www.dbrsmorningstar.com/research/435054.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE CONSIDERATIONS

There were no Environmental, or Social factors that had a significant or relevant effect on the credit analysis

Governance (G) Factors

The Governance factor does not affect the credit ratings or the trend assigned to Deutsche Bank. However, as a result of shortcomings in the Bank¿s Anti-Money Laundering (AML) framework and deficiencies in the Bank¿s internal control issues, the Corporate Governance subfactor is still considered as relevant. This has been reflected in the Bank¿s risk building block grades. The Bank has made progress regarding its internal controls and AML framework, but is still subject to regulatory scrutiny, which carries the potential for financial penalties. More recently, DB¿s asset manager DWS was fined EUR 21 billion to end a U.S. investigation related to `greenwashing¿ in the context of ESG assets. An outsized fine related to AML or other could have an impact on the ratings or the trend in the future. Finally, the unfavourable ruling related to the Postbank acquisition will result in a significant provision affecting the Bank¿s Q2 2024 profit.

A description of how Morningstar DBRS considers ESG factors within the Morningstar DBRS analytical framework can be found in the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (23 January 2024) https://dbrs.morningstar.com/research/427030.

Notes:
All figures are in euros unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (4 June 2024) https://dbrs.morningstar.com/research/43388.. In addition Morningstar DBRS uses the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (23 January 2024) https://dbrs.morningstar.com/research/427030 in its consideration of ESG factors.

The credit rating methodologies used in the analysis of this transaction can be found at: https://dbrs.morningstar.com/about/methodologies.

The sources of information used for these credit ratings include Morningstar Inc. and company documents. Other sources include Deutsche Bank Q1 2024 and 2023 Reports, Deutsche Bank Q1 2024 and 2023 Investor Presentations, Deutsche Bank Q1 2024 and 2023 Press Releases, Deutsche Bank Q1 2024 and 2023 Fixed Income Presentations and Deutsche Bank Q1 2024 and 2023 Pillar III Reports. Morningstar DBRS considers the information available to it for the purposes of providing these credit ratings to be of satisfactory quality.

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

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

For further information on Morningstar DBRS historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: https://registers.esma.europa.eu/cerep-publication. For further information on Morningstar DBRS historical default rates published by the Financial Conduct Authority (FCA) in a central repository, see https://data.fca.org.uk/#/ceres/craStats.

The sensitivity analysis of the relevant key credit rating assumptions can be found at: https://www.dbrsmorningstar.com/research/435053.

These credit ratings are endorsed by DBRS Ratings Limited for use in the United Kingdom.

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Ratings

Deutsche Bank AG

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
26-Jun-24	Long-Term Issuer Rating	Trend Change	A	Pos	EU U
26-Jun-24	Long-Term Issuer Rating	Confirmed	A	Stb	EU U
26-Jun-24	Short-Term Issuer Rating	Trend Change	R-1 (low)	Pos	EU U
26-Jun-24	Short-Term Issuer Rating	Confirmed	R-1 (low)	Stb	EU U
26-Jun-24	Senior Non-Preferred Debt	Confirmed	A (low)	Stb	EU U
26-Jun-24	Senior Non-Preferred Debt	Trend Change	A (low)	Pos	EU U
26-Jun-24	Short-Term Debt	Confirmed	R-1 (low)	Stb	EU U
26-Jun-24	Short-Term Debt	Trend Change	R-1 (low)	Pos	EU U
26-Jun-24	Short-Term Deposits	Confirmed	R-1 (low)	Stb	EU U
26-Jun-24	Short-Term Deposits	Trend Change	R-1 (low)	Pos	EU U
26-Jun-24	Long Term Critical Obligations Rating	Trend Change	AA (low)	Pos	EU U
26-Jun-24	Long Term Critical Obligations Rating	Confirmed	AA (low)	Stb	EU U
26-Jun-24	Short Term Critical Obligations Rating	Trend Change	R-1 (middle)	Pos	EU U
26-Jun-24	Short Term Critical Obligations Rating	Confirmed	R-1 (middle)	Stb	EU U
26-Jun-24	Long-Term Deposits	Confirmed	A	Stb	EU U
26-Jun-24	Long-Term Deposits	Trend Change	A	Pos	EU U
26-Jun-24	Long-Term Senior Debt	Confirmed	A	Stb	EU U
26-Jun-24	Long-Term Senior Debt	Trend Change	A	Pos	EU U

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