FitchRatings

Banks
Universal Commercial Banks
Germany

Deutsche Bank AG

Update

Key Rating Drivers

Restructuring Progressing: Deutsche Bank AG's Issuer Default Ratings (IDRs) and Viability Rating (VR) reflect good progress and manageable remaining challenges associated with the bank's restructuring. The restructuring is on track, raising prospects for an improved assessment of the bank's company profile and earnings. In Fitch Ratings' view, risks to the bank's asset quality and capitalisation have significantly subsided since end-2020 and are increasingly manageable owing to the good economic outlook and the normalisation of economic activities.

Profitability Still Low but Improving: Profitability remains well below that of most other global trading and universal banks, but it strongly improved in 1H21 amid benign and volatile market conditions conducive to exceptionally strong investment banking (IB) revenue. We expect profitability to remain fairly robust into 2H21 as the cost reduction plan progresses. The economic recovery should support further releases of the pandemic-driven loan impairment charges (LICs) booked in 2020, which the bank started to gradually release in 1H21.

Asset Quality Resilient Through Pandemic: Deutsche Bank's solid asset quality and prudent underwriting are rating strengths. As at peers, its Stage 3 loans ratio, including purchased or originated credit-impaired loans, decreased to 2.6% at end-1H21 (from 2.9% at end-2020) as fiscal support strongly benefited more vulnerable borrowers. The bank's revised LIC ratio guidance of 20bp for 2021 appears conservative in light of the low 7bp booked in 1H21. Significant asset quality deterioration in 2H21 appears increasingly unlikely.

Adequate Capitalisation: The bank has maintained a satisfactory common equity Tier 1 (CET1) ratio through the pandemic. The decline to 13.2% at end-1H21 from 13.6% at end-2020 mainly results from regulatory inflation of credit risk-weighted assets (RWAs) which outweighs reduced market and operational risk RWAs. Deutsche Bank expects a net impact of minus 20bp on its CET1 ratio from further regulatory-driven RWAs inflation in 2H21. The ratio offers sufficient headroom to remain above the management's limit of 12.5%.

Comfortable Liquidity Reserves: The liquidity reserves of EUR254 billion and Liquidity Coverage Ratio of 143% at end-1H21 exceed the management's longer-term targets. The reserve increased in 2020 and 1H21 as the bank made, like peers, extensive and opportunistic use of the ECB's TLTRO III. The relative strength of Deutsche Bank's liquidity profile underpins its 'F2' Short-Term IDR, the higher of two options mapping to its Long-Term IDR.

Rating Sensitivities

Continued Restructuring Progress: The ratings could be upgraded if the restructuring stays on track, maintaining sustainable revenue growth in the Corporate Bank (CB) and the Private Bank (PB), revenue trends in IB broadly in line with the market, further cost reductions and wind-down progress in the Capital Release Unit. We could upgrade the ratings if we expect the bank to maintain an operating profit/RWAs of 1.2%-1.5% by end-2022 and a positive trend thereafter, while keeping CET1 and leverage ratios at a minimum of 12.5% and 4.5%, respectively.

Failure to Progress with Plan: The Outlook and ratings could come under pressure if the bank fails to consistently adhere to its cost reduction plan, if it significantly misses its revenue targets for its key business line, or if we see evidence of franchise erosion in core businesses relative to peers. Rating pressure would also arise if economic setbacks hindered 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

Foreign Currency	
Long-Term IDR	BBB
Short-Term IDR	F2
Derivative Counterparty Rating	BBB+(dcr)
Local Currency	
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
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (February 2020)

Related Research

Fitch Revises Deutsche Bank's Outlook to Positive; Affirms IDR at 'BBB' (January 2021)

Deutsche Bank AG (January 2021)

Large European Banks Quarterly Credit Tracker – June 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. The buffer is underpinned by Deutsche Bank's Minimum Requirement for Own Funds and Eligible Liabilities (MREL) and Total Loss Absorbing Capacity (TLAC) requirements and large stock of senior non-preferred debt. 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 intermediate holding company, DB USA Corporation.

Subordinated Debt Notched Down from VR

Deutsche Bank's Tier 2 notes are notched down twice from the VR to reflect the notes' higher loss severity. The Capital Requirements Regulation (CRR)-compliant AT1 and 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 is two notches for the securities' above-average loss severity and two notches for their high non-performance risk given their partial discretionary coupon omission.

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

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

Subsidiaries and Branches[a]

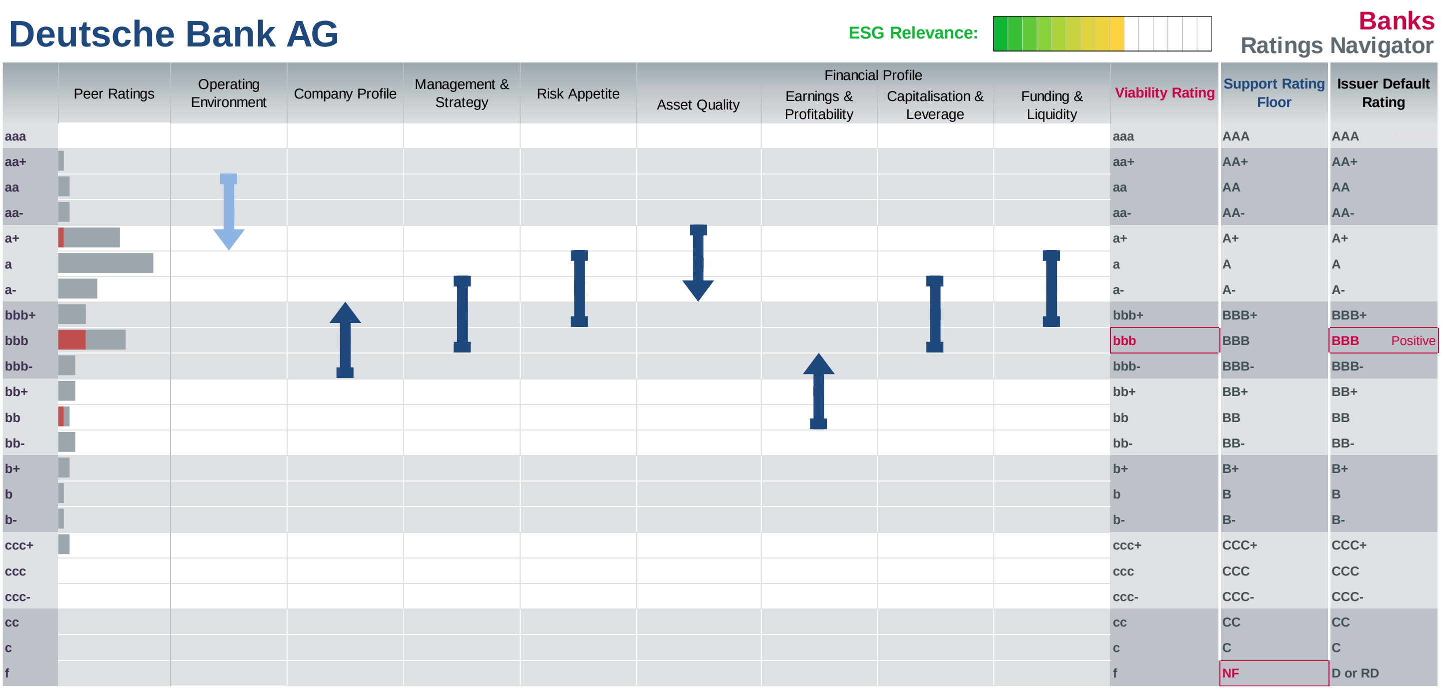
Rating level	Rating
Long-Term IDR	BBB/Positive/F2
DCR[b]	BBB+(dcr)

[a] Deutsche Bank AG, London Branch; 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

No Sovereign Support Assumed in Ratings

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.

Ratings Navigator



Significant Changes

Improved Economic Prospects Since Last Rating Review

We expect Deutsche Bank's operating environment to improve in 2H21 and 2022. The German authorities' large-scale response to the pandemic has ensured a supportive operating framework, reducing the risk of significant deterioration in loan quality more effectively than in most EU countries. With a 4.8% decline, Germany's GDP was more resilient than most large European economies in 2020, and Fitch expects it to recover close to its pre-pandemic level by end-2021. German banks front-loaded lower provisions for expected credit losses in 2020, and LICs were generally low in 1H21 despite lower releases than many European peers.

But Structural Weaknesses Will Continue to Weigh on German Banks' Profitability

German banks' profits have been remarkably low for years despite steady economic growth before the pandemic. They are likely to remain under pressure in the next years due to stubbornly high fragmentation, intense competition, vulnerable business models and untested strategic directions at some large banks.

Except for Deutsche Bank, German banks have largely missed out on strong trading revenue opportunities from the exceptional market volatility since 2Q20 that other European banking sectors were better positioned to exploit. Truly universal banking models are rare, and the lack of revenue diversification has constrained the adaptability of most German banks during the crisis. A short-lived increase in corporate lending margins immediately in 2Q20 quickly gave way to the deep-rooted excessive price competition among German banks, especially in corporate lending, despite the need to compensate for rising LICs.

We expect the German banking sector to recover to more adequate profit levels in 2021 given the economic recovery, the increasing penetration of negative rates on deposits, and the progress made on restructuring by several large banks. However, a more disciplined and sustainable focus on risk-adjusted pricing, instead of following pre-crisis strategies of low-margin lending to gain market shares, will be necessary for the sector to close its wide profitability gap relative to the European average.

Deutsche Bank's 1H21 Results Confirm Restructuring is on Track

Exceptionally strong IB revenue in 1Q21, active cost management and strong LIC decline yoy underpinned Deutsche Bank's solid pre-tax profit of EUR2.8 billion in 1H21. This sets the bank on track towards its 8% return on equity target for 2022. Restructuring progress, cost discipline and maintaining high shares of sustainable revenue in focus areas in CB and IB are key to achieving strategic goals such as resuming dividend pay-outs from 2022. Potential credit losses and market revenue headwind from new Covid-19 infection waves remain short-term risks.

Revenue in 2Q21 declined 1% yoy as market activities in rates, emerging markets and foreign currency normalised, but credit trading revenue held up well compared to US peers. Favourable capital markets supported asset management revenue, with record inflows and AuM up 15% yoy in 2Q21. Strong growth in retail loans and investment products more than offset revenue pressure from declining interest margins and EUR94 million lower fee income on deposits in PB (the bank expects the latter to broadly recur in 3Q21). This followed a German court ruling affecting banks' ability to change terms and conditions.

In CB, domestic market share gains and a rising share of deposits subject to charging agreements mitigated the pressure from low interest rates. We expect most of these trends to continue in 2H21. Robust business origination, especially in CB, will remain key as DB expects its net interest margin (1.2% in 2Q21) to decline further towards 1%.

Deutsche Bank relinquished its cost target of EUR16.7 billion for 2022 to focus on its 70% cost-income ratio target, as it expects its annual contributions to the Single Resolution Fund and the German statutory deposit guarantee scheme to rise by EUR0.4 billion. However, additional deposit insurance contributions following Greensill Bank's failure are unlikely to materially affect Deutsche Bank's cost-cutting plans. The bank should also be able to counter volume-driven incremental costs and the implementation of enhanced anti financial crime controls through further staff reduction, real estate disposal post-pandemic and streamlined processes.

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

As the economy continues to recover, DB's 7bp LIC ratio in 1H21 make its 20bp guidance for 2021 appear conservative and offers headroom for asset quality deterioration in 2H21. So far, impaired loans have been lower than we expected. We could stabilise the outlook on the asset quality score if we believe the four-year average impaired loans ratio will not materially exceed 3% over the next two years.

Summary Financials and Key Ratios

		30 Jun 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Dec 2017
	USDm	EURm	EURm	EURm	EURm	EURm
Summary Income Statement						
Net interest and dividend income	6,487	5,459	11,526	13,749	13,192	12,378
Net fees and commissions	6,314	5,313	9,424	9,520	10,039	11,002
Other operating income	3,206	2,698	3,079	36	1,959	2,719
Operating costs	12,564	10,572	21,247	24,056	23,461	24,652
Pre-impairment operating profit	3,444	2,898	2,782	-751	1,729	1,447
Loan and other impairment charges	171	144	1,761	706	525	525
Operating profit	3,273	2,754	1,021	-1,457	1,204	922
Other non-operating items (net)	0	0	0	-1,177	126	306
Tax	1,056	889	397	2,631	989	1,963
Net income	2,216	1,865	624	-5,265	341	-735
Other comprehensive income	650	547	-1,386	-808	-43	-3,157
Fitch comprehensive income	2,866	2,412	-762	-6,073	298	-3,892
Summary Balance Sheet						
Gross loans	528,911	445,062	431,803	427,630	404,544	405,620
- of which impaired	13,715	11,541	12,400	9,567	9,415	7,010
Loan loss allowances	5,650	4,754	4,808	3,990	4,247	3,921
Net loans	523,262	440,308	426,995	423,640	400,297	401,699
Interbank	9,934	8,359	9,130	15,837	8,881	9,265
Derivatives	325,475	273,877	343,455	332,931	320,058	361,032
Other securities and earning assets	288,151	242,470	249,755	258,443	316,965	356,073
Cash and due from banks	235,622	198,268	166,208	137,592	188,731	225,655
Other assets	186,700	157,102	129,716	129,231	113,205	121,008
Total assets	**1,569,143**	**1,320,384**	**1,325,259**	**1,297,674**	**1,348,137**	**1,474,732**
Customer deposits	690,851	581,329	568,031	499,352	482,425	483,832
Interbank and other short-term funding	9,145	7,695	49,211	124,171	150,618	195,085
Other long-term funding	240,793	202,620	154,634	144,626	152,083	159,714
Trading liabilities and derivatives	381,092	320,677	372,091	353,571	369,426	424,796
Other liabilities	168,504	141,791	117,775	111,781	121,680	137,715
Preference shares and hybrid capital	9,640	8,112	7,145	6,678	7,843	10,166
Total equity	69,117	58,160	56,372	57,495	64,062	63,424
Total liabilities and equity	**1,569,143**	**1,320,384**	**1,325,259**	**1,297,674**	**1,348,137**	**1,474,732**
Exchange rate		USD1 = EUR0.841468	USD1 = EUR0.821963	USD1 = EUR0.89015	USD1 = EUR0.873057	USD1 = EUR0.83382

Source: Fitch Ratings, Fitch Solutions, Deutsche Bank

Summary Financials and Key Ratios

	30 Jun 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Dec 2017
Ratios (annualised as appropriate)					
Profitability					
Operating profit/risk-weighted assets	1.6	0.3	-0.5	0.3	0.3
Net interest income/average earning assets	1.1	1.1	1.3	1.2	1.0
Non-interest expense/gross revenue	78.9	88.9	103.7	94.0	95.0
Net income/average equity	6.6	1.1	-8.6	0.5	-1.2
Asset quality					
Impaired loans ratio	2.6	2.9	2.2	2.3	1.7
Growth in gross loans	3.1	1.0	5.7	-0.3	-1.9
Loan loss allowances/impaired loans	41.2	38.8	41.7	45.1	55.9
Loan impairment charges/average gross loans	0.1	0.4	0.2	0.1	0.1
Capitalisation					
Common equity Tier 1 ratio	13.2	13.6	13.6	13.6	14.8
Tangible common equity/tangible assets	3.5	3.7	3.8	3.9	3.5
Basel leverage ratio	4.9	4.8	4.3	4.3	4.1
Net impaired loans/common equity Tier 1	14.9	17.0	12.6	10.9	6.1
Funding and liquidity					
Loans/customer deposits	76.6	76.0	85.6	83.9	83.8
Liquidity coverage ratio	143.0	142.0	142.0	145.0	144.0
Customer deposits/funding	67.9	69.0	61.5	56.0	52.0
Net stable funding ratio	120.0	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, Deutsche Bank

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 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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