FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Deutsche Bank at 'A-'; Outlook Stable

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Fitch Ratings - Frankfurt am Main - 21 Jun 2024: Fitch Ratings has affirmed Deutsche Bank AG's Long-Term Issuer Default Rating (IDR) at 'A-' with a Stable Outlook and Viability Rating (VR) at 'a-'. Fitch has also affirmed Deutsche Bank's debt ratings. A full list of rating actions is below.

KEY RATING DRIVERS

Restructured Global Universal Bank: Deutsche Bank's ratings reflect its restructured, fairly diversified business model, albeit with a still significant contribution from more volatile trading and capital market activities and lack of domestic pricing power compared with higher-rated global trading and universal bank (GTUB) peers. The bank's sound risk appetite, asset quality, funding and liquidity support the ratings.

Fitch expects profitability to continue to improve on the back of consistent strategic execution in the next two years, but to remain below the peer average in the near term. Weaker, albeit improving, internal capital generation and tighter buffers over regulatory requirements than most large European banks result in capitalisation being only adequate.

Fairly Balanced Business Profile: Deutsche Bank has a fairly diversified business model focused on four businesses: investment bank (IB), which usually remains the largest revenue and profit contributor, corporate bank (CB), private bank (PB) and asset management (AM). The revenue contribution and cost/income ratios of the CB and PB have substantially improved. Together with AM, they accounted on average for about two-thirds of total revenue in the past two years.

leading global positions in fixed-income and currency trading and strengthened its market position in the past quarters.

Improving Risk Controls: Litigation costs and regulatory fines are materially above peer average. Large investments have improved anti-financial crime controls since 2019, but we believe that Deutsche Bank's business model is intrinsically exposed to these risks. At the same time, the bank has a good record of managing credit and counterparty risk in most businesses. Appetite for market risk is fairly limited despite sizeable trading operations. Interest-rate risk in the banking book is largely hedged and well-managed.

Resilient Asset Quality: We expect Deutsche Bank's asset quality to continue moderately deteriorating and its impaired loan ratio to remain above 3% in the next two years on the back of commercial real estate defaults, to which the bank has larger relative exposure than large European banks. The bank's large exposure to Germany, good record of managing credit risk and adequate collateralisation mitigate lower loan loss allowance coverage compared with peers. Non-loan assets are generally of good credit quality and are neutral to our asset-quality assessment.

Growing Earnings: The bank's operating profit/risk-weighted assets (RWAs) steadily improved to an adequate 1.7% in 2023. We expect revenue from the bank's hedge portfolio to mitigate the decline in deposit margins in the next two years and stabilise net interest income only marginally below the 2023 level. We also believe the bank has potential to grow its net fee and commission income.

Combined with tight cost management and moderately above average through-the-cycle loan impairment charges (LICs), the bank's operating profit/RWAs should rise to above 2%, excluding the Postbank-related litigation charges in 2024. However, we believe that the full realisation of the planned cost-cutting and revenue growth initiatives remains subject to material execution risk in a more volatile economic environment.

Adequate Capitalisation: Capitalisation is adequate in light of completion of the bank's restructuring and benefits from improving internal capital generation. High regulatory capital and leverage requirements result in lower maximum distributable amounts than most European peers. We expect the common equity Tier 1 (CET1) capital ratio and the Basel leverage ratio to remain in line with management's targets of about 13% and at least

Diversified Funding; Sound Liquidity: We expect the bank to take measures to maintain its solid deposit franchise, limiting its reliance on market funding in the next two years. The latter is well-diversified but remains more confidence-sensitive than GTUB peers, as evidenced by the sharper fall of Deutsche Bank's bond prices in late March 2023. We expect liquidity to remain sound and loan and deposit balances to remain broadly in line with end-2023 levels.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

The ratings could come under pressure if the bank fails to at least stabilise its cost-efficiency, revenue significantly declines or franchise erosion in core businesses relative to its peers, leading to operating profit/RWAs durably below 1.5%. Rating pressure would also arise if a global deterioration of credit conditions hinders adequate operating profits, for example, by triggering persistently higher LICs than our current expectations and durably eroding the CET1 ratio below 13%.

We could also downgrade the ratings if the bank's liquidity metrics fall more than expected, leading to loss of market confidence, without swift recovery prospects or following significantly higher than anticipated operational losses, for example, from civil litigation or regulatory fines.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade would require further strengthening of the bank's business model and franchise growth in stable and profitable businesses. This would have to result in a more balanced revenue profile and reduced operating profit variability, as seen at higher-rated peers, sound internal capital generation, substantially better cost-efficiency along with and operating profit/RWAs sustainably at 2% or above. An upgrade would also require clear evidence of lower confidence sensitivity in the bank's funding and liquidity, while maintaining sound risk appetite and asset quality.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

Deutsche Bank's funding and liquidity score of 'a-' constrains the bank's Short-Term IDR at preferred (SNP) debt rating is aligned with the Long-Term IDR. This reflects the protection of SP creditors by large SNP and junior debt buffers (17.7% of RWAs at end-March 2024). The buffers are underpinned by the bank's subordinated minimum requirement for own funds and eligible liabilities (MREL) of 24.7% of RWAs, which is higher than its total loss-absorbing capacity requirement of 23.2%.

Deutsche Bank's short-term deposit and senior preferred debt ratings of 'F1' are rated above the bank's Short-Term IDR but .at the lower of two options mapping to the long-term debt ratings of 'A', as Deutsche Bank's funding and liquidity score is below the required threshold for a higher short-term rating.

We rate the Tier 2 notes two notches below the VR to reflect the poor recovery prospects of these instruments. We rate Deutsche Bank's additional Tier 1 (AT1) notes and legacy Tier 1 notes issued by Deutsche Postbank Funding Trust I and III four notches below the VR (two notches for poor recovery prospects and two notches for non-performance risk). The bank had a broadly stable and sufficient buffer of 229bp over the minimum required to pay coupons on its AT1s at end-March 2024.

Senior and 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 if Deutsche Bank defaults. However, we see no certainty that a reimbursement would be 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.

No Government Support: Deutsche Bank's Government Support Rating (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

An upgrade of the Short-Term IDR would require an upgrade of the bank's funding & liquidity score to 'a' from 'a-'. This would require maintaining a liquidity buffer in line with

The DCR, long-term deposit and senior debt ratings are primarily 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 reduce 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 ratings of the AT1 and Tier 2 notes are primarily sensitive to changes in the VR. The 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 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, Deutsche Bank Trust Company Americas (DBTCA) and Deutsche Bank National Trust Company are based on their Shareholder Support Ratings (SSRs) of 'a-', which are aligned with Deutsche Bank's Long-Term IDR. This reflects the subsidiaries' high integration and core roles in supporting the group's US operations.

DBTCA's long-term deposit rating and Deutsche Bank Securities Inc.'s DCR are one notch above their respective Long-Term IDRs because Fitch expects DBTCA's depositors and Deutsche Bank Securities Inc.'s derivative counterparties to be protected by junior and senior non-preferred debt and equity buffers that Deutsche Bank AG has pre-placed at its intermediate holding company DB USA Corporation and that depositor preference in the US would result in good recovery prospects.

SUBSIDIARIES AND AFFILIATES: RATING SENSITIVITIES

The ratings of the above entities are primarily sensitive to Deutsche Bank's IDRs, from which they are derived. The subsidiaries' ratings are also sensitive to a perceived decline in their strategic importance to the group.

VR ADJUSTMENTS

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).

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, Deutsche Bank Trust Company Americas and Deutsche Bank National Trust Company are linked to Deutsche Bank's Long-Term IDR.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING	PRIOR

	ST IDR	F2	Affirmed	F2
	Viability	a-	Affirmed	a-
	DCR	A(dcr)	Affirmed	A(dcr)
	Government Support	ns	Affirmed	ns
Senior non-preferred	LT	A-	Affirmed	A-
Senior preferred	LT	A	Affirmed	A
subordinated	LT	BBB	Affirmed	BBB
subordinated	LT	BB+	Affirmed	BB+
long-term deposits	LT	A	Affirmed	A

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Non-Bank Financial Institutions Rating Criteria (pub. 17 Jan 2024) (including rating assumption sensitivity)

Bank Rating Criteria (pub. 15 Mar 2024) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Deutsche Bank AG	EU Issued, UK Endorsed
Deutsche Bank AG, London Branch	EU Issued, UK Endorsed
Deutsche Bank National Trust Company	EU Issued, UK Endorsed
Deutsche Bank Securities, Inc.	EU Issued, UK Endorsed
Deutsche Bank Trust Company Americas	EU Issued, UK Endorsed
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Deutsche Postbank Funding Trust I	EU Issued, UK Endorsed
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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch's website.

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