

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

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

### KEY RATING CONSIDERATIONS

The trend change to Positive from Stable reflects the significant progress DB has made in executing its transformation programme, which in DBRS Morningstar's view has strengthened the Bank's franchise and started to lead to higher and more sustainable profitability, while still maintaining solid capital ratios and a well-managed risk profile. The Positive trend is also supported by DBRS Morningstar's expectation that DB will continue to improve profitability as restructuring and transformation costs have now been absorbed and the benefits of the cost reduction measures will be visible in a lower cost base going forward.

DB's ratings continue to reflect the Bank's global franchise and strong position in Germany. DB's diversified business model helped the Bank navigate recent years when strong investment banking results have offset pressure on net interest income and certain fee income categories. However, the ratings are constrained by DB's moderate profitability compared to its global universal banking peers, as well as by the Bank's need to further improve internal controls and processes, most notably related to Anti Money Laundering Issues (AML). The Bank is also facing an investigation by U.S. and German authorities regarding potential 'greenwashing' at its asset management division DWS. In addition, the uncertainty related to the current global economic environment could have a detrimental effect on DB's credit metrics.

### RATING DRIVERS

The ratings would be upgraded if the Bank continues on its trajectory of higher and more sustainable profitability, while further strengthening its corporate governance functions.

The ratings would be downgraded in case of a sustained revenue decline or material market share losses in the Bank's core businesses. Also, any unexpected events that negatively impact the Bank's financial position or its reputation could also lead to a negative rating action.

### RATING RATIONALE

Franchise Combined Building Block (BB) Assessment: Strong

DB is one of the largest financial institutions globally with total assets of EUR 1.3 trillion at end-Q1 2022. The Bank offers a wide range of products and services across its well established franchises in Investment Banking, Private Banking (including Retail), Corporate Banking and Asset Management. In July 2019, DB announced a strategic transformation programme, which has been

successfully executed, so far. In our view DB has become more focused, more stable, and more profitable. In March 2022, the Bank 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. While we note the disciplined execution and the positive business momentum, the current economic uncertainty, especially high energy prices and global measures to fight inflation, could adversely affect growth perspectives.

#### Earnings Combined Building Block (BB) Assessment: Moderate/Weak

In DBRS Morningstar's opinion DB has made significant progress on its path to higher and more sustainable earnings, albeit still at lower levels compared to other global banking peers. DB reported a full-year 2021 pre-tax profit of EUR 3.4 billion and an after-tax profit of EUR 2.5 billion, up significantly from EUR 1.0 billion and EUR 0.6 billion respectively in the previous year. The improvement was due to a variety of factors such as a positive operating environment for the Investment Bank and Asset Management in particular, the increased benefits from the Bank's restructuring program, success in deposit repricing and a benign credit environment. The return on average tangible equity (ROATE) was 3.8%, still low but up from 0.2% a year earlier. The positive trend continued in Q1 2022, with a cost/income ratio of 73% down from 77% in Q1 2021, and an ROATE of 8.1%, up from 7.4% a year earlier. We anticipate some headwinds due to factors such as a likely slowdown in economic activity and inflation, but also see support from continued capital market volatility, higher interest rates and a declining cost base as previous cost cutting measures are taking hold.

#### Risk Combined Building Block (BB) Assessment: Strong/Good

In DBRS Morningstar's view, DB has maintained a good credit risk profile and credit losses have historically been low. At end-Q1 2022, the Bank's gross NPL ratio (Stage 3 loans to total customer loans) was 2.5%. We are closely monitoring DB's credit risk, as bank customers are facing new challenges following Russia's invasion of Ukraine at a time when the impact from the COVID-19 pandemic is still ongoing. Following years of de-risking, DB's market risks and operational risk have declined. However, in volatile markets market risk can still potentially cause significant disruptions to investment banks. There has been ongoing scrutiny by DB's regulators in relation to Anti Money Laundering (AML) processes. While progress has been made, more efforts are required. More recently, DB's asset manager DWS has faced allegations with regards to 'greenwashing' in the context of ESG assets. We are closely monitoring whether these issues could lead to financial or reputational risk impacting the franchise.

#### Funding and Liquidity Combined Building Block (BB) Assessment: Strong

DBRS Morningstar considers DB's funding profile as sound, supported by a strong deposit franchise and a diversified wholesale funding profile. The Bank has a comprehensive framework in place to manage its liquidity. DB's deposit franchise continues to support the overall funding profile, with EUR 519 billion of deposits from customers and a loan-to-deposit ratio (based on DBRS Morningstar methodology) of 89.5% as of end-2021. The Bank reported liquidity reserves of EUR 241 billion at end-2021, stable against the EUR 243 billion at end-2020. The liquidity coverage ratio (LCR) was 142% and the net stable funding ratio (NSFR) was 121%, both comfortably above the 100% minimum requirement.

#### Capitalisation Combined Building Block (BB) Assessment: Moderate

DBRS Morningstar views DB's capitalisation as providing a sufficient cushion to absorb potential losses, changes to risk weighted assets (RWAs) and new regulatory requirements. While DB's capital generation capacity has improved since the Bank has returned to profitability, it is still somewhat constrained when compared to peers. At end-Q1 2022, DB's CET1 ratio was 12.8% compared to 13.7% a year earlier and 13.2% at end-2021, but still comfortably above the minimum regulatory requirement of 10.43%. Most of the decline was attributable to the ECB-mandated model adjustments, higher risk weights on Russia-related exposures, and

business growth. The Bank anticipates a CET1 ratio of 13% or higher by end-2022, with increased organic capital generation offsetting RWA growth and negative pressure from distributions. By February 1, 2023 banks operating in Germany have to fully comply with a countercyclical buffer of 0.75% of risk-weighted German receivables and sectoral systemic risk buffer of 2.0% of risk-weighted German receivables backed by residential real estate which is expected to add approximately 50 basis points to capital requirements.

Further details on the Scorecard Indicators and Building Block Assessments can be found at <https://www.dbrsmorningstar.com/research/399162>

## ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

### Governance (G) Factors

At this point, the Governance factor does not affect the ratings or trend assigned to Deutsche Bank. However, as a result of shortcomings in the Bank's Anti-Money Laundering (AML) framework, the 'Corporate / Transaction Governance' subfactor is considered as relevant. This Governance factor is new and was not present in the prior credit rating disclosure. This has been reflected in the Bank's risk building block grades.

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings at <https://www.dbrsmorningstar.com/research/396929/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings>.

### Notes:

All figures are in EUR unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (23 June 2022) <https://www.dbrsmorningstar.com/research/398693/dbrs-morningstar-publishes-updated-global-methodology-for-rating-banks-and-banking-organisations> Other applicable methodologies include the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (17 May 2022) <https://www.dbrsmorningstar.com/research/396929/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings>

The sources of information used for this rating include Morningstar Inc. and Company Documents, Deutsche Bank Annual Accounts (2015 - Q1 2022), Deutsche Bank Investor Presentations (2015 - Q1 2022), Dealogic, and Coalition. DBRS Morningstar considers the information available to it for the purposes of providing this rating to be of satisfactory quality.

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

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

For further information on DBRS Morningstar historical default rates published by the European Securities and Markets Authority

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

The sensitivity analysis of the relevant key rating assumptions can be found at: <https://www.dbrsmorningstar.com/research/399161>

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

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