Fitch Ratings

13 SEP 2022

Fitch Affirms Deutsche Bank at 'BBB+'; Outlook Positive

Fitch Ratings - Paris - 13 Sep 2022: Fitch Ratings has affirmed Deutsche Bank AG's Long-Term Issuer Default Rating (IDR) at 'BBB+' and Viability Rating (VR) at 'bbb+'. The Outlook on the Long-Term IDR remains Positive. Deutsche Bank's Derivative Counterparty Rating (DCR) has been affirmed at 'A-(dcr)' and its long-term deposit and senior preferred (SP) debt ratings at 'A-'.

Fitch has withdrawn Deutsche Bank's and its rated US subsidiaries' Support Ratings as well as Deutsche Bank's Support Rating Floor following the update of its Bank Rating Criteria on 12 November 2021 as they are no longer considered by Fitch to be relevant to the agency's coverage. In line with the updated criteria, we have assigned Deutsche Bank a Government Support Rating (GSR) of 'no support' and Deutsche Bank Securities, Inc., Deutsche Bank Trust Company Americas and Deutsche Bank Trust Corporation Shareholder Support Ratings (SSR) of 'bbb+'.

Key Rating Drivers

Deutsche Bank's IDRs and VR reflect the bank's good restructuring progress, and the stabilisation of its business model, with most significant revenue improvement and franchise stabilisation at the investment bank (IB). They also reflect the bank's sound asset quality, funding and liquidity as well as adequate capitalisation. The ratings remain constrained by weak four-year average profitability, which Fitch expects to improve as the restructuring nears completion.

German Recession Likely in 2023: Surging energy prices and persistent supply-chain disruptions have driven inflation in the eurozone to a multi-decade high in 2Q22, with an expected dampening effect on eurozone economic growth in the next quarters. Fitch also believes that Germany will face a recession combined with rising inflation in 2023 as a consequence of the halt in Russian gas exports.

Restructuring Nears Completion: Deutsche Bank's domestic operations suffer from weaker pricing power than that of its global peers, most of which enjoy leading domestic franchises in less fragmented markets.

The positive outlook on Deutsche Bank's business profile score signals our expectation that the revenue contribution and cost-to-income ratio of its corporate and private banking operations will improve. A successful execution of the planned cost reduction in combination with stable revenue is key to mitigating earnings volatility inherent in IB and should result in a business profile that is commensurate with the 'a' category.

Improving Risk Controls: Large multi-year investments and consistent management focus on antifinancial crime controls have reduced litigation charges and regulatory fines. However, the bank's business model will continue to expose its operations to this type of risk. Appetite for market risk is reasonably limited despite sizeable trading operations, but the bank remains exposed to valuation losses in its leveraged lending business. Recent interest-rate increases are positive for the bank's profitability.

Asset Quality Rating Strength: Deutsche Bank's impaired loans ratio has historically been resilient due to the bank's large exposure to Germany and good record of managing credit risk globally. We expect a surge in defaults as a result of the deteriorating economy, but the bank's exposure to borrowers that are more vulnerable to a halt in Russian gas supply is manageable due to its focus on multinationals. We therefore expect the impaired loans ratio to moderately increase to above 3% next year, which drives the negative outlook on the asset quality score. A majority of non-loan assets are low credit risk.

Improving Profitability: The bank's operating return on risk-weighted assets (RWAs) is still weaker than most of its global peers' and weighs on the ratings. However, we have upgraded the earnings & profitability score to 'bbb' as we expect rising net interest income to increase revenue contribution of corporate and private banking and offset higher loan impairment charges (LICs). This should drive operating return/RWAs to above 1% in the coming years. The positive outlook on the score signals our expectation that the bank will reduce costs from their 2021 level in the next two years.

Adequate Capitalisation: Capitalisation metrics are adequate in light of increasingly manageable execution risk from the restructuring but also reflect the bank's improving, but still modest, average internal capital generation relative to its peers'. We expect the common equity Tier 1 (CET1) ratio to remain above management's 12.5% floor in the next two years. The 4.3% fully-loaded leverage ratio at end-1H22 is on track to meet management's target of around 4.5% from 2022 as improved capital generation should offset exposure growth.

Diversified Funding; Comfortable Liquidity: Funding benefits from a well-established domestic deposit franchise that limits the bank's reliance on wholesale funding. The latter is well-diversified but remains more confidence-sensitive than most of its peers'.

Excess liquidity from deposit inflows and the participation in central bank tenders (TLTRO) has been deployed in lending. As a result, liquidity has declined close to management's target at end-1H22. We expect liquidity buffers to remain close to their current levels as declining deposit inflows and maturing TLTRO should be offset by weaker lending growth. We also expect cash to be shifted towards higher-yielding high-quality securities.

Rating Sensitivities

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

The Positive Outlook and the ratings could come under pressure if the bank fails to execute its cost-reduction plan or if revenue significantly declines as a result of a market-wide disruption or franchise erosion in core businesses relative to its peers'.

Rating pressure would also arise if the global economic downturn hinders the maintenance of adequate profits in the medium term, for example, by triggering persistently high LICs and eroding the CET1 ratio materially below 12.5% without swift recovery prospects.

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

An upgrade of the VR and Long-Term IDR would require the impact of the current economic setback on Deutsche Bank's capitalisation to be moderate, with CET1 and leverage ratios sustainably above 12.5% and 4.5%, respectively. In addition, an upgrade would require improved efficiency along with sustainable, balanced revenue resulting in an operating profit/RWA ratio of at least 1.5% on average with good prospects of maintaining resilient and sound profitability in the long term.

An upgrade of the Long-Term IDR would lead to an upgrade of the Short-Term IDR only if we upgrade the bank's funding & liquidity score to 'a' from 'a-'. This would require maintaining a liquidity buffer in line with management's targets and clear evidence of lower confidence sensitivity in the bank's funding such as durably tighter funding spreads, driven by more certainty that the bank's business model and internal capital generation are firmly strengthening.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

Deutsche Bank's DCR, long-term deposit and SP debt ratings are one notch above the Long-Term IDR. This reflects the protection of preferred creditors by the bank's large buffer of senior non-preferred (SNP) and more junior debt (18.1% of RWAs at end-1H22). The SNP debt rating is aligned with the Long-Term IDR for the same reason. The buffer is currently underpinned by the bank's subordinated minimum requirement for own funds and eligible liabilities (MREL requirement) of 24.8%, which is tighter than its total loss absorbing capacity (TLAC) requirement of 22.5% of RWAs.

The funding & liquidity score of 'a-' constrains the short-term deposit and SP debt ratings at 'F2', the lower of two options mapping to an 'A-' long-term preferred debt rating.

The Tier 2 notes are notched down twice from the VR to reflect their above-average loss severity resulting from their subordinated status. Deutsche Bank's CRR-compliant additional Tier 1 (AT1) notes and the legacy Tier 1 securities issued by Deutsche Postbank Funding Trust I and III are rated four notches below the VR. This consists of two notches for their deep subordination and another two notches for non-performance risk given their non-easily activated coupon omission.

Deutsche Bank's buffer over distribution-relevant requirements, which could trigger coupon restrictions on the CRR-compliant AT1s, were broadly stable and satisfactory at 253bp at end-1H22. A countercyclical buffer of 0.75% for Germany and a sectoral systemic risk buffer of 2% for German residential real estate exposures will be effective from February 2023. Combined and based on its current German credit exposures, these requirements translate into approximately a 50bp additional CET1 capital requirement for Deutsche Bank.

Four senior and one Tier 2 bonds issued by DSL Bank are notched up three times from Deutsche

Bank's Long-Term IDR, reflecting their outstanding recovery prospects. The German government (AAA/ Stable), which guarantees these bonds until maturity, is extremely likely to fully reimburse the grandfathered creditors in a Deutsche Bank default. However, we see no certainty that a reimbursement would be carried out on a timely basis as the DSL Transformation Act from 1999, on which the state guarantee is based, does not oblige the government to honour the guarantee on first demand.

Deutsche Bank's GSR of 'no support' reflects our view that, due to the resolution legislation in place in Germany since 2015, senior creditors cannot rely on full extraordinary support from the sovereign if the bank becomes non-viable.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

The DCR, long-term deposit and senior debt ratings are sensitive to changes in the Long-Term IDR. The DCR, long-term deposit and SP debt ratings could also be downgraded if the subordinated and SNP debt buffers are reduced to below 10% of RWAs, assuming the bank continues to meet its total MREL requirements with a combination of SP and more junior debt and equity. The short-term deposit and SP debt ratings would likely be upgraded if the long-term debt ratings are upgraded.

The ratings of the AT1 and Tier 2 notes are primarily sensitive to changes in the VR. The CRR-compliant AT1 debt could be downgraded to five notches below the VR, including three notches for non-performance, if we no longer expect the bank to maintain a buffer of over 100bp over distribution-relevant 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.

The ratings of the state-guaranteed bonds issued by DSL Bank are primarily sensitive to changes in Deutsche Bank's Long-Term IDR, and to timely execution of the guarantee by the sovereign, should the bank be unable to honour its obligations.

An upgrade of the GSR would require a positive change in the sovereign's propensity to support the bank's senior creditors. While not impossible, this is highly unlikely, in our view.

SUBSIDIARIES & AFFILIATES: KEY RATING DRIVERS

Deutsche Bank AG, London Branch's ratings are equalised with Deutsche Bank's as they refer to the same legal entity. The IDRs of Deutsche Bank's US subsidiaries Deutsche Bank Securities, Inc., Deutsche Bank Trust Corporation and Deutsche Bank Trust Company Americas are based on their SSRs, which are aligned with Deutsche Bank's Long-Term IDR. This reflects the subsidiaries' high integration and core roles in supporting the group's capital-market activities.

Deutsche Bank Australia Ltd.'s commercial paper programme rating is aligned with Deutsche Bank's short-term preferred debt ratings based on the strong support available from the parent.

The DCR of Deutsche Bank Securities Inc. also reflects the protection that could accrue to derivative counterparties from the bail-in debt and equity buffers at the level of the intermediate holding company DB USA Corporation.

SUBSIDIARIES AND AFFILIATES: RATING SENSITIVITIES

The ratings of the above-mentioned entities are sensitive to Deutsche Bank's Long-Term IDR, from which they are derived. The subsidiaries' ratings are also sensitive to a decline in their strategic importance to the group.

VR ADJUSTMENTS

The business profile score of 'bbb+' is below the 'a' category implied score, due to the following adjustment reason: strategy and execution (negative).

The earnings and profitability score of 'bbb' is above the 'bb' category implied score, due to the following adjustment reason: historical and future metrics (positive).

The capitalisation and leverage score of 'bbb+' is below the 'a' category implied score, due to the following adjustment reason: internal capital generation and growth (negative).

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 IDRs of Deutsche Bank Securities, Inc., Deutsche Bank Trust Corporation and Deutsche Bank Trust Company Americas are linked to Deutsche Bank's Long-Term IDR.

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

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Deutsche Bank AG	LT IDR	BBB+ ⊕	Affirmed		BBB+ ⊕
	ST IDR	F2	Affirmed		F2
	Viability	bbb+	Affirmed		bbb+
	Support	WD	Withdrawn		5
	Support Floor	WD	Withdrawn		NF
	DCR	A-(dcr)	Affirmed		A-(dcr)
	Government	ns	New Rating		

ENTITY/DEBT	RATING			RECOVERY	PRIOR
	Support				
• subordinated	LT	BB	Affirmed		BB
• long-term deposits	LT	A-	Affirmed		A-
• Senior preferred	LT	A-	Affirmed		A-
• Senior non-preferred	LT	BBB+	Affirmed		BBB+
• subordinated	LT	BBB-	Affirmed		BBB-
• guaranteed	LT	A+	Affirmed		A+
• short-term deposits	ST	F2	Affirmed		F2
• Senior preferred	ST	F2	Affirmed		F2
Deutsche					

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Postbank Funding Trust III					
• subordinated	LT	BB	Affirmed		BB
Deutsche Bank Australia Ltd.					
• senior unsecured	ST	F2	Affirmed		F2
Deutsche Bank Trust Corporation	LT IDR	BBB+	Affirmed		BBB+
	ST IDR	F2	Affirmed		F2
	Support	WD	Withdrawn		2
	Shareholder Support	bbb+	New Rating		
Deutsche Postbank Funding Trust I					
• subordinated	LT	BB	Affirmed		BB
Deutsche Bank AG, London Branch	LT IDR	BBB+	Affirmed		BBB+

ENTITY/DEBT	RATING			RECOVERY	PRIOR
	ST IDR	F2	Affirmed		F2
	DCR	A-(dcr)	Affirmed		A-(dcr)
• long-term deposits	LT	A-	Affirmed		A-
• Senior preferred	LT	A-	Affirmed		A-
• Senior non-preferred	LT	BBB+	Affirmed		BBB+
• subordinated	LT	BBB-	Affirmed		BBB-
• short-term deposits	ST	F2	Affirmed		F2
• Senior preferred	ST	F2	Affirmed		F2
Deutsche Bank Securities, Inc.	LT IDR	BBB+	Affirmed		BBB+
	ST IDR	F2	Affirmed		F2

ENTITY/DEBT	RATING			RECOVERY	PRIOR
	Support	WD	Withdrawn		2
	DCR	A-(dcr)	Affirmed		A-(dcr)
	Shareholder Support	bbb+	New Rating		
Deutsche Bank Trust Company Americas	LT IDR	BBB+ ⊕	Affirmed		BBB+ ⊕
	ST IDR	F2	Affirmed		F2
	Support	WD	Withdrawn		2
	Shareholder Support	bbb+	New Rating		
• senior unsecured	ST	F2	Affirmed		F2

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	⬘
NEGATIVE	⊖	⬙
EVOLVING	◎	◆
STABLE	⊙	

Applicable Criteria

Bank Rating Criteria (pub.07 Sep 2022) (including rating assumption sensitivity)

Non-Bank Financial Institutions Rating Criteria (pub.31 Jan 2022) (including rating assumption sensitivity)

Additional Disclosures

Solicitation Status

Endorsement Status

Deutsche Bank AG	EU Issued, UK Endorsed
Deutsche Bank AG, London Branch	EU Issued, UK Endorsed
Deutsche Bank Australia Ltd.	EU Issued, UK Endorsed
Deutsche Bank Securities, Inc.	EU Issued, UK Endorsed
Deutsche Bank Trust Company Americas	EU Issued, UK Endorsed
Deutsche Bank Trust Corporation	EU Issued, UK Endorsed
Deutsche Postbank Funding Trust I	EU Issued, UK Endorsed
Deutsche Postbank Funding Trust III	EU Issued, UK Endorsed

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