

## **FITCH DOWNGRADES DEUTSCHE BANK TO 'BBB+'; OUTLOOK STABLE**

Fitch Ratings-London-28 September 2017: Fitch Ratings has downgraded Deutsche Bank AG's (Deutsche Bank) Long-Term Issuer Default Rating (IDR) to 'BBB+' from 'A-' and Short-Term IDR to 'F2' from 'F1'. The Outlook on the Long-Term IDR is Stable. At the same time, Fitch has downgraded the bank's Viability Rating (VR) to 'bbb+' from 'a-'. All debt and deposit ratings have also been downgraded by one notch. A full list of rating actions on the bank and its affected subsidiaries is at the end of this rating action commentary.

The rating actions have been taken in conjunction with Fitch's periodic review of the Global Trading and Universal Banks (GTUB), which comprises 12 large and globally active banking groups.

### **KEY RATING DRIVERS**

#### **IDRS, VR, DCR, DEPOSIT AND SENIOR DEBT RATINGS DEUTSCHE BANK**

The downgrades reflect continued pressure on Deutsche Bank's earnings, combined with prolonged implementation of its strategy. We no longer expect revenue to demonstrate any clear signs of franchise recovery this year and we expect necessary further restructuring costs to continue to erode net income. Deutsche Bank's strategic restructuring came later than those of most of its GTUB peers'. In addition, the scale and scope of what it has to do plus strategic revisions earlier this year mean that Deutsche Bank has further to go to complete its business restructuring than any of the other GTUBs.

Consequently, we expect it to take some time before the bank will be able to deliver on earnings targets, including a post-tax return on tangible equity (RoTE) of around 10% in a more supportive interest rate environment.

Revenue is suffering from low capital market volatility combined with persistently low interest rates, particularly in Europe, where the bank is strongest. Franchise erosion in capital markets, notably in prime services, in 4Q16 has been reversed to some extent, but it will take time for client demand to return fully in light of intense competition and due to subdued client trading activity given low market volatility. We expect additional restructuring costs from the integration of Deutsche Postbank AG (Postbank) and from further necessary expenses on IT systems.

Positively for the ratings, capitalisation was boosted by the bank's rights issue in April, and the planned IPO of a minority stake in its asset management division together with further asset disposals during the next 12-18 months gives it flexibility to add a further EUR2 billion to common equity. Deutsche Bank's end-June 2017 fully loaded Common Equity Tier 1 (CET1) ratio was 14.1%, and the bank's leverage ratio was 3.8%, with management targeting to maintain the CET1 ratio "comfortably above" 13% and achieve a leverage ratio of 4.5%.

The strategic reorientation announced in March towards a more balanced universal banking business model should improve earnings stability, but Fitch will look for evidence that that it can achieve healthy profitability out of its large domestic deposit base, and that it can draw on its franchise strengths of a solid German private and corporate customer base extended to global corporate banking and debt capital markets solutions.

Despite notable widening of spreads on unsecured market funding in 2016 and some institutional deposit outflows in 4Q16, we believe that Deutsche Bank retains strong, well-diversified funding by geography, product and customer, and maintains ample liquidity. It reported liquidity reserves of EUR285 billion as at end-June 2017, a large proportion of which were in cash or deposits with major central banks.

The downgrades of Deutsche Bank's Short-Term IDR and short-term debt ratings to 'F2' reflect mapping to a 'BBB+' Long-Term IDR on our rating scales.

Deutsche Bank's Derivative Counterparty Rating (DCR) and long-term deposit and preferred senior debt ratings are one notch above the IDR because derivatives, deposits and structured notes have preferential status over the bank's large buffer of qualifying junior debt and statutorily subordinated senior debt. The short-term deposit and preferred senior debt ratings have been downgraded to 'F2' to match the downgrade of the long-term ratings to 'A-', which is the lower of the two short-term ratings as there are no clear liquidity enhancements at instrument level.

#### IDRs, SUPPORT RATINGS, DCRs, DEPOSIT AND SENIOR DEBT RATINGS DEUTSCHE BANK AG, LONDON BRANCH AND SUBSIDIARIES

The IDRs and debt ratings of Deutsche Bank AG, London branch, of Postbank and of Deutsche Bank's subsidiaries in the US and Australia are equalised with Deutsche Bank's to reflect their core roles within the group, especially Deutsche Bank's capital markets activities, and their high integration with the parent bank or their role as issuing vehicles. The downgrades of the subsidiaries' Support Ratings (SR) to '2' from '1' reflect our view of the reduced ability of the parent to support its subsidiaries signalled by the downgrade of its IDRs.

Deutsche Bank AG, London branch's DCR and long-term deposit and preferred senior debt ratings benefit from the same one-notch uplift above the IDR given to equivalent ratings at Deutsche Bank, as we believe that the insolvency hierarchy is most likely to follow the incorporation of the legal entity rather than where the branch is located. In contrast, we have not given uplift to Deutsche Bank Securities' DCR, which is at the same level as the entity's Long-Term IDR.

Postbank's long-term deposit rating is equalised with the issuer's Long-Term IDR because Postbank does not have a sufficient qualifying subordinated and non-preferred senior debt buffer at entity level to provide a buffer above these in resolution. It has been placed on Rating Watch Positive to reflect our view that once it is merged with Deutsche Bank's retail banking subsidiary, we believe that the large buffer of qualifying junior debt and statutorily subordinated senior debt at Deutsche Bank would be available to protect depositors in its core domestic retail bank subsidiary in a resolution scenario.

The rating of the guaranteed notes issued by the former DSL Bank (which was merged into Postbank) reflects their grandfathered deficiency guarantee from Germany (AAA/Stable). The notes are rated two notches below the guarantor's Long-Term IDR as Fitch sees some uncertainty around the timeliness of payments under the guarantee given its deficiency language, but the uncertainty is small due to the high reputational risk Germany would face if debtholders incurred losses.

#### SUPPORT RATINGS AND SUPPORT RATING FLOOR DEUTSCHE BANK

Deutsche Bank's SR of '5' and Support Rating Floor (SRF) of 'No Floor' reflect our view that senior creditors cannot rely on receiving full extraordinary support from the sovereign in the event that it becomes non-viable.

#### SUBORDINATED DEBT AND OTHER HYBRID SECURITIES DEUTSCHE BANK AND SUBSIDIARIES

Subordinated debt and other hybrid capital instruments issued by Deutsche Bank and its subsidiaries are all notched down from Deutsche Bank's VR in accordance with our assessment of each instrument's respective non-performance and relative loss severity risk profiles, and have been downgraded by one notch accordingly.

Legacy Tier 1 securities issued by Deutsche Bank Contingent Capital Trust II, III, IV and V and by Deutsche Postbank Funding Trust I, II and III are rated four notches below Deutsche Bank's VR, reflecting higher-than-average loss severity (two notches), as well as high risk of non-performance (an additional two notches) given partial discretionary coupon omission.

High and low trigger contingent additional Tier 1 (AT1) capital instruments are rated five notches below the VR. The issues are notched down twice for loss severity, reflecting poor recoveries as the instruments can be converted to equity or written down well ahead of resolution. In addition, they are notched down three times for high non-performance risk, reflecting fully discretionary coupon omission.

Available distributable items (ADIs) referenced for AT1 securities are calculated annually under German GAAP for the parent bank and reference primarily cumulative retained earnings. Despite earnings weaknesses, we do not expect cumulative retained earnings to fall below a sufficient level to pay AT1 securities in the foreseeable future. The bank has remained current on payment of AT1 coupons to date. Non-payment of AT1 coupon would also be triggered by any breach of the bank's maximum distributable amount (MDA) requirement, which stands at 9.52% for 2017, combining CET1 and the Pillar 2 add-on requirement resulting from the ECB's Supervisory Review and Evaluation Process (SREP). Deutsche Bank has a substantial buffer above this threshold (its end-June 2017 phased-in CET1 ratio was 14.86%).

## RATING SENSITIVITIES

### IDRs, VR, DCR, DEPOSIT AND SENIOR DEBT RATINGS

#### DEUTSCHE BANK

Successful completion of Deutsche Bank's restructuring together with sustainable improvement in earnings could result in an upgrade of the ratings provided risk appetite does not increase or the bank's liquidity profile does not weaken significantly to achieve this. This would demonstrate franchise improvement and would likely require higher market share in targeted markets.

Given the rating level, we do not expect a further downgrade of the ratings unless implementation of the strategic plan meets notable setbacks, particularly around the integration of Postbank. New, substantial litigation or restructuring costs that prevent the bank from retaining capitalisation on target would also be negative for the ratings.

Deutsche Bank's DCRs, deposit and debt ratings are primarily sensitive to changes in the Long-Term IDR. In addition, Deutsche Bank's DCRs, deposit rating and senior preferred debt ratings are sensitive to the amount of subordinated and non-preferred senior debt buffers relative to the recapitalisation amount likely to be needed to restore viability and prevent default on more senior derivative obligations, deposits and structured notes.

### IDRs, SUPPORT RATINGS, DCRs, DEPOSIT AND SENIOR DEBT RATINGS

#### DEUTSCHE BANK AG, LONDON BRANCH AND SUBSIDIARIES

Deutsche Bank subsidiaries' ratings reflect the parent bank's and the ratings would move in line with Deutsche Bank's. They are further sensitive to changes in our assumptions around the propensity of Deutsche Bank to provide timely support. Assuming no change in the propensity to provide support, an upgrade of Deutsche Bank would result in an upgrade of its subsidiaries' SRs.

We expect to upgrade the long-term deposit rating of Postbank's successor legal entity to 'A-' following its merger.

The rating of the guaranteed notes issued by the former DSL Bank is primarily sensitive to a downgrade of Germany's Long-Term IDR.

## SR AND SRF

### DEUTSCHE BANK

An upgrade of Deutsche Bank's SR and upward revision of the SRF would be contingent on a positive change in the sovereign's propensity to support banks' senior creditors in full. While not impossible, this is highly unlikely, in our view.

## SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

### DEUTSCHE BANK AND SUBSIDIARIES

Subordinated debt and other hybrid securities are primarily sensitive to a change in Deutsche Bank's VR. The securities' ratings are also sensitive to a change in their notching, which could arise if Fitch changes its assessment of the probability of their non-performance relative to the risk captured in the respective issuers' VRs. This may reflect a change in capital management in the group or an unexpected shift in regulatory buffer requirements, for example.

For AT1 instruments, non-performance risk could increase and the instruments notched further from the VR if ADI reduce significantly or if the MDA buffer tightens considerably as a result of a heightened Pillar 2 binding requirement or CET1 erosion from losses.

The rating actions are as follows:

#### Deutsche Bank AG

Long-Term IDR downgraded to 'BBB+' from 'A-'; Outlook Stable

Short-Term IDR downgraded to 'F2' from 'F1'

Viability Rating downgraded to 'bbb+' from 'a-'

Support Rating affirmed at '5'

Support Rating Floor affirmed at 'No Floor'

Derivative Counterparty Rating downgraded to 'A-(dcr)' from 'A(dcr)'

Deposit ratings: downgraded to 'A-/'F2' from 'A/'F1'

Senior preferred debt ratings downgraded to 'A-' from 'A'

Senior non-preferred debt and senior unsecured programme ratings downgraded to 'BBB+/'F2' from 'A-/'F1'

Senior market-linked securities downgraded to 'A-(emr)' from 'A(emr)'

Subordinated lower Tier II debt downgraded to 'BBB' from 'BBB+'

Additional Tier 1 notes downgraded to 'BB-' from 'BB'

#### Deutsche Bank AG, London Branch

Long-Term IDR downgraded to 'BBB+' from 'A-'; Outlook Stable

Short-Term IDR downgraded to 'F2' from 'F1'

Derivative Counterparty Rating downgraded to 'A-(dcr)' from 'A(dcr)'

Deposit ratings downgraded to 'A-/'F2' from 'A/'F1'

Senior preferred debt ratings downgraded to 'A-' from 'A'

Senior non-preferred debt ratings and commercial paper downgraded to 'BBB+/'F2' from 'A-/'F1'

Senior market-linked securities: downgraded to 'A-(emr)' from 'A(emr)'

Subordinated market-linked securities: downgraded to 'BBB(emr)' from 'BBB+(emr)'

#### Deutsche Postbank AG

Long-Term IDR downgraded to 'BBB+' from 'A-'; Outlook Stable

Short-Term IDR downgraded to 'F2' from 'F1'

Support Rating downgraded to '2' from '1'

Long-term deposit rating downgraded to 'BBB+' from 'A-', placed on Rating Watch Positive

Short-term deposit rating downgraded to 'F2' from 'F1'  
Senior debt issuance programme ratings, including ECP, downgraded to 'BBB+'/'F2' from 'A-'/'F1'  
Guaranteed senior unsecured bonds issued by the former DSL Bank affirmed at 'AA'

Deutsche Bank Securities, Inc.

Long-Term IDR downgraded to 'BBB+' from 'A-'; Outlook Stable  
Short-Term IDR downgraded to 'F2' from 'F1'  
Support Rating downgraded to '2' from '1'  
Derivative Counterparty Rating downgraded to 'BBB+(dcr)' from 'A-(dcr)'

Deutsche Bank Trust Company Americas

Long-Term IDR downgraded to 'BBB+' from 'A-'; Outlook Stable  
Short-Term IDR downgraded to 'F2' from 'F1'  
Support Rating downgraded to '2' from '1'  
Senior debt ratings downgraded to 'F2' from 'F1'

Deutsche Bank Trust Corporation

Long-Term IDR downgraded to 'BBB+' from 'A-'; Outlook Stable  
Short-Term IDR downgraded to 'F2' from 'F1'  
Support Rating downgraded to '2' from '1'  
Senior programme ratings downgraded to 'BBB+'/'F2' from 'A-'/'F1'

Deutsche Bank Australia Ltd.

Commercial paper short-term rating downgraded to 'F2' from 'F1'

Deutsche Bank Contingent Capital Trust II, III, IV and V

Preferred securities ratings downgraded to 'BB' from 'BB+'

Deutsche Postbank Funding Trust I, II and III

Preferred securities ratings downgraded to 'BB' from 'BB+'

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## Applicable Criteria

Global Bank Rating Criteria (pub. 25 Nov 2016)

<https://www.fitchratings.com/site/re/891051>

Global Non-Bank Financial Institutions Rating Criteria (pub. 10 Mar 2017)

<https://www.fitchratings.com/site/re/895236>

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