MORNINGSTAR | DBRS

Earnings Commentary
Deutsche Bank Continues on Positive Trajectory in Q1 2021

DBRS Morningstar
28 April 2021

Sonja Förster
Vice President - Global FIG
+49 69 8088 3510
sonja.forster@dbrsmorningstar.com

Kevan Viagas
Financial Analyst - Global Financial Institutions Group
+44 20 3356 1526
kevan.viagas@dbrsmorningstar.com

Elisabeth Rudman
Managing Director, Head of European FIG - Global FIG
+44 20 7855 6655
elisabeth.rudman@dbrsmorningstar.com

Ratings

Issuer	Obligation	Rating	Rating Action	Trend
Deutsche Bank AG	Long-Term Issuer Rating	A (low)	Confirmed Jul '20	Negative
Deutsche Bank AG	Short-Term Issuer Rating	R-1 (low)	Confirmed Jul '20	Stable

- Deutsche Bank (DB or the Bank) reported a EUR 908 million profit attributable to shareholders for Q1 2021 compared to a loss of EUR 43 million in Q1 2020. This translates into a 6.6% ROE, representing the highest quarterly profit since 2014, owed largely to a significant revenue increase in the Investment Banking division, strong Asset Management results, and materially lower credit provisions. Q1 2021 Group net revenues increased by 13.9% Year-on Year (YoY) to EUR 7.2 billion and core revenues, excluding the Capital Release Unit (CRU) and specific items, increased by 12% despite a 14% YoY decrease of net interest income. The Bank reported a 330 basis point buffer over regulatory Common Equity Tier 1 (CET1) minimum requirements.

- DB views much of the investment banking revenue improvement since 2019 to be sustainable despite an expected market normalisation. In addition, pressure on net interest income should gradually subside as a result of deposit re-pricing, portfolio adjustments, the effect of TLTRO III (albeit less than in Q1), and economic stabilisation, with the trend already visible in a 9% increase from Q4 2020. Combined with further cost reductions, this should lend support to the Bank's profitability.

- Investment Bank results continued to benefit from market volatility and strong origination demand, with net revenues up 32% YoY to EUR 3.1 billion. Growth in Fixed Income & Currencies (FIC) revenues was 34% YoY, outperforming most Wall Street peers, as the Bank experienced strength in Credit Trading and Financing and the absence of the negative market-to-market impact in the prior-year quarter. This offset the revenue declines in Rates, Foreign Exchange and Emerging Markets resulting from a return to normalised levels. The Bank gained market share in Origination & Advisory, where revenues rose 40% YoY to EUR 644 million, owing to significant growth in Equity Origination (up EUR 176 million YoY to EUR 196 million), following high levels of activity in Special Purpose Acquisition Companies (SPACs), as well as growth in IPOs and follow-ons. Debt origination increased 5% YoY to EUR 385 million, aided by a rebound in Leveraged Debt Capital Markets, and strength in Supranationals, Sovereigns and Agencies (SSAs).

- Both Corporate Bank and Private Bank revenues were largely flat YoY. Both segments saw interest rate headwinds compensated for by tailwinds from progress on deposit re-pricing, and the ECB's TLTRO III programme. The Private Bank also balanced deposit margin compression resulting from low interest rates, with continued growth in loans as well as investment products. Asset management benefitted from strong market performance, resulting in asset inflows, higher

performance fees and positive fair value changes of guarantees, offsetting industry-wide margin pressure.

- In terms of costs, the Bank remains on track regarding its transformation targets, reducing the Q1 2021 adjusted costs (excluding transformation charges and Prime Finance) by 2% YoY to EUR 5.3 billion. Reported costs were EUR 5.6 billion, down 1% YoY. Transformation related expenses were EUR 116 million during the quarter, while restructuring and severance costs were EUR 57 million. 87% of transformation related expenses have been incurred thus far. The number of employees (full time equivalent) declined 3% YoY to 84,389, with the largest employee reduction noted in the Private Bank (down 5% YoY to 29,522). Progress in cost management has been partly offset by a higher than expected bank levy of EUR 0.6 billion, following an increased target for the Single Resolution Fund. In addition, the Bank is subject to an additional contribution to the statutory German deposit insurance scheme of EUR 70 million for 2021 and EUR 60 million per year until 2024 as a consequence of the Greensill Bank insolvency. Despite these headwinds, we expect adjusted costs for 2021 to continue to decline, Starting in 2022, a significant reduction in transformation related costs should lead to a more noticeable effect on the Bank's bottom line.

- The Bank provisioned EUR 69 million for credit losses in Q1 2021, a reduction of 86% on Q1 2020, partly due to the 40% reduction in Stage 3 provisions. This results from reduced impairment events, accompanied with provision releases on certain exposures. Additionally, total provisioning levels were decreased by releases for Stage 1 and Stage 2 loans, reflecting an improved macroeconomic outlook. The cost of risk was 6 basis points for the quarter, however, the bank guided towards an average of 25 basis points for full-year 2021. Stage 3 loans represented 2.8% of total loans in Q1 2021, flat QoQ, but up compared to 2.2% a year earlier. In coming quarters, we expect further deterioration of asset quality metrics as support programs are phased out and economic uncertainties persist.

- DB's CET1 ratio increased modestly by 9 basis points QoQ to 13.7%, benefitting from lower market and operational RWAs, and increases in net income, partly offset by higher credit RWAs, equity compensation, and a dividend accrual of EUR 300 million. This implies a buffer of 330 bps above regulatory requirements, which, in our view, gives DB a solid cushion for upcoming regulatory requirements related to the Targeted Review of Internal Models (TRIM). The Bank estimates a c. 80bps negative impact on CET1 by Q2 2021 from final TRIM decisions and other regulatory RWA inflation.

Notes:

All figures in Euros unless otherwise noted

Sources: Company documents

For more information on this credit or on this industry, visit www.dbrsmorningstar.com

About DBRS Morningstar

DBRS Morningstar is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 3,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

DBRS Morningstar is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

That's why DBRS Morningstar is the next generation of credit ratings.

Learn more at dbrsmorningstar.com.

The DBRS Morningstar group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). For more information on regulatory registrations, recognitions and approvals of the DBRS Morningstar group of companies, please see: https://www.dbrsmorningstar.com/research/225752/highlights.pdf.

The DBRS Morningstar group of companies are wholly-owned subsidiaries of Morningstar, Inc.

© 2021 DBRS Morningstar. All Rights Reserved. The information upon which DBRS Morningstar ratings and other types of credit opinions and reports are based is obtained by DBRS Morningstar from sources DBRS Morningstar believes to be reliable. DBRS Morningstar does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS Morningstar ratings, other types of credit opinions, reports and any other information provided by DBRS Morningstar are provided "as is" and without representation or warranty of any kind. DBRS Morningstar hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS Morningstar or its directors, officers, employees, independent contractors, agents and representatives (collectively, DBRS Morningstar Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of ratings and rating reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS Morningstar or any DBRS Morningstar Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. No DBRS Morningstar entity is an investment advisor. DBRS Morningstar does not provide investment, financial or other advice. Ratings, other types of credit opinions, other analysis and research issued or published by DBRS Morningstar are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities. A report with respect to a DBRS Morningstar rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS Morningstar may receive compensation for its ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. DBRS Morningstar is not responsible for the content or operation of third party websites accessed through hypertext or other computer links and DBRS Morningstar shall have no liability to any person or entity for the use of such third party websites. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS Morningstar. ALL DBRS MORNINGSTAR RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS AT https://www.dbrsmorningstar.com/about/disclaimer. ADDITIONAL INFORMATION REGARDING DBRS MORNINGSTAR RATINGS AND OTHER TYPES OF CREDIT OPINIONS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON https://www.dbrsmorningstar.com.