

12 Oct 2020 | Upgrade

## Fitch Upgrades Deutsche Bank's Additional Tier 1 Debt to 'BB-'

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Fitch Ratings-Frankfurt am Main-12 October 2020:

Fitch Ratings has upgraded Deutsche Bank AG's Additional Tier 1 (AT1) securities to 'BB-' from 'B+'.

The notes (ISIN US251525AN16, DE000DB7XHP3, XS1071551391, XS1071551474) are now rated four notches below Deutsche Bank's Viability Rating (VR) of 'bbb'. We have reduced the notching for non-performance risk to a baseline of two notches, from previously three, to reflect the bank's improved capitalisation, including a common equity Tier 1 (CET1) ratio of 13.3% at end-2Q20 and further Tier 2 issuance in July, and our outlook that the bank will maintain a wide enough buffer over its distribution-relevant requirements. In addition to the two notches for non-performance risk, the notes remain notched twice for loss severity.

### Key Rating Drivers

Deutsche Bank's AT1 securities are rated four notches below the VR to reflect their deep subordination and high non-performance risk. Non-performance risk has reduced in our view, due to the bank's improved total capital position and reduced likelihood that the CET1 ratio target of 12.5% will be breached this year. Deutsche Bank's CET1 ratio rose to 13.3% (+42bp) in 2Q20, in contrast to our expectation of a decline, helped by repayments of revolving credit facilities, reduced exposure in the capital release unit, reversal of most of the 1Q20 prudential valuation impact, as well as a modest 11bp from regulatory relief. Its total capital also improved due to Tier 2 issuance in May and July.

Consequently, Deutsche Bank's buffer over total capital requirements relevant for the maximum distributable amount (MDA) increased to 2.6% (phased-in, pro-forma including the July 2020 issue) from 1.6% at end-1Q20. Assuming the CET1 ratio declines to the target of 12.5%, and risk-weighted assets (RWA) develop as guided, we expect the MDA buffer to drop to a still comfortable about 1.8% at end-2020. In our view, this provides sufficient comfort that non-performance risk would remain comparable with that of higher-rated peers' AT1 instruments, and commensurate with the baseline notching for non-performance, even if the guidance was missed due to e.g. higher than expected credit losses or RWA inflation.

Fitch's baseline notching for AT1 securities has changed to four from five following the publication of updated Bank Rating Criteria in February 2020, which was driven by a recalibration of the notching for non-performance risk.

## RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

Deutsche Bank's AT1 notes are mainly sensitive to changes in the bank's VR. The VR is sensitive to progress toward the bank's restructuring targets and to the economic repercussions of the coronavirus pandemic. A downgrade of the VR would lead to a downgrade of the notes.

In addition, the notes could be downgraded back to five notches below the VR, including three notches for non-performance, if we no longer believe that the bank can maintain a buffer of over 100bp over distribution-relevant capital requirements. The notching of these notes is also sensitive to an unexpected increase in requirements that would trigger coupon restrictions, or to a decline in distributable reserves.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

The notes could be upgraded if the bank's VR is upgraded. Upward pressure on the ratings over the medium term would require continued successful execution in the bank's restructuring, including evidence of growing revenue, further progress with cost-reduction targets and reduction of non-strategic exposures.

## Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [<https://www.fitchratings.com/site/re/10111579>]

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

#### Public Ratings with Credit Linkage to other ratings

The securities' rating is linked to Deutsche Bank AG's VR.

#### ESG Considerations

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 being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

#### Deutsche Bank AG

---subordinated; Long Term Rating; Upgrade; BB-

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### **Applicable Criteria**

[Bank Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)

### **Additional Disclosures**

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