



Rating Action: Moody's upgrades Deutsche Bank AG's long-term ratings, outlook stable

12 Oct 2022

Frankfurt am Main, October 12, 2022 -- Moody's Investors Service ("Moody's") has today upgraded by one notch all long-term ratings and rating assessments of Deutsche Bank AG (DB). The bank's long-term deposit ratings have been upgraded to A1 from A2 and its long-term senior unsecured debt ratings have been upgraded to A1 from A2. The outlook on the long-term deposit and senior unsecured debt ratings has been changed to stable from positive.

The rating agency further upgraded DB's junior senior unsecured debt ratings to Baa1 from Baa2 as well as its Baseline Credit Assessment (BCA) to baa2 from baa3 and has affirmed the bank's short-term ratings at P-1.

For a list of all affected ratings and assessments, please refer to the end of this press release.

RATINGS RATIONALE

--- BCA

The one-notch upgrade of the BCA takes account of DB's progress towards meeting its medium-term targets, in particular by being able to sustain improved, yet still relatively modest, profitability. Moody's expects that DB's meaningfully reduced expense base should allow the bank to safeguard operating leverage in times of temporarily higher inflation and, thereby, defend its regained earnings strength. Further, recent interest-rate hikes have improved the prospects for higher returns within the bank's core lending businesses conducted in its retail and corporate banking segments despite expectations of at least a normalization in the cost of risk.

The higher BCA also reflects the bank's reduced reliance on market funding and high quality deposit base as well as the rating agency's assessment of the bank's prudent and well controlled risk appetite that is likely to result in a sound and relatively stable asset quality through the cycle. Although DB remains exposed to certain risk pockets such as commercial real estate and leveraged debt capital markets, the rating agency anticipates loan loss charges will be contained during the current highly uncertain macroeconomic environment. In addition, as of 30 June 2022, DB has reserved €5.0 billion in allowances for potential loan losses, equivalent to a cash coverage ratio of 45% on the bank's Stage 3 problem loans. This buffer will help dampen the impact on profitability and capital that may arise from a sharper-than-anticipated deterioration in asset quality. Further, DB has improved its leverage ratio and - throughout its years of business model repositioning - has maintained solid capital and liquidity metrics, additionally supporting its improved credit profile.

At its now higher level, the bank's baa2 BCA has become more sensitive to adverse developments in any of the aforementioned factors, which Moody's will keep monitoring closely.

--- LONG-TERM RATINGS

The one-notch upgrade of DB's long-term ratings reflects the one-notch upgrade of its BCA as well as the unchanged results of Moody's Advanced Loss Given Failure (LGF) analysis in assessing the bank's existing volume of loss-absorbing debt and the resulting loss severity for its different debt classes. For deposits and senior unsecured debt, this continues to lead to three notches of rating uplift from the bank's baa2 Adjusted BCA, prior to government support. For junior senior unsecured debt, Moody's Advanced LGF analysis continues to lead to one notch of rating uplift from the bank's baa2 Adjusted BCA.

Moody's also maintained its assumption of a moderate probability of government support for junior depositors and senior unsecured creditors, in case of need. This assumption continues to lead to one notch of additional rating uplift to the deposit and senior unsecured debt ratings of the bank, its subsidiaries and branches, where applicable. For the bank's junior senior unsecured debt, its subordinated debt and hybrid instruments, the rating agency continues to believe there is only a low potential for government support and these ratings, therefore, do not benefit from any government support uplift.

--- STABLE OUTLOOK

The stable outlook on the bank's long-term deposit and senior unsecured debt ratings reflects the rating agency's expectation that DB will be able to maintain financial stability and, in particular, sustain its improved level of profitability as measured by Moody's net income/tangible assets ratio, even in more uncertain operating environment. The resulting higher capital-generation capacity will allow DB to offset strain on earnings potentially resulting from cyclically lower capital market revenues or higher loan loss charges and provisioning. The stable outlook also reflects the rating agency's assessment that the bank will maintain generally sound asset quality despite the slowdown in economic growth.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Moody's could upgrade the ratings if the bank improved its leverage ratio to 5% or above as well as increased its capital and liquidity metrics. The ratings could also be upgraded if DB meaningfully reduced its dependence on confidence-sensitive capital markets funding. Further, making visible progress towards exceeding its medium-term targets, in particular earning sustainably improved returns well above its 10% return on tangible equity target, while continuing to invest to strengthen its technology platform and control infrastructure, would support an upgrade. Any upgrade remains contingent on the bank maintaining a prudent and well controlled risk appetite resulting in a sound and stable asset quality and associated metrics through the cycle.

Moody's could downgrade the ratings if DB suffered a strategic setback, particularly with respect to achieving sustainable revenue generation or permanent cost savings supporting a stable operating expense base over time. In addition, the ratings could be downgraded should DB experience a material risk management failure or sustained deterioration in asset quality, liquidity or capital, or its franchise and reputation. The ratings could also be downgraded if additional litigation charges were required well in excess of existing reserves.

A downgrade could also result from a sustained decrease in the volume of bail-in-able debt relative to the bank's tangible banking assets, leading to a higher loss severity of DB's junior senior unsecured debt or other liability classes at failure and potentially resulting in a lower rating uplift as a result of Moody's Advanced LGF analysis.

LIST OF AFFECTED RATINGS

Issuer: Deutsche Bank AG

..Upgrades:

....Long-term Counterparty Risk Ratings, upgraded to A1 from A2

....Long-term Bank Deposits, upgraded to A1 from A2, outlook changed to Stable from Positive

....Long-term Counterparty Risk Assessment, upgraded to A1(cr) from A2(cr)

....Long-term Issuer Rating, upgraded to A1 from A2, outlook changed to Stable from Positive

....Baseline Credit Assessment, upgraded to baa2 from baa3

....Adjusted Baseline Credit Assessment, upgraded to baa2 from baa3

....Senior Unsecured Regular Bond/Debenture, upgraded to A1 from A2, outlook changed to Stable from Positive

....Senior Unsecured Shelf, upgraded to (P)A1 from (P)A2

....Senior Unsecured Medium-Term Note Program, upgraded to (P)A1 from (P)A2

....Junior Senior Unsecured Regular Bond/Debenture, upgraded to Baa1 from Baa2

....Junior Senior Unsecured Shelf, upgraded to (P)Baa1 from (P)Baa2

....Junior Senior Unsecured Medium-Term Note Program, upgraded to (P)Baa1 from (P)Baa2

....Subordinate Regular Bond/Debenture, upgraded to Baa3 from Ba1

....Subordinate Shelf, upgraded to (P)Baa3 from (P)Ba1

....Subordinate Medium-Term Note Program, upgraded to (P)Baa3 from (P)Ba1

....Preferred Stock Non-cumulative, upgraded to Ba2(hyb) from Ba3(hyb)

..Affirmations:

....Short-term Counterparty Risk Ratings, affirmed P-1

....Short-term Bank Deposits, affirmed P-1

....Short-term Counterparty Risk Assessment, affirmed P-1(cr)

....Commercial Paper, affirmed P-1

....Other Short Term, affirmed (P)P-1

..Outlook Action:

....Outlook changed to Stable from Positive

Issuer: Deutsche Bank AG, London Branch

..Upgrades:

....Long-term Counterparty Risk Ratings, upgraded to A1 from A2

....Long-term Counterparty Risk Assessment, upgraded to A1(cr) from A2(cr)

....Senior Unsecured Regular Bond/Debenture, upgraded to A1 from A2, outlook changed to Stable from Positive

....Senior Unsecured Shelf, upgraded to (P)A1 from (P)A2

....Senior Unsecured Medium-Term Note Program, upgraded to (P)A1 from (P)A2

....Backed Senior Unsecured Medium-Term Note Program, upgraded to (P)A1 from (P)A2

....Junior Senior Unsecured Regular Bond/Debenture, upgraded to Baa1 from Baa2

....Junior Senior Unsecured Shelf, upgraded to (P)Baa1 from (P)Baa2

....Junior Senior Unsecured Medium-Term Note Program, upgraded to (P)Baa1 from (P)Baa2

....Backed Junior Senior Unsecured Medium-Term Note Program, upgraded to (P)Baa1 from (P)Baa2

....Subordinate Regular Bond/Debenture, upgraded to Baa3 from Ba1

....Subordinate Shelf, upgraded to (P)Baa3 from (P)Ba1

....Subordinate Medium-Term Note Program, upgraded to (P)Baa3 from (P)Ba1

..Affirmations:

....Short-term Counterparty Risk Ratings, affirmed P-1

....Short-term Counterparty Risk Assessment, affirmed P-1(cr)

....Other Short Term, affirmed (P)P-1

..Outlook Action:

....Outlook changed to Stable from Positive

Issuer: Deutsche Bank AG, New York Branch

..Upgrades:

....Long-term Counterparty Risk Ratings, upgraded to A1 from A2

....Long-term Bank Deposits, upgraded to A1 from A2, outlook changed to Stable from Positive

....Long-term Deposit Note/CD Program Takedown, upgraded to A1 from A2, outlook changed to Stable from Positive

....Long-term Counterparty Risk Assessment, upgraded to A1(cr) from A2(cr)

....Senior Unsecured Regular Bond/Debenture, upgraded to A1 from A2, outlook changed to Stable from Positive

....Senior Unsecured Shelf, upgraded to (P)A1 from (P)A2

....Senior Unsecured Medium-Term Note Program, upgraded to (P)A1 from (P)A2

....Junior Senior Unsecured Regular Bond/Debenture, upgraded to Baa1 from Baa2

....Junior Senior Unsecured Shelf, upgraded to (P)Baa1 from (P)Baa2

....Junior Senior Unsecured Medium-Term Note Program, upgraded to (P)Baa1 from (P)Baa2

....Subordinate Regular Bond/Debenture, upgraded to Baa3 from Ba1

....Subordinate Shelf, upgraded to (P)Baa3 from (P)Ba1

....Subordinate Medium-Term Note Program, upgraded to (P)Baa3 from (P)Ba1

..Affirmations:

....Short-term Counterparty Risk Ratings, affirmed P-1

....Short-term Bank Deposits, affirmed P-1

....Short-term Counterparty Risk Assessment, affirmed P-1(cr)

..Outlook Action:

....Outlook changed to Stable from Positive

Issuer: Deutsche Bank AG, Paris Branch

..Upgrades:

....Long-term Counterparty Risk Ratings, upgraded to A1 from A2

....Long-term Bank Deposits, upgraded to A1 from A2, outlook changed to Stable from Positive

....Long-term Counterparty Risk Assessment, upgraded to A1(cr) from A2(cr)

..Affirmations:

....Short-term Counterparty Risk Ratings, affirmed P-1

....Short-term Bank Deposits, affirmed P-1

....Short-term Counterparty Risk Assessment, affirmed P-1(cr)

..Outlook Action:

....Outlook changed to Stable from Positive

Issuer: Deutsche Bank AG, Singapore Branch

..Upgrades:

....Long-term Counterparty Risk Ratings, upgraded to A1 from A2

....Long-term Counterparty Risk Assessment, upgraded to A1(cr) from A2(cr)

....Senior Unsecured Medium-Term Note Program, upgraded to (P)A1 from (P)A2

....Junior Senior Unsecured Regular Bond/Debenture, upgraded to Baa1 from Baa2

....Junior Senior Unsecured Medium-Term Note Program, upgraded to (P)Baa1 from (P)Baa2

..Affirmations:

....Short-term Counterparty Risk Ratings, affirmed P-1

....Short-term Counterparty Risk Assessment, affirmed P-1(cr)

....Other Short Term, affirmed (P)P-1

..Outlook Action:

....Outlook changed to Stable from Positive

Issuer: Deutsche Bank AG, Sydney Branch

..Upgrades:

....Long-term Counterparty Risk Ratings, upgraded to A1 from A2

....Long-term Counterparty Risk Assessment, upgraded to A1(cr) from A2(cr)

....Senior Unsecured Medium-Term Note Program, upgraded to (P)A1 from (P)A2

....Junior Senior Unsecured Regular Bond/Debenture, upgraded to Baa1 from Baa2

....Junior Senior Unsecured Medium-Term Note Program, upgraded to (P)Baa1 from (P)Baa2

....Subordinate Medium-Term Note Program, upgraded to (P)Baa3 from (P)Ba1

..Affirmations:

....Short-term Counterparty Risk Ratings, affirmed P-1

....Short-term Counterparty Risk Assessment, affirmed P-1(cr)

....Other Short Term, affirmed (P)P-1

..Outlook Action:

....Outlook changed to Stable from Positive

Issuer: Deutsche Bank Financial LLC

..Upgrades:

....Backed Senior Unsecured Medium-Term Note Program, upgraded to (P)A1 from (P)A2

....Backed Subordinate Medium-Term Note Program, upgraded to (P)Baa3 from (P)Ba1

..Affirmation:

....Backed Commercial Paper, affirmed P-1

..No Outlook assigned

Issuer: Deutsche Finance (Netherlands) B.V.

..Upgrades:

....Backed Senior Unsecured Regular Bond/Debenture, upgraded to A1 from A2, outlook changed to Stable from Positive (assumed by Deutsche Bank AG)

....Backed Junior Senior Unsecured Regular Bond/Debenture, upgraded to Baa1 from Baa2 (assumed by Deutsche Bank AG)

..No Outlook assigned

Issuer: Deutsche Postbank Funding Trust I

..Upgrade:

....Preferred Stock Non-cumulative, upgraded to Ba1(hyb) from Ba2(hyb)

..No Outlook assigned

Issuer: Deutsche Postbank Funding Trust III

..Upgrade:

....Preferred Stock Non-cumulative, upgraded to Ba1(hyb) from Ba2(hyb)

..No Outlook assigned

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at <https://ratings.moodys.com/api/rmc-documents/71997>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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Michael Rohr
Senior Vice President
Financial Institutions Group
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main, 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Laurie Mayers
Associate Managing Director
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main, 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

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