

Research Update:

# Deutsche Bank Issuer Credit Ratings Raised To 'A/A-1' On Strengthening Performance And Resilience; Outlook Stable

December 8, 2023

## Overview

- Deutsche Bank continues to narrow the gap with peers by growing its franchise, strengthening its earnings, and maintaining solid capital and liquidity profiles.
- We therefore raised our long- and short-term issuer credit ratings on Deutsche Bank AG to 'A/A-1' from 'A-/A-2', and our long-term resolution counterparty rating to 'A+' from 'A'.
- Additionally, we raised the long-term issue ratings on senior preferred, senior nonpreferred, Tier 2, and additional Tier 1 debt by one notch.
- The stable outlook reflects our expectation that the bank will maintain its disciplined strategic execution and improve its performance toward its 2025 targets.

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## Rating Action

On Dec. 8, 2023, S&P Global Ratings raised its long- and short-term issuer credit ratings on Deutsche Bank AG to 'A/A-1' from 'A-/A-2', as well as the ratings on its branches, and its core European and U.S. subsidiaries. The outlook is stable.

At the same time, we raised our long-term resolution counterparty ratings on Deutsche Bank AG and its branches to 'A+' from 'A', and affirmed the 'A-1' short-term resolution counterparty ratings. In addition, we affirmed our 'trAAA/A-1+' Turkish national scale issuer credit ratings on the bank.

We also raised our issue ratings on Deutsche Bank's senior unsecured (senior preferred), senior nonpreferred, Tier 2, and Additional Tier 1 debt instruments by one notch.

## Rationale

**The rating action reflects Deutsche Bank's strengthened performance and resilience.** The 2019-2022 transformation program established a more focused and profitable bank, and management is now focused on delivering franchise growth and operating leverage. Like those of peers, Deutsche Bank's retail and corporate banking activities have received a cyclical boost from higher interest rates that provides greater balance to the large investment bank division. We also see structural improvements, including more disciplined strategic execution and a stronger focus on cost efficiency.

**Deutsche Bank targets further progress through 2025.** It will narrow the performance gap with 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%. On the bank's adjusted reporting basis, these metrics were 8.8% and 68%, respectively, in the first nine months of 2023. We think it will make progress toward its goals if it maintains its recent momentum and the external operating environment evolves broadly in line with our base-case expectations.

**We see pockets of risk within the generally robust loan portfolio.** Deutsche Bank's lending is diversified by sector and well-collateralized, and has performed solidly despite tepid economic growth, particularly in its home market of Germany. Credit loss charges were 28 basis points (bps) of average loans in the first nine months of 2023, and the bank expects the full year figure to be at the upper end of the 25 bps-30 bps range. The portfolio includes certain exposures that we see as higher risk, notably elements of the €32 billion non-recourse commercial real estate (CRE) loan book that falls within the scope of the bank's severe stress test. Elevated refinancing risks, particularly in the U.S., mean that CRE is likely to remain a material contributor to the bank's credit loss charges in 2024. The bank's CRE stress test indicates potential losses of €900 million in a severe downturn scenario, which would be an earnings event rather than a hit to capital.

**Deutsche Bank's funding and liquidity profiles are neutral to the rating.** The 132% liquidity coverage ratio and 121% net stable funding ratio as of Sept. 30, 2023, were consistent with internal targets. We view positively that 71% of the deposit base came from the bank's home market and, excluding bank deposits, 39% of the deposit base was insured. Deutsche Bank's liquidity position was tested in March 2023 following short-selling of its shares and it navigated this short-lived stress well, in our view.

**We think Deutsche Bank has supportive capitalization.** Its regulatory metrics and guidance surprised on the upside in the third quarter of 2023. The common equity Tier 1 ratio improved to 13.9% and management indicated that it will potentially free up about €3 billion more capital than it previously planned. As a result, it looks likely to raise its €8 billion target for shareholder distributions in 2021-2025, which we reflect in our risk-adjusted capital (RAC) projection alongside other relevant factors. Although we see the RAC ratio reaching 10.0%-10.5% at year-end 2025, our capital and earnings assessment remains neutral for the rating. This is because we think the ratio will only marginally exceed the 10% threshold and we consider that Deutsche Bank's overall capital, earnings, and financial flexibility metrics are not yet supportive of a stronger outcome.

**We now incorporate a positive comparable rating analysis (CRA) adjustment in the rating.** The adjustment is informed by peer analysis and captures attributes not fully captured in our other rating factors. Specifically, we think the improvements outlined above in Deutsche Bank's business position, capital and earnings, and risk position do not warrant a higher assessment for those individual factors but cumulatively merit a stronger rating outcome.

## Outlook

The stable outlook reflects our expectation that Deutsche Bank will maintain its disciplined strategic execution and strengthen its performance toward its 2025 targets. This progress would further improve the bank's resilience to unexpected stress. It also assumes that the bank's asset quality will remain robust amid slow economic growth and geopolitical upheaval, and it will maintain sound capital and liquidity ratios in line with management's guidance.

If we were to improve our capital and earnings assessment during our two-year outlook horizon, we would likely remove the positive CRA adjustment and affirm the issuer credit and issue ratings.

## Downside scenario

We could lower the ratings if Deutsche Bank fails to deliver a stronger and more consistent performance, resulting in a noteworthy repositioning of its business and operating models. An escalation of economic and geopolitical risks could also pressure the ratings if it significantly weakens the bank's prospective asset quality and earnings.

## Upside scenario

A further upgrade is unlikely over the outlook horizon but could occur if Deutsche Bank positions its creditworthiness closer to peers with 'a-' group stand-alone credit profiles. We would look for evidence of franchise growth, stronger and more consistent performance, balanced divisional earnings contributions, and robust balance sheet metrics.

## Ratings Score Snapshot

	To	From
Issuer Credit Rating	A/Stable/A-1	A-/Positive/A-2
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 and adequate (0)	Adequate and adequate (0)
Comparable ratings analysis	+1	0
Support	+2	+2
ALAC support	+2	+2
GRE support	0	0

	To	From
<b>Issuer Credit Rating</b>	<b>A/Stable/A-1</b>	<b>A-/Positive/A-2</b>
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

## Related Criteria

- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- 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 AG, May 31, 2023
- Deutsche Bank Outlook Revised To Positive On Strengthening Resilience And Performance; Ratings Affirmed, May 17, 2023
- Deutsche Bank Long-Term Rating Raised To 'A-' On Improved Performance And Strategy Execution; Outlook Stable, Nov. 9, 2021

## Ratings List

### Ratings Affirmed

#### Deutsche Bank AG

Issuer Credit Rating	
Turkey National Scale	trAAA/--/trA-1+

**Upgraded**

	To	From
<b>Deutsche Bank National Trust Co.</b>		
<b>Deutsche Bank Trust Co. Delaware</b>		
<b>Deutsche Bank Trust Co. Americas</b>		
Resolution Counterparty Rating	A/--/A-1	A/--/A-2
<b>Deutsche Bank Securities Inc.</b>		
Resolution Counterparty Rating		
Local Currency	A/--/A-1	A/--/A-2
<b>Deutsche Bank AG</b>		
Resolution Counterparty Liability	A+	A
Senior Unsecured	A	A-
Senior Subordinated	BBB	BBB-
Subordinated	BBB-	BB+
Subordinated	BBB-p	BB+p
Junior Subordinated	BB	BB-
Certificate Of Deposit	A	A-
Certificate Of Deposit	A-1	A-2
Commercial Paper	A-1	A-2
<b>Deutsche Bank AG (London Branch)</b>		
Resolution Counterparty Liability	A+	A
Senior Unsecured	A	A-
Senior Subordinated	BBB	BBB-
<b>Deutsche Bank AG (New York branch)</b>		
Senior Unsecured	A	A-
Senior Subordinated	BBB	BBB-
Subordinated	BBB-	BB+

**Upgraded; 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/Stable/A-1	A-/Positive/A-2
<b>Deutsche Bank Securities Inc.</b>		
Issuer Credit Rating		
Local Currency	A/Stable/A-1	A-/Positive/A-2

**Upgraded; Ratings Affirmed**

	To	From
<b>Deutsche Bank AG</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>		
Resolution Counterparty Rating	A+/-/A-1	A/-/A-1

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