FitchRatings

Deutsche Bank AG

Update

Banks
Universal Commercial Banks
Germany

Ratings

Deutsche Bank AG

Long-Term IDR	BBB+
Short-Term IDR	F2
Viability Rating	bbb+
Government Support Rating	ns

Sovereign Risk (Germany)

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

Outlooks

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

Applicable Criteria

Bank Rating Criteria (September 2022)

Related Research

Deutsche Bank AG (September 2022)
Fitch Affirms Deutsche Bank at 'BBB+'; Outlook Positive (September 2022)
Global Economic Outlook (September 2022)
German, Italian Bank Prospects at Risk from Russian Gas Cut-Off (August 2022)

Key Rating Drivers

Deutsche Bank AG's ratings reflect the bank's good restructuring progress and the stabilisation of its business model, with most significant revenue improvement and franchise stabilisation at its Investment Bank (IB). They also reflect the bank's sound asset quality, funding and liquidity and adequate capitalisation. The ratings remain constrained by weak historical earnings, which Fitch Ratings expects to further improve as the restructuring nears completion.

German Recession Likely in 2023: Surging energy prices and supply-chain disruptions drove inflation in the eurozone to a multi-decade high in 2022, with an expected dampening effect on eurozone economic growth in the next quarters. Fitch expects a recession combined with high inflation in Germany in 2023 due to the halt in Russian gas exports.

Restructuring Nears Completion: The positive outlook on the bank's business profile score signals our expectation that the revenue contribution and cost-to-income ratio of its Corporate Bank (CB) and Private Bank (PB) will improve. Successful execution of the cost-reduction plans in combination with stable revenue is key to mitigating the earnings volatility inherent in the IB and should result in a business profile score that is commensurate with the 'a' category.

Improving Risk Controls: Large investments and improved anti-financial crime controls since 2019 have reduced litigation costs and regulatory fines, even though the bank's business model will remain exposed to these risks. Appetite for market risk is fairly limited despite sizeable trading operations, but the leveraged lending business remains exposed to valuation losses.

Asset Quality Rating Strength: Deutsche Bank's impaired loans ratio has so far been resilient due to the bank's large exposure to Germany and its good record of managing credit risk globally. We expect defaults to rise as the economic environment deteriorates, but the bank's exposure to borrowers that are more vulnerable to a halt in Russian gas supply is manageable. Our expectation that the impaired loans ratio will exceed 3% in the next two years drives the negative outlook on the asset quality score. Non-loan assets generally carry low credit risk.

Improving Earnings: The bank's operating profit/risk-weighted assets (RWAs) weighs on the ratings and is still weaker than most global peers', which tend to benefit from better pricing power in their home markets. The positive outlook on the profitability score signals our expectation that rising net interest income (NII) and lower operating costs will offset higher loan-impairment charges (LICs) in 2H22 and 2023 and maintain operating profits/RWAs above 1%.

Adequate Capitalisation: Capitalisation metrics are adequate in light of declining restructuring risk, and reflect the bank's improving, but still modest, capital generation relative to peers. We expect the common equity Tier 1 (CET1) capital ratio to remain above the management's 12.5% floor in the next two years. The fully-loaded leverage ratio is on track to meet the bank management's target of around 4.5% from 2022, as improved capital generation and additional Tier 1 capital issuance should offset exposure growth.

Diversified Funding; Comfortable Liquidity: The bank's solid domestic deposit franchise limits its reliance on wholesale funding. The latter is well-diversified but remains more confidence-sensitive than most peers'. Excess liquidity from deposit inflows and central bank tenders (TLTRO) has been deployed in lending. We expect liquidity to remain close to the management's target as weaker loan growth should offset declining deposit inflows and maturing TLTRO.

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

The Positive Outlook and the ratings could come under pressure if the bank fails to execute its cost-reduction plan or if revenue significantly declines due to market-wide disruptions or franchise erosion in core businesses relative to its peers'. Rating pressure would also arise if the global economic downturn hinders adequate profits, for example by triggering persistently high LICs and eroding the CET1 ratio materially below 12.5% without swift recovery prospects.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of the Viability Rating (VR) and Long-Term Issuer Default Rating (IDR) would require a moderate impact of the economic downturn on the bank's capitalisation, with CET1 and leverage ratios sustainably above 12.5% and 4.5%, respectively. An upgrade would also require better efficiency and sustainable, balanced revenue resulting in an operating profit/RWAs of at least 1.5% on average, with good prospects of maintaining sound profits in the long term.

An upgrade of the Long-Term IDR would lead to an upgrade of the Short-Term IDR only if we upgrade the funding & liquidity score to 'a' from 'a-'. This would require maintaining a liquidity buffer in line with management's targets and clear evidence (such as tighter funding spreads, driven by more certainty that the bank's business model and capital generation are firmly strengthening) that the bank's funding has become durably less sensitive to market confidence levels.

Other Debt and Issuer Ratings

	Deutsche Bank AG	Deutsche Bank Australia Ltd.	Deutsche Bank Trust Corporation	Deutsche Bank AG, London Branch	Deutsche Bank Securities, Inc.	Deutsche Bank Trust Company Americas
IDRs	BBB+/Positive/F2		BBB+/Positive/F2	BBB+/Positive/F2	BBB+/Positive/F2	BBB+/Positive/F2
VR	bbb+					
Government Support Rating	ns					
Shareholder Support Rating			bbb+		bbb+	bbb+
Derivative Counterparty Rating	A-(dcr)			A-(dcr)	A-(dcr)	
Deposits	A-/F2			A-/F2		
Senior Preferred Debt	A-/F2			A-/F2		
Senior Non-Preferred Debt	BBB+			BBB+		
Senior Unsecured Debt		F2				F2
Subordinated Tier 2 Notes	BBB-			BBB-		
Hybrid Tier 1 Notes[a]	BB					
State-Guaranteed Notes	A+					

[a] Includes notes issued by Deutsche Postbank Funding Trust I and III
Source: Fitch Ratings

The bank's Derivative Counterparty Rating (DCR), long-term deposit and senior preferred (SP) debt ratings are one notch above its Long-Term IDR, and the senior non-preferred (SNP) debt rating is aligned with the Long-Term IDR. This reflects the protection of preferred creditors by large SNP and junior debt buffers (18.1% of RWAs at end-1H22). The buffers are underpinned by the bank's subordinated minimum requirement for own funds and eligible liabilities (MREL) of 24.8% of RWAs, which is higher than its total loss-absorbing capacity (TLAC) requirement of 22.5%.

We rate the Tier 2 notes two notches below the VR to reflect the above-average loss severity arising from their subordination. We rate Deutsche Bank's CRR-compliant additional Tier 1 (AT1) notes and legacy Tier 1 notes issued by Deutsche Postbank Funding Trust I and III four notches below the VR (two notches for deep subordination and two notches for non-performance risk given their non-easily activated coupon omission). At end-1H22, the bank had a broadly stable and sufficient buffer of 253bp over the minimum required to pay coupons on its CRR-compliant AT1s.

Senior and Tier 2 bonds issued by DSL Bank are notched up three times from Deutsche Bank's Long-Term IDR, reflecting their outstanding recovery prospects. The German government (AAA/Stable), which guarantees these bonds until maturity, is extremely likely to fully reimburse the grandfathered creditors if Deutsche Bank defaults. However, we see no certainty that a reimbursement would be on a timely basis as the DSL Transformation Act from 1999, on which the state guarantee is based, does not oblige the government to honour the guarantee on first demand.

Significant Changes from Last Review

Deutsche Bank's performance in 3Q22 was a continuation of the positive momentum built in 1H22. Operating profits remained resilient through the quarter, driven by persistently high fixed-income and currency trading volumes, as well as higher interest rates on the liquidity portfolio and the corporate and private bank loan books.

Deutsche Bank reported a return on tangible common equity of 8% in 9M22, in line with its target for the full year. We expect revenue to increase to above EUR27 billion in 2022 (2021: EUR25 billion). Seasonally lower new business in 4Q22 should be more than offset by persistent high volatility in the fixed-income and currency markets so far this year, a gain of about EUR0.3 billion from the sale of Deutsche Bank Financial Advisors in Italy and the realisation of deferred tax assets.

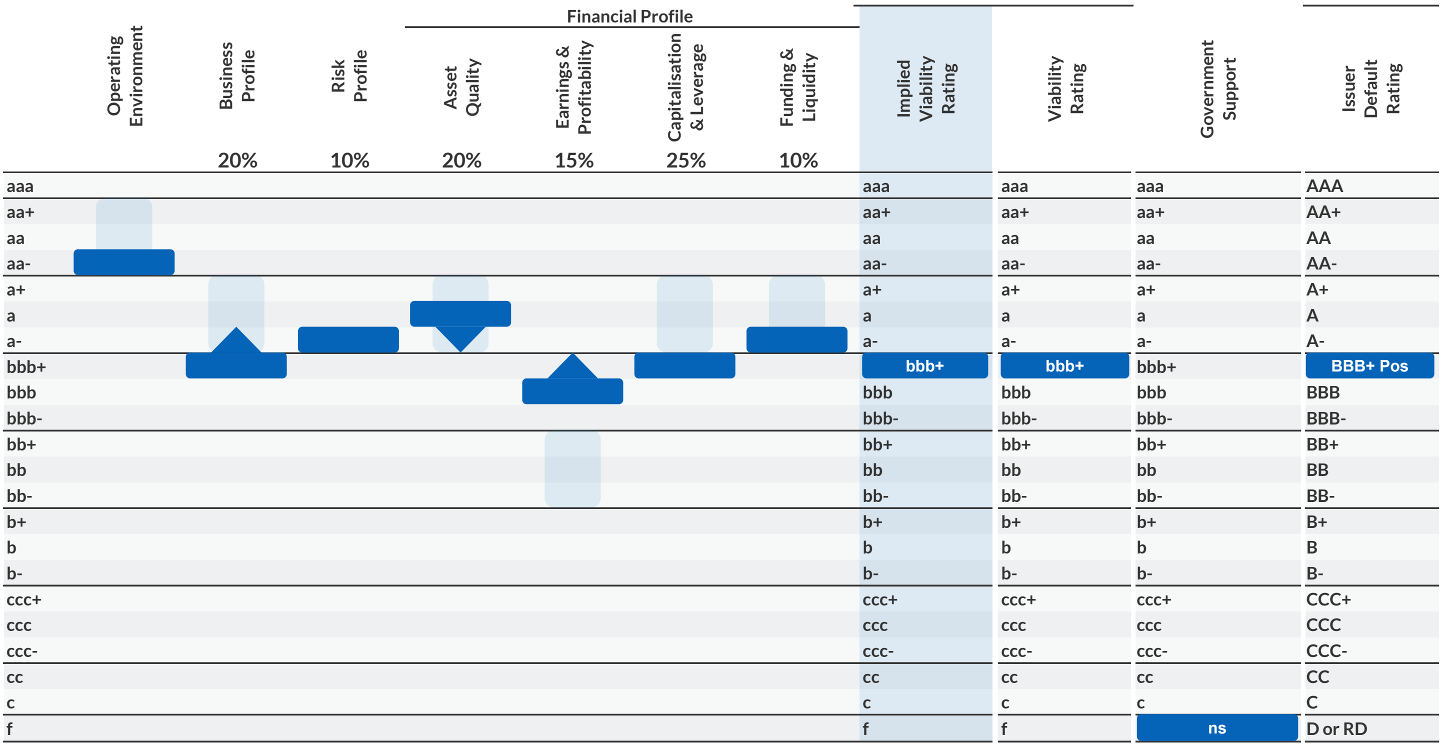
Higher interest rates will continue to support revenue growth in 2023, in excess of the management's initial expectations. Based on end-3Q22 forward rates and a static end-2021 balance sheet, the bank now expects its NII to rise by more than EUR1 billion (+9%) in 2023 and by over EUR3 billion (+27%) in 2025 from 2021 levels. However, this growth will be partially offset by the revision in TLTRO conditions, higher funding spreads and the shift from sight to more expensive term deposits.

Operating expenses, excluding restructuring and transformation charges, were higher yoy in 3Q22 due to wage inflation, investments in risk controls and the US Dollar appreciation. The bank also postponed the finalisation of the integration of its two IT platforms in German private banking to 2H23 instead of end-2022 and earmarked EUR200 million of expenses above plan.

LICs increased to 24bp of gross loans in 9M22 (9M21: 8bp), mainly driven by precautionary provisions in 1H22 and a few larger Stage 3 events in 3Q22. We understand that the latter are episodic and not indicative of an emerging trend. The bank's management reiterated its LICs guidance of 25bp for 2022, which remains slightly lower than the average for large European banks. The impaired loans ratio was unchanged qoq as loan growth compensated for Stage 3 inflows.

The bank's CET1 ratio improved to 13.3% at end-3Q22 (end-1H22: 13.0%) due to earnings retention and flat RWAs. We expect the CET1 ratio to remain around 13% also at end-2022. Deutsche Bank's EUR1.25 billion AT1 issue in November 2022 also puts it on track to meet the management's leverage ratio target of about 4.5% at end-2022 (end-3Q22: 4.3%).

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The business profile score of 'bbb+' is below the 'a' category implied score, due to the following adjustment reason: strategy and execution (negative).

The earnings and profitability score of 'bbb' is above the 'bb' category implied score, due to the following adjustment reason: historical and future metrics (positive).

The capitalisation and leverage score of 'bbb+' is below the 'a' category implied score, due to the following adjustment reason: internal capital generation and growth (negative).

Financials

Financial Statements

	30 Sep 22		31 Dec 21	31 Dec 20	31 Dec 19
	9 months - 3rd quarter (USDm)	9 months - 3rd quarter (EURm)	Year end (EURm)	Year end (EURm)	Year end (EURm)
Summary income statement					
Net interest and dividend income	9,663	9,913	11,155	11,526	13,749
Net fees and commissions	7,464	7,657	10,934	9,424	9,520
Other operating income	3,324	3,410	3,322	3,079	36
Total operating income	20,451	20,980	25,411	24,029	23,305
Operating costs	14,900	15,285	21,523	21,247	24,056
Pre-impairment operating profit	5,551	5,695	3,888	2,782	-751
Loan and other impairment charges	853	875	493	1,761	706
Operating profit	4,699	4,820	3,395	1,021	-1,457
Other non-operating items (net)	0	0	-5	0	-1,177
Tax	1,111	1,140	880	397	2,631
Net income	3,587	3,680	2,510	624	-5,265
Other comprehensive income	1,647	1,690	1,334	-1,386	-808
Fitch comprehensive income	5,235	5,370	3,844	-762	-6,073
Summary balance sheet					
Assets					
Gross loans	490,238	502,911	476,074	431,803	427,630
- Of which impaired	11,484	11,781	11,925	11,848	9,567
Loan loss allowances	4,849	4,974	4,754	4,808	3,990
Net loans	485,390	497,937	471,320	426,995	423,640
Interbank	9,350	9,592	7,342	9,130	15,837
Derivatives	385,040	394,993	299,732	343,455	332,931
Other securities and earning assets	232,982	239,005	230,001	249,755	258,443
Total earning assets	1,112,762	1,141,527	1,008,395	1,029,335	1,030,851
Cash and due from banks	177,463	182,050	192,021	166,208	137,592
Other assets	170,093	174,490	123,577	129,716	129,231
Total assets	1,460,318	1,498,067	1,323,993	1,325,259	1,297,674
Liabilities					
Customer deposits	614,872	630,766	519,435	492,599	499,352
Interbank and other short-term funding	7,795	7,996	142,484	124,643	124,171
Other long-term funding	198,527	203,659	150,149	154,634	144,626
Trading liabilities and derivatives	425,187	436,178	341,826	372,091	353,571
Total funding and derivatives	1,246,380	1,278,599	1,153,894	1,143,967	1,121,720
Other liabilities	144,319	148,050	101,541	117,775	111,781
Preference shares and hybrid capital	7,633	7,830	8,833	7,145	6,678
Total equity	61,986	63,588	59,725	56,372	57,495
Total liabilities and equity	1,460,318	1,498,067	1,323,993	1,325,259	1,297,674
Exchange rate		USD1 = EUR1.02585	USD1 = EUR0.884173	USD1 = EUR0.821963	USD1 = EUR0.89015

Source: Fitch Ratings

Key Ratios

	30 Sep 22	31 Dec 21	31 Dec 20	31 Dec 19
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	1.8	1.0	0.3	-0.5
Net interest income/average earning assets	1.3	1.1	1.1	1.3
Non-interest expense/gross revenue	73.5	85.0	88.9	103.7
Net income/average equity	8.0	4.3	1.1	-8.6
Asset quality				
Impaired loans ratio	2.3	2.5	2.7	2.2
Growth in gross loans	5.6	10.3	1.0	5.7
Loan loss allowances/impaired loans	42.2	39.9	40.6	41.7
Loan impairment charges/average gross loans	0.2	0.1	0.4	0.2
Capitalisation				
Common equity Tier 1 ratio	13.3	13.2	13.6	13.6
Fully loaded common equity Tier 1 ratio	13.3	13.2	0.0	13.6
Tangible common equity/tangible assets	3.4	3.9	3.7	3.8
Basel leverage ratio	4.3	4.9	4.8	4.3
Net impaired loans/common equity Tier 1	13.8	15.4	15.8	12.6
Funding and liquidity				
Gross loans/customer deposits	79.7	91.7	87.7	85.6
Liquidity coverage ratio	136.0	133.1	144.8	141.2
Customer deposits/total non-equity funding	69.4	59.3	59.8	61.5
Net stable funding ratio	116.0	121.0	n.a.	n.a.

Source: Fitch Ratings

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	A+ to A-
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	ns
Government ability to support D-SIBs	
Sovereign Rating	AAA/ Stable
Size of banking system	Negative
Structure of banking system	Neutral
Sovereign financial flexibility (for rating level)	Positive
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Negative
Government propensity to support bank	
Systemic importance	Neutral
Liability structure	Neutral
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

Deutsche Bank's Government Support Rating (GSR) of 'no support' reflects our view that, due to German resolution legislation, senior creditors cannot rely on receiving full extraordinary state support if the bank becomes non-viable.

Subsidiaries and Affiliates

Deutsche Bank AG, London Branch's ratings are equalised with Deutsche Bank's as they refer to the same legal entity. The IDRs of Deutsche Bank's US subsidiaries Deutsche Bank Securities, Inc., Deutsche Bank Trust Corporation and Deutsche Bank Trust Company Americas are based on their SSRs, which are aligned with Deutsche Bank's Long-Term IDR. This reflects the subsidiaries' high integration and core roles in supporting the group's capital-market activities.

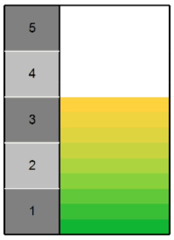
Deutsche Bank Australia Ltd.'s commercial paper programme rating is aligned with Deutsche Bank's short-term preferred debt ratings based on the strong support available from the parent.

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

The ratings of the above-mentioned entities are primarily sensitive to Deutsche Bank's IDRs, from which they are derived. The subsidiaries' ratings are also sensitive to a perceived decline in their strategic importance to the group.

Environmental, Social and Governance Considerations

Overall ESG



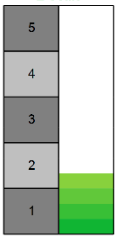
How relevant are E, S and G issues to the overall credit rating?

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.

Environmental (E)

General Issues	Score	Impact	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1		n.a.	n.a.
Energy Management	1		n.a.	n.a.
Water & Wastewater Management	1		n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1		n.a.	n.a.
Exposure to Environmental Impacts	2		Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality

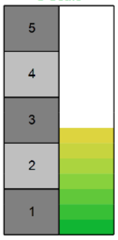
E Scale



Social (S)

General Issues	Score	Impact	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	2		Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile
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; Business Profile (incl. Management & governance); Risk Profile
Labor Relations & Practices	2		Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)
Employee Wellbeing	1		n.a.	n.a.
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	Business Profile (incl. Management & governance); Financial Profile

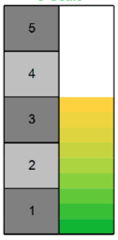
S Scale



Governance (G)

General Issues	Score	Impact	Sector-Specific Issues	Reference
Management Strategy	3		Operational implementation of strategy	Business Profile (incl. Management & governance)
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	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage
Group Structure	3		Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)
Financial Transparency	3		Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)

G Scale



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.