

Research Update:

# Deutsche Bank Outlook Revised To Positive On Strengthening Resilience And Performance; Ratings Affirmed

May 17, 2023

## Overview

- Deutsche Bank's 2019-2022 transformation program has established a more focused and profitable business model, and laid the foundations for further progress.
- The bank's solid capital, funding, and liquidity profiles underpin its credit profile and mitigate market volatility.
- We therefore revised the outlook on Deutsche Bank AG and its core European and U.S. subsidiaries to positive from stable and affirmed the ratings.
- The positive outlook indicates we could raise the ratings if Deutsche Bank maintains its strategic discipline, earnings momentum, and supportive balance sheet metrics.

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## Rating Action

On May 17, 2023, S&P Global Ratings revised its outlook on Deutsche Bank AG and the bank's core European and U.S. subsidiaries to positive from stable.

At the same time, we affirmed the issuer credit ratings and resolution counterparty ratings on Deutsche Bank and its core subsidiaries.

## Rationale

**The outlook revision reflects Deutsche Bank's strengthening performance and resilience.** We think that the bank's completion of its 2019-2022 transformation program has established a more focused and profitable firm under a stable and cohesive management team. We raised the ESG credit indicator for governance to 'G-2' from 'G-3'. Helped by higher interest rates, the improving earnings from retail and corporate banking and asset management provide greater balance to the investment bank division, which remains a significant component of the group's business and risk

profiles. Deutsche Bank's 2022 pretax profit was its highest since 2007 and it showed solid franchise and earnings growth in the first quarter of this year (see "Deutsche Bank's First Quarter Earnings Show Resilience To Sector Volatility," published April 27, 2023).

**Deutsche Bank targets further progress through 2025.** The bank will further narrow the performance gap to its global corporate and investment bank peers if it achieves its 2025 financial targets, which include a return on tangible equity above 10% and cost-to-income ratio below 62.5%. We think it is well-placed to meet these goals if economic and market conditions evolve broadly in line with our base-case expectations. Deutsche Bank announced an acceleration of its strategic agenda alongside the first quarter results, raising its cost saving ambition and unveiling plans to drive stronger revenue growth and exit certain lower-yielding asset portfolios.

**The bank's proactive risk management mitigates economic uncertainties, in our view.** We think Deutsche Bank has a good track record in credit and market risk management. Its lending is diversified by sector and well-collateralized, with manageable exposures to higher-risk segments including commercial real estate. Its first-quarter 2023 credit loss charge was 30 basis points (bps), and we expect the full year figure to be within the bank's 25 bps-30 bps guidance range.

**In our view, Deutsche Bank's funding and liquidity profiles are solid.** The bank was tested in March 2023 by the short selling of its shares, but its diversified deposit base and reduced reliance on short-term wholesale funding enabled it to navigate this stress. Insured deposits represented 41% of balances excluding bank deposits on March 31, 2023, which is broadly in line with peers with similar business models. We view positively that 73% of deposits were within the bank's German home market. The 143% liquidity coverage ratio and 120% net stable funding ratio on March 31, 2023, were solid and consistent with internal targets.

**We think Deutsche Bank has supportive capitalization.** Its common equity Tier 1 ratio improved to 13.6% as of March 31, 2023, above the 13% target. It is growing dividends and intends to commence share buybacks in the second half of 2023, subject to regulatory approval. We therefore raise our risk-adjusted capital (RAC) ratio projection to 10.0%-10.5% at year-end 2025, because we expect Deutsche Bank will steadily grow its capital base to absorb regulatory risk-weighted asset inflation (which does not affect the RAC ratio denominator) and asset growth. Nevertheless, our capital and earnings assessment remains neutral to the rating. This is because the projected ratio only marginally exceeds the 10% threshold and we consider that Deutsche Bank's capital, earnings, and financial flexibility metrics are not currently supportive of a stronger outcome.

## **Outlook**

The positive outlook indicates that we could raise the ratings in the next 12 months if Deutsche Bank maintains its strategic discipline and earnings momentum. Progress in these areas would narrow the gap to global corporate and investment bank peers.

If we raise the long-term issuer credit ratings on Deutsche Bank AG and its core subsidiaries to 'A', we would also raise the long-term resolution counterparty ratings and the long-term issue ratings on all debt types by one notch. In addition, we would raise the short-term issuer credit ratings and the short-term issue credit ratings on Deutsche Bank AG's senior preferred obligations (including commercial paper) to 'A-1'.

## Downside scenario

We could revise the outlook to stable if Deutsche Bank falters in the execution of its strategic plan or if adverse macroeconomic and geopolitical developments materially weaken asset quality and earnings.

## Upside scenario

We could raise the ratings if Deutsche Bank makes continued progress against its strategic priorities and financial targets for 2025. A positive rating action would also depend on the bank maintaining solid asset quality, capital, and liquidity metrics, in line with management guidance. A positive comparable rating adjustment is a potential route to a higher group stand-alone credit profile and issuer credit rating, but an improved capital and earnings assessment is also possible.

## Environmental, Social, And Governance

### ESG credit indicators: To E-2, S-2, G-2; From E-2, S-2, G-3

We revised the ESG credit indicator for governance to 'G-2' from 'G-3'. Although its control remediation program is not yet complete, we think Deutsche Bank has made material progress in strengthening its nonfinancial risk management, culture, and oversight. The 'G-2' indicator denotes that governance is, on a net basis, a neutral consideration in our rating analysis, in line with our assessments of environmental and social credit factors. The improvement in the governance indicator was supportive of the outlook change but not the main factor behind it.

## Ratings Score Snapshot

	To	From
<b>Issuer Credit Rating</b>	<b>A-/Positive/A-2</b>	<b>A-/Stable/A-2</b>
SACP	bbb	bbb
Anchor	bbb+	bbb+
Business position	Adequate (0)	Adequate (0)
Capital and earnings	Adequate (0)	Adequate (0)
Risk position	Moderate (-1)	Moderate (-1)
Funding and liquidity	Adequate (0)	Adequate (0)
Support	+2	+2
ALAC support	+2	+2
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

SACP--Stand-alone credit profile.

**Environmental, social, and governance (ESG) credit factors for this change in credit rating/outlook and/or CreditWatch status:**

- Risk management, culture, and oversight

**Related Criteria**

- General Criteria: Hybrid Capital: Methodology And Assumptions , March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology , Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions , Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- General Criteria: Group Rating Methodology , July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings , June 25, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology , July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011

**Related Research**

- Deutsche Bank's First Quarter Earnings Show Resilience To Sector Volatility, April 27, 2023
- European Banks' Asset Quality: Tougher Times Ahead Require Extra Caution, April 20, 2023
- Crisis Management Observations From Recent European And U.S. Banking Sector Volatility, April 19, 2023
- Robust German Banking Industry Weathers Increased Geopolitical Economic Risk, Feb. 16, 2023
- Deutsche Bank AG Meets Its 2022 Earnings Target And Eyes Further Progress, Feb. 2, 2023
- Update: Deutsche Bank AG, Nov. 30, 2022

**Ratings List**

**Ratings Affirmed**

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**Deutsche Bank AG**

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Issuer Credit Rating

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Turkey National Scale trAAA/--/trA-1+

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**Deutsche Bank AG**

**Deutsche Bank Luxembourg S.A.**

**Deutsche Bank AG (Milan Branch)**

**Deutsche Bank AG (Madrid Branch)**

**Deutsche Bank AG (London Branch)**

**Deutsche Bank AG (Cayman Islands Branch)**

**Deutsche Bank AG (Canada Branch)**

Resolution Counterparty Rating	A/--/A-1
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**Deutsche Bank National Trust Co.**

**Deutsche Bank Trust Co. Delaware**

**Deutsche Bank Trust Co. Americas**

Resolution Counterparty Rating	A/--/A-2
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**Deutsche Bank Securities Inc.**

Resolution Counterparty Rating	
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Local Currency	A/--/A-2
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**Deutsche Bank AG**

Senior Unsecured	A-
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Senior Subordinated	BBB-
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Subordinated	BB+
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Subordinated	BB+p
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Junior Subordinated	BB-
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Certificate Of Deposit	A-
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Certificate Of Deposit	A-2
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Commercial Paper	A-2
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**Deutsche Bank AG (London Branch)**

Resolution Counterparty Liability	A
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Senior Unsecured	A-
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Senior Subordinated	BBB-
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**Deutsche Bank AG (New York branch)**

Senior Unsecured	A-
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Senior Subordinated	BBB-
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Subordinated	BB+
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**Ratings Affirmed; CreditWatch/Outlook Action**

	To	From
<b>Deutsche Bank AG</b>		
<b>Deutsche Bank Trust Corp.</b>		
<b>Deutsche Bank Trust Co. Delaware</b>		
<b>Deutsche Bank Trust Co. Americas</b>		
<b>Deutsche Bank National Trust Co.</b>		
<b>Deutsche Bank Luxembourg S.A.</b>		
<b>Deutsche Bank AG (Milan Branch)</b>		
<b>Deutsche Bank AG (Madrid Branch)</b>		
<b>Deutsche Bank AG (London Branch)</b>		
<b>Deutsche Bank AG (Cayman Islands Branch)</b>		
<b>Deutsche Bank AG (Canada Branch)</b>		
Issuer Credit Rating	A-/Positive/A-2	A-/Stable/A-2
<b>Deutsche Bank Securities Inc.</b>		
Issuer Credit Rating		
Local Currency	A-/Positive/A-2	A-/Stable/A-2

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at [https://www.standardandpoors.com/en\\_US/web/guest/article/-/view/sourceId/504352](https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352) Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914

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