MORNINGSTAR | DBRS

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Morningstar DBRS Upgrades Deutsche Bank's Long-Term Issuer Rating to A (high), Changes Trend to Stable

BANKING ORGANIZATIONS

DBRS Ratings GmbH (Morningstar DBRS) upgraded the credit ratings on Deutsche Bank AG (DB or the Bank), including the Bank's Long-Term Issuer Rating to A (high) from "A" and the Bank's Short-Term Issuer Rating to R-1 (middle) from R-1 (low). At the same time, Morningstar DBRS changed the trends on all ratings to Stable.

DB's Intrinsic Assessment (IA) was also raised to A (high) from "A" and the Support Assessment maintained at SA3, meaning that timely systemic support is not expected. A full list of the rating actions is included at the end of this press release.

KEY CREDIT RATING CONSIDERATIONS

The upgrade of DB's credit ratings reflects the continued progress the Bank has made in implementing its strategic transformation programme and meeting its medium-term profitability targets, something that was almost entirely achieved by Q1 2025. In Morningstar DBRS' view, DB now benefits from a business mix allowing more predictable revenue sources, focusing on key growth areas. Despite the impact of one-off items in 2024, we view that DB has continued to grow its core profitability and this was further evidenced in Q1 2025, with the Bank reporting its best quarter in 14 years. Morningstar DBRS notes that despite the volatile market conditions, increased geopolitical tensions, and uncertainty surrounding the macroeconomic environment, DB still managed to post strong revenue growth and lower operating expenses, owing to further cost savings initiatives, which largely offset higher loan loss provisions related to the environment. In addition, Morningstar DBRS considers the Bank is in a good position to maintain these trends throughout the year, despite the normalising interest rate environment and trade tensions, with the better economic outlook in Germany also providing comfort. Nevertheless, the current credit rating level also reflects that despite showing improved profitability, DB continues to lag other global peers on profitability, although it is closing the gap. 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, despite some issues in Commercial Real Estate which have eased in Q1 2025.

The upgrade also reflects that Morningstar DBRS now considers corporate governance issues to be largely legacy items and that most of the litigation potential issues to be adequately provisioned. Morningstar DBRS views that the Bank now benefits from restored confidence in its franchise.

DB's credit ratings continue to be underpinned by its global franchise and leading position in Germany as well as its 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 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.

DB's IA of A (high) is now at the midpoint of the Intrinsic Assessment Range, as Morningstar DBRS views DB's credit fundamentals and performance as commensurate with those of similarly rated peers.

CREDIT RATING DRIVERS

Given the recent rating action, an upgrade of the credit ratings is unlikely in the short-term. An upgrade would require the Bank to demonstrate a longer-track record of recurrent profitability improvement whilst maintaining current levels of operating efficiency. It would also require the Bank to maintain solid asset quality and capital ratios.

Morningstar DBRS would downgrade DB's ratings in case of a significant deterioration in the risk profile or capital metrics. A substantial deterioration in profitability to levels far below medium-term targets would also lead to a downgrade.

CREDIT RATING RATIONALE

Franchise Combined Building Block Assessment: Very Strong/Strong

With total assets of EUR 1.4 trillion at the end of Q1 2025, DB operates globally, but has a 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, we view Deutsche Bank as having returned to a growth path. In Q1 2025, DB has already reached or is well on track to reach most of the targets established for 2025. These include a post-tax RoTE of at least 10% and a CIR of less than 65%. DB plans to realise further cost savings of around EUR 2.5 billion to be partly reinvested in the franchise, of which 85% were already achieved at the end of Q1 2025. In addition, DB had target a revenue CAGR for the 2021-25 period of 5.5-6.5% which they already achieved (6.1% at the end of Q1 2025). In that context and with our expectation that there will not be further one-off items such as the Postbank related one-off charge in 2024, we view the Bank as well placed to achieve its cost-to-income ratio target.

Earnings Combined Building Block) Assessment: Good/Moderate

DB's core profitability has improved significantly over recent years driven by the restructuring programme implemented since 2019. While 2024 was impacted by the Postbank one-off litigation provision, underlying results have proven to be solid. This has continued in Q1 2025 with DB reporting its highest quarterly profit in 14 years. The Bank achieved this through a combination of strong revenue growth and lower operating expenses, which largely offset higher loan loss provisions. As a result, the Bank's return on equity was close to 12% in Q1 2025, much improved from previous levels and above 2025 targets. We expect continued revenue growth and previous cost optimisation efforts to improve the Bank's profitability this year and provide leeway to navigate the challenging geopolitical environment. In addition, this places DB in a good position to achieve its 2025 targets. In 2024, DB posted a lower net profit at EUR 2,698 million for FY 2024, down 36% from EUR 4,212 million for FY 2023, reflecting the overall negative impact of litigation items on the full-year results; non-recurrence of the positive DTA valuation adjustments, which occurred last year; and higher provisions for credit losses offsetting revenue growth. As a result, the return on tangible equity (ROTE) was 4.7% in 2024 compared to 6.7% in 2023. However, excluding litigation provisions, adjusted ROTE was 7.1%, which remains well above the run rate of 2021 and 2020. Net attributable income was EUR 2,012 million in Q1 2025, up from EUR 1,451 million in Q1 2024. The Bank achieved this through a combination of strong revenue growth and lower operating expenses, which largely offset higher loan loss provisions. DB was also not affected by significant one-off items as in previous quarters. As a result, the Bank's return on equity was 11.9% in Q1 2025, much improved from 4.7% in 2024 and 7.4% in 2023 and above its target of 10.0% for 2025.

Risk Combined Building Block Assessment: Good

Morningstar DBRS views DB's risk profile as sound, benefitting from a highly diversified loan book with exposures across industries and geographies. The Bank's credit quality stability is further supported by a large exposure to the resilient German home market, a low exposure to unsecured consumer loans, and robust risk management framework including hedging mechanisms and high levels of collateralisation. This high level of diversification greatly offsets the risks stemming from the Bank's presence in CRE, particularly in the troubled U.S. office market. Considering the current geopolitical events, the Bank has identified the implementation of U.S. tariffs as a key risk theme and implemented overlays accordingly. The Bank's gross nonperforming loan ratio as calculated by Morningstar DBRS improved to 3.0% at end-Q1 2025 from 3.3% at year-end 2024 and 3.1% at end Q1 2024. In Q1 2025, the Bank booked

EUR 471 million in quarterly loan loss provisions, compared to EUR 420 million in the previous quarter and EUR 439 million in Q1 2024. This is reflected in an annualised cost of risk (COR) as calculated by Morningstar DBRS of 40 bps in Q1 2025, up by 5 bps QOQ and 3bps YOY, and in line with international peers. Furthermore, Stage 1 and 2 provisions remained elevated at EUR 130 million in Q1 2025 and include overlays for potential tariff-related impacts, as well as other economic and geopolitical developments. Nevertheless, we note that the downward trend in Stage 3 provisions, which were down 27% YOY indicate signs of normalisation. While we note that the levels of NPL coverage are moderate at 41% at end-March 2025 up from 36% at YE2024 as calculated by Morningstar DBRS, this is mitigated by adequate collateral backing.

Funding and Liquidity Combined Building Block Assessment: Strong
Morningstar DBRS views DB's funding profile as robust and prudently managed, underpinned by a well-diversified and stable deposit base and a moderate reliance on wholesale funding. The Group's primary funding stems from its extensive customer base, with consolidated customer deposits of EUR 665 billion at end-March 2025, up from EUR 666 billion at end-2024, and accounting for approximately 50% of total liabilities. At the end of March 2025, the Bank's loan-to-deposit (LTD) ratio was 72%, fairly stable from end-2024. 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 231 billion. Also confirming a solid liquidity position, the Bank reported LCR and NSFR ratios well above the regulatory requirements of 134% and 119%, respectively, at the end of March 2025.

Capitalisation Combined Building Block Assessment: Strong/Good
We view DB's capital position as robust, driven by the Bank's strong earnings momentum and capital efficiency measures, which support internal capital generation. This is further strengthened by the Bank's reliable access to the wholesale capital markets. At end-March 2025, the CET1 capital ratio was 13.8% up from 13.4% in Q1 2024, as organic capital generation offset the absorption of litigation items throughout the year and the capital deduction for the EUR 750 million share buyback. During Q1 2025, the CET1 ratio was down slightly by 2 bps as the strong first-quarter net income net of AT1 and dividend deductions was offset by equity compensation, the FX impact on account of the AT1 call and other capital changes. The leverage ratio remained broadly stable QOQ at 4.6% at end-March 2025, comfortably above the 3.85% requirement applicable since 1 January 2024. The total capital ratio was 19.2% at end-March 2025. As a result, the Bank maintained comfortable buffers over the minimum SREP CET1 capital ratio requirement of 11.32%, and of 16.09% 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 37% over risk-weighted assets (RWAs), well above the 31% requirement. Finally, DB's total loss-absorbing capacity (TLAC) at 33% is sound, compared with a requirement of 23% over RWAs.

Further details on the Scorecard Indicators and Building Block Assessments can be found at https://dbrs.morningstar.com/research/456843.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE CONSIDERATIONS

ESG Considerations had a relevant effect on the credit analysis.

Governance (G) Factors

The following Governance factor had a relevant effect on the credit analysis:

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, the Frankfurt Public Prosecutor's Office concluded its investigation on the Bank's asset manager DWS, which was fined EUR 25 million over "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 resulted in a significant provision affecting the Bank's F2024 profit.

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

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 Factors in Credit Ratings (16 May 2025) at https://dbrs.morningstar.com/research/454196 .

Notes:
All figures are in euros unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (23 May 2025), https://dbrs.morningstar.com/research/454637. In addition, Morningstar DBRS uses the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings (16 May, 2025) https://dbrs.morningstar.com/research/454196 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 this credit rating include Morningstar, Inc. and company documents. Other sources include Deutsche Bank Q1 2025 and 2024 Reports, Deutsche Bank Q1 2025 and 2024 Investor Presentations, Deutsche Bank Q1 2025 and 2024 Press Releases, Deutsche Bank Q1 2025 and 2024 Fixed Income Presentations and Deutsche Bank Q1 2025 and 2024 Pillar III Reports. Morningstar DBRS considers the information available to it for the purposes of providing this credit rating 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' trends 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://dbrs.morningstar.com/research/456841.

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

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For more information on this credit or on this industry, visit https://dbrs.morningstar.com.

Ratings

Deutsche Bank AG

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
25-Jun-25	Long-Term Issuer Rating	Upgraded	A (high)	Stb	EU U
25-Jun-25	Long-Term Issuer Rating	Trend Change	A	Stb	EU U
25-Jun-25	Short-Term Issuer Rating	Upgraded	R-1 (middle)	Stb	EU U
25-Jun-25	Short-Term Issuer Rating	Trend Change	R-1 (low)	Stb	EU U
25-Jun-25	Senior Non-Preferred Debt	Trend Change	A (low)	Stb	EU U
25-Jun-25	Senior Non-Preferred Debt	Upgraded	A	Stb	EU U
25-Jun-25	Short-Term Debt	Trend Change	R-1 (low)	Stb	EU U
25-Jun-25	Short-Term Debt	Upgraded	R-1 (middle)	Stb	EU U
25-Jun-25	Short-Term Deposits	Trend Change	R-1 (low)	Stb	EU U
25-Jun-25	Short-Term Deposits	Upgraded	R-1 (middle)	Stb	EU U
25-Jun-25	Long Term Critical Obligations Rating	Upgraded	AA	Stb	EU U
25-Jun-25	Long Term Critical Obligations Rating	Trend Change	AA (low)	Stb	EU U
25-Jun-25	Short Term Critical Obligations Rating	Upgraded	R-1 (high)	Stb	EU U
25-Jun-25	Short Term Critical Obligations Rating	Trend Change	R-1 (middle)	Stb	EU U

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
25-Jun-25	Long-Term Deposits	Trend Change	A	Stb	EU U
25-Jun-25	Long-Term Deposits	Upgraded	A (high)	Stb	EU U
25-Jun-25	Long-Term Senior Debt	Trend Change	A	Stb	EU U
25-Jun-25	Long-Term Senior Debt	Upgraded	A (high)	Stb	EU U

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