

Rating action: Update of a long-term credit rating according to the national scale

Date of rating action: 18.08.2021

Date of publication: 18.08.2021

The issuer: JSC "DEUTSCHE BANK DBU"

USREOU code of the issuer: 36520434

Web-site of the issuer: <https://www.db.com/ukraine/>



www.expert-rating.com

Rating of JSC "DEUTSCHE BANK DBU" is updated

August 18, 2021 the rating committee of RA "Expert-Rating" has decided to update the credit rating of JSC "DEUTSCHE BANK DBU" (36520434) at the level **uaAAA** according to the national scale. The Bank or the separate debt instrument with rating uaAAA is characterized by the highest solvency compared to other Ukrainian banks or debt instruments. Making decision to update the credit rating according to the national scale, the Agency was guided by the analysis results of the Bank's financial and statistical statements for the first half of 2021 year, as well as by particular forms of statistical statements of the Bank for January-July, 2021.

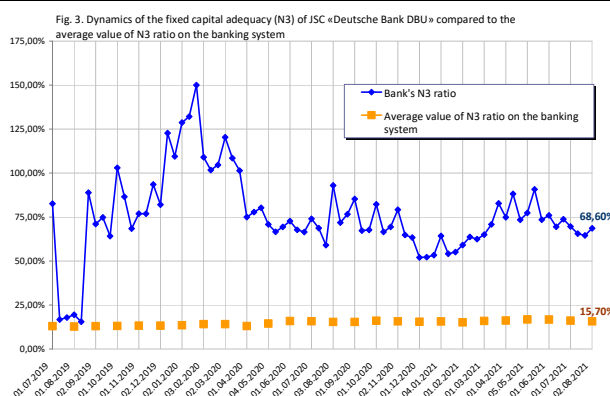
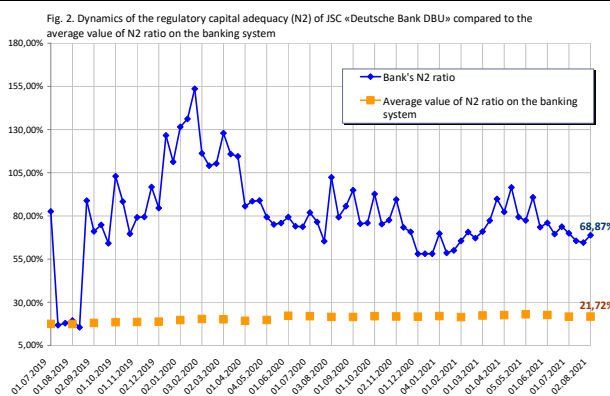
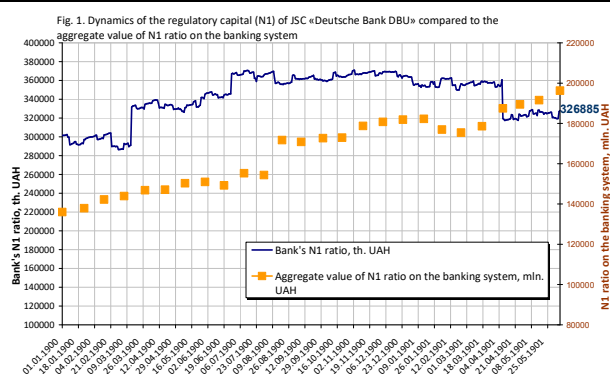
Equity and capital adequacy

Throughout the 2020 year and January-July of 2021 year the regulatory capital of JSC "DEUTSCHE BANK DBU" (N1) fluctuated in the ranges UAH 317.401-370.873 mln. Since the beginning of 2021 year the Bank's regulatory capital (N1) decreased by 7.43% and as of 02.08.2021 amounted to UAH 328.047 mln that by UAH 128.047 mln exceeded the limit value, set by NBU, for this normative at the level UAH 200 mln.

The regulatory capital adequacy normative of JSC "DEUTSCHE BANK DBU" (N2) in the period from 02.01.2020 to 02.08.2021 fluctuated in the range 58.05%-153.63% and demonstrated a multidirectional dynamics. At the same time, the Bank's N2 ratio on a constant basis with a great reserve exceeded the limit level, set by the regulator, as well as the averages of this normative on the Ukrainian banking system. Thus, as of 02.08.2021 the Bank's N2 ratio amounted to 68.87% that in 6.89 times exceeded the limit value, set by NBU, and also was in 3.17 times more than the average market indicator.

The fixed capital adequacy of JSC "DEUTSCHE BANK DBU" (N3) during the 2020 year and January-July of 2021 year fluctuated in the ranges 52.04-150.02% and on a constant basis in several times exceeded the limit level, set by NBU, as well as the averages of this normative on the Ukrainian banking system. As of 02.08.2021 the fixed capital adequacy normative of JSC "DEUTSCHE BANK DBU" (N3) amounted to 68,60% that in 9.80 times exceeded the limit level, set by the regulator, and also was in 4.37 times more than the average market indicator.

Thus, as at the beginning of August, 2021 JSC "DEUTSCHE BANK DBU" was very well provided with regulatory and fixed capital, as indicated by the Bank's respective standards. In particular, the N2 and N3 ratios of JSC "DEUTSCHE BANK DBU" in several times exceeded the limit values, set by NBU, as well as the average indicators of these normative standards on the Ukrainian banking system.



Asset structure and quality

As of 01.07.2021 compared to 01.01.2020 the assets of JSC “DEUTSCHE BANK DBU” grew by 9,41% and amounted to UAH 4.654 bn., the Bank’s loan portfolio decreased by 1.72% down to UAH 395.260 mln, and its share in assets reduced by 0.96 p.p. and amounted to 8.49%.

At the same time, the Agency repeatedly draws attention to a usually considerable fluctuation of the share of loans in assets of JSC “DEUTSCHE BANK DBU” that is observed from quarter to quarter and is a result of the specifics of the Bank’s operations. Thus, in the period from 01.07.2019 to 01.07.2021 the proportion of customer credits and debt in the assets of JSC “DEUTSCHE BANK DBU” fluctuated in the ranges from 7.74% to 54.09%. In addition, the Agency emphasizes that as at the beginning of July, 2021 in the Bank’s loan portfolio there were no loans to individuals and loans in foreign currency that eliminates a direct impact of currency risk. As of 01.07.2021 the 68.74% of assets of JSC “DEUTSCHE BANK DBU” may be referred to the high liquid assets category: cash and its equivalents equaled to UAH 1.733 bln or 37.23% of the Bank’s assets, and funds in other banks – UAH 1.467 bln. or 31.51% of assets of JSC “DEUTSCHE BANK DBU”.

Besides, the Agency pays attention to the fact that the Bank, as before, continues to maintain the loan portfolio quality at the highest level: as of 01.07.2021 in the loan portfolio of JSC “DEUTSCHE BANK DBU”, there were no non-performing loans (NPL) (which are calculated as a sum of the fifth class of borrowers-individuals and the tenth class of borrowers-legal entities), while the average of NPL indicator on the Ukrainian banking system amounted to 39.09%.

Fig. 4. Share of loans in assets of JSC “Deutsche Bank DBU”

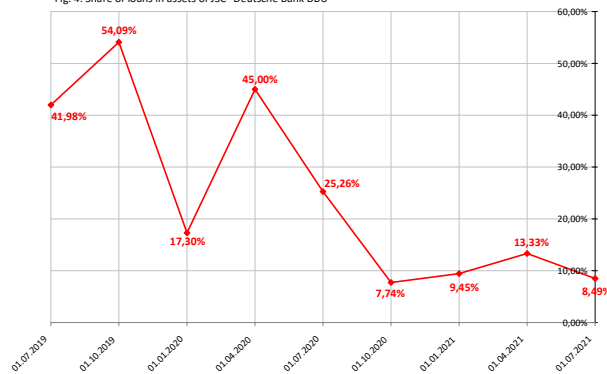
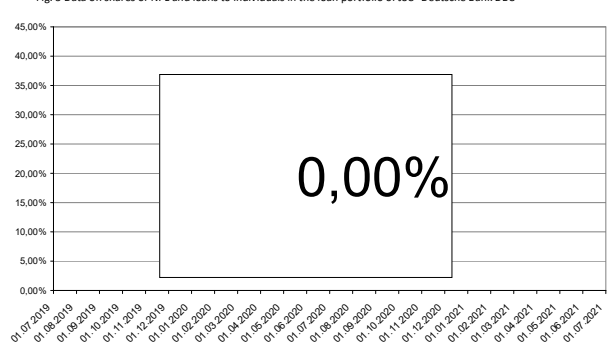


Fig. 5 Data on shares of NPL and loans to individuals in the loan portfolio of JSC “Deutsche Bank DBU”



Liquidity

Throughout the 2020 year and January-July of 2021 a short-term liquidity ratio of JSC “DEUTSCHE BANK DBU” (N6) fluctuated in the ranges 90.84%-117.09% and with a great reserve exceeded the limit level, set by NBU, and also advantageously was noticeably higher than the averages of this normative on the Ukrainian banking system. As of 02.08.2021 the Bank’s N6 ratio amounted to 107.51% that by 47.51 p.p. exceeded the limit level, set by NBU, and also was by 17.96 p.p. more than the average market value.

Liquidity coverage ratio on all currencies (LCRac) of JSC “DEUTSCHE BANK DBU” in the period from 01.01.2020 to 01.08.2021 fluctuated in the ranges 230.04%-556.16%, on a constant basis in times exceeding the limit values, set by NBU. As of 01.08.2021 LCRac of the Bank amounted to 290.74% that in 2,91 times exceeded the normative value, set by the regulator.

Liquidity coverage ratio in foreign currency (LCRfc) of JSC “DEUTSCHE BANK DBU” throughout the period from 01.01.2020 to 01.08.2021 fluctuated in the ranges from 205.65% to 536.75% and in times exceeded the limit level, set by NBU. As of 01.08.2021 LCRfc of the Bank amounted to 256.60% that in 2.57 times exceeded the normative value, set by the regulator.

Net Stable Financing Ratio (NSFR) of JSC “DEUTSCHE BANK DBU” as of 01.08.2021 amounted to 664.55% that in 8.31 times exceeded the limit value, set by NBU.

Therefore, as at the beginning of August, 2021 JSC “DEUTSCHE BANK DBU” was very well provided with

Fig. 6. Dynamics of short-term liquidity (N6) of JSC «Deutsche Bank DBU» compared to the average of N6 ratio on the banking system

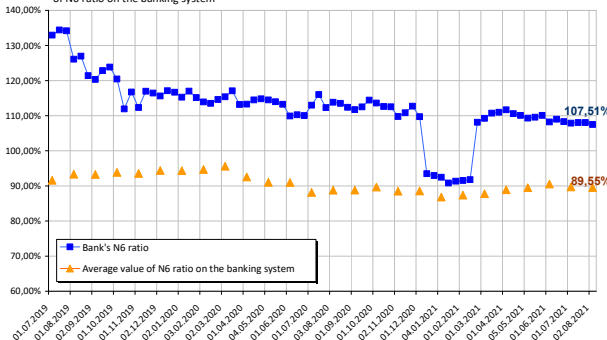
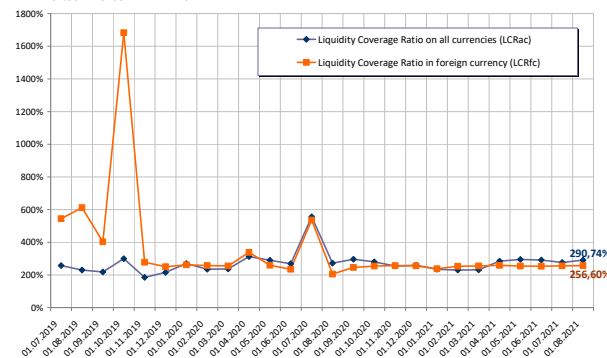


Fig. 7. Dynamics of Liquidity Coverage Ratios on all currencies (LCRac) and in foreign currency (LCRfc) of JSC “DEUTSCHE BANK DBU”



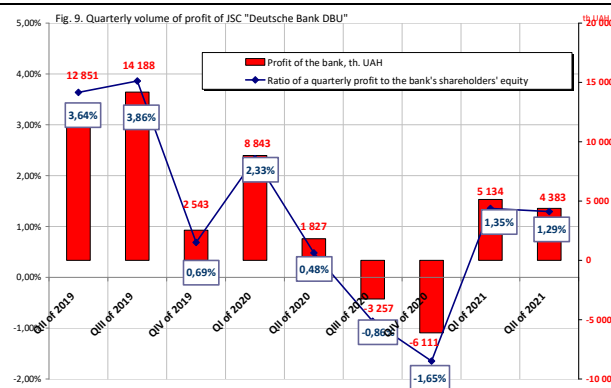
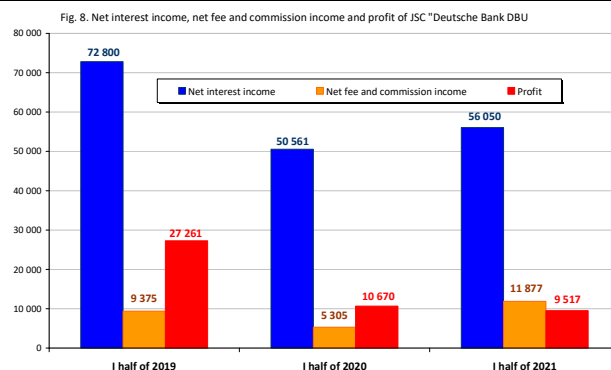
liquidity: the Bank's normative indicators LCRac, LCRfc and NSFR in times exceeded the limit values, set by NBU, and the N6 ratio was noticeably higher than the average indicator of this normative on the Ukrainian banking system.

Profitability of operations

According to the results of the first half of 2021 year JSC "DEUTSCHE BANK DBU" received profit of UAH 9.517 mln., that was by 10.81% less than profit received by the Bank according to the results of the first half of 2020 year.

At the same time, the Bank's key items of revenues for the given period demonstrated an upward dynamics. Thus, according to the results of the first half of 2021 year compared to the same period of 2020 year net interest income of JSC "DEUTSCHE BANK DBU" grew by 10.86% and amounted to UAH 56.050 mln., and net fee and commission income increased in 2,24 times up to UAH 11.877 mln. At the same time, a downward dynamics of profit of JSC "DEUTSCHE BANK DBU" is related to the increase of the Bank's non-interest expenses (by 35.90%: from UAH 47.087 mln up to UAH 63,991 mln), namely: staff costs (by 33.00%) and administrative and other operating expenses (by 39.37%).

Therefore, in conditions of the ongoing quarantine restrictions JSC "DEUTSCHE BANK DBU" increased the key items of its revenues and generated rather significant profit that is appreciated by the Agency.



Other factors

Verification on public databases of the State Fiscal Service showed that the Bank was registered in authorities of revenues and fees and didn't have any tax debt.

The Agency reminds that JSC "DEUTSCHE BANK DBU" has a very high level of external support from its shareholder – Deutsche Bank. The Agency repeatedly emphasizes that Deutsche Bank, besides a traditional external support of its subsidiary structure, which is based on the contributions to the authorized capital, on liquidity provision and is stimulated by the reputation risks, declares the guarantees of JSC "DEUTSCHE BANK DBU" performance of its agreement liabilities. The availability of "firm guarantee" of Deutsche Bank, which is public, is a considerable positive factor, which affects a long-term credit rating and strengthens the competition advantages of Deutsche Bank in Ukraine.

Summary

Therefore, as at the beginning of August, 2021 JSC "DEUTSCHE BANK DBU" was very well provided with capital (regulatory and fixed), as indicated by the Bank's respective standards: the N2 and N3 ratios in several times exceeded the limit values, set by NBU, as well as the average indicators of these normative standards on the Ukrainian banking system. JSC "DEUTSCHE BANK DBU" maintained a very good liquidity provision: LCRac, LCRfc and NSFR in times exceeded the limit values, set by the regulator, and the N6 ratio was noticeably higher than the average market indicator. The quality of the loan portfolio of JSC "DEUTSCHE BANK DBU" continued to remain at the highest level: as of 01.07.2021 in the Bank's loan portfolio, as before, there were no non-performing loans (NPL). According to the results of the first half of 2021 year JSC "DEUTSCHE BANK DBU" received profit of UAH 9.517 mln., that was by 10.81% less than profit received by the Bank according to the results of the first half of 2020 year. JSC "DEUTSCHE BANK DBU" increased the key items of its revenues, and the Bank's profit dynamics was affected by the increase of non-interest expenses. At the same time, the Agency appreciates the fact of profitable activity of JSC "DEUTSCHE BANK DBU" against the background of the increase of the Bank's net interest income and net fee and commission income (by 10,86% and 123,88% respectively).

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