

Rating Action: Moody's downgrades Deutsche Bank legacy senior debt to Baa3 following change in bank insolvency law and affirms A3 counterparty and deposit ratings

03 Aug 2018

New York, August 03, 2018 -- Moody's Investors Service ("Moody's") downgraded Deutsche Bank AG's (DB) senior debt to Baa3 from Baa2 and reclassified the bonds as junior senior debt which do not carry outlooks. Moody's also affirmed DB's A3 deposit and A3 counterparty risk ratings with a negative outlook. These actions on DB and related actions detailed below, follows the introduction of a new senior unsecured debt class in Germany that ranks above outstanding (statutorily subordinated) senior unsecured debt instruments, which took effect on 21 July 2018.

The legal changes re-introduced an option for German banks to issue preferred senior unsecured liabilities, as well as to issue new contractually non-preferred, or junior senior, debt, which will rank alongside outstanding legacy plain vanilla senior unsecured debt. At the same time, Moody's believes that following the legal change, the likelihood of government support being available for most outstanding senior unsecured bank bonds has declined, as under the revised legislation those bonds issued prior to 21 July 2018 remain subordinated to future preferred senior unsecured bank debt. Following the change in law, the legal hierarchy of bank claims in Germany is now consistent with most other European Union (EU) countries, where statutes do not provide full preference to deposits over senior unsecured debt. Consequently, the application of Moody's Advanced Loss Given Failure (LGF) analysis reflects the revised hierarchy of claims. Further detail on the decline in government support and the revision of the rating agency's LGF approach and resulting actions on other German banks' can be found at https://www.moody.com/research/--PR_386808.

With respect to Deutsche Bank, the following additional rating actions were taken after the change in German law.

Affirmation of DB's standalone baseline credit assessment at ba1.

- Affirmation of the A3 ratings on DB's long-term senior unsecured debt instruments with structural features. At the same time, Moody's reclassified these rated instruments as senior unsecured debt from senior senior unsecured debt previously. These instruments remain on negative outlook.

- Upgrade of DB's long-term issuer ratings to A3 from Baa2 reflecting that Moody's assigns issuer ratings at the level of the most senior unsecured debt class available in any jurisdiction. These ratings remain on negative outlook.

- Affirmation of DB's A3 long-term deposit and counterparty risk ratings, reflecting unchanged outcomes and rating uplift under Moody's Advanced LGF analysis, as well as unchanged government support assumptions. These deposits remain on negative outlook.

- Affirmation of DB's Prime-2 short-term debt and deposit ratings.

- Withdrawal of DB's (P)A3 senior senior unsecured program ratings and assignment of (P)Baa3 junior senior programme rating to DB's operative shelves, which contain the option to issue junior senior debt.

Furthermore, Moody's reclassified senior bonds issued by Deutsche Siedlungs- und Landesrentenbank (DSL) as backed junior senior unsecured debt and affirmed their ratings at Aaa with no outlook.

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

RATINGS RATIONALE

The downgrade of Deutsche Bank's existing senior debt to Baa3 and its reclassification as new junior senior instruments reflects the legal change explicitly designating these bonds as loss-absorbing in case a bank needs to be recapitalised. Legally, the new non-preferred instruments will rank pari passu with the majority of outstanding senior bonds issued up until 20 July 2018, to the extent the latter instruments were subject to

Germany's statutory subordination under the previous insolvency ranking. This pari passu ranking makes it less likely that German authorities would selectively support statutorily subordinated senior unsecured bonds (today reclassified into junior senior), following clarification that the German authorities expect these liabilities to bear losses in a resolution. Furthermore, any selective support could give rise to claims by adversely selected creditors that the No Creditor Worse Off principle established in the BRRD had been breached.

In affirming DB's ba1 BCA, Moody's noted that DB's management has lowered DB's asset risk and strengthened its capitalization. Management has disposed of many non-core assets, settled litigations, scaled back DB's geographic perimeter and built up liquidity. Management also enhanced the bank's financial flexibility by raising €8 billion in common equity in 2017.

The negative outlook on Deutsche Bank's A3 debt and deposit ratings reflects the rising and extended execution challenges still facing Deutsche Bank, highlighted by recent management changes and strategic shifts.

There are still structural impediments blocking a quick path to restored profitability for DB in its German commercial banking activities, as well as potential revenue weakness associated with rationalizing the bank's capital markets activities. Furthermore, it is unclear how management will create an investment bank more focused on European clients that can compete effectively against more diversified peers with stronger US presences, while also earning acceptable returns over the cycle. The plan requires management to refocus DB's franchise, improve its profitability and strengthen its operating platform over the next two to three years -- particularly the plan to modernize the technology of the bank to generate efficiencies and enhance controls.

What could change the ratings up?

The negative outlook indicates there is no imminent upward pressure on DB ratings. In the longer term, substantial progress on DB's strategic transformation plan resulting in a more balanced and stable business mix and improved profitability could result in upward rating pressure.

What could change the ratings down?

A sharp decline in capitalization or liquidity or a material risk management failure could lead to a downgrade. Furthermore, Moody's expects DB to be modestly profitable (including restructuring costs) in a €26 billion revenue environment in 2018 and 2019. Persistent failure to achieve profitability during this period may lead to downward rating pressure.

RECLASSIFICATION AND AFFIRMATION OF LEGACY SENIOR DSL BONDS

In addition to the above rating actions on DB, Moody's reclassified plain vanilla senior bonds that were issued by DSL in the 1990s and which benefit from a guarantee by the Government of Germany (Aaa stable). Following the change in German law, these instruments now fall into the backed junior senior unsecured debt class, while previously they were considered backed senior unsecured debt. The instrument ratings were affirmed at Aaa and no longer carry outlooks, in line with Moody's general practice of not assigning outlooks to the junior senior debt class.

DSL is a subsidiary of DB Privat- und Firmenkundenbank AG, which in turn is wholly owned by DB. The legacy senior DSL bonds are subject to bail-in and are treated pari passu with all other junior senior unsecured debt contained within the DB resolution perimeter. However, the guarantee status ensures unchanged recourse in resolution to the Government of Germany, which determines the bonds' Aaa rating level.

The principal methodology used in these ratings was Banks published in August 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Ratings Action:

..Issuer: Deutsche Bank AG

Assignments:

....Junior Senior Unsecured Medium-Term Note Program, Assigned (P)Baa3

Downgrades and reclassification:

....Senior Unsecured Regular Bond/Debentures, Downgraded to Baa3 from Baa2, reclassified to Junior Senior

Unsecured Regular Bond/Debentures with no outlook

Upgrades:

.... Issuer Rating, Upgraded to A3 from Baa2, Negative Outlook

....Senior Unsecured Shelf, Upgraded to (P)A3 from (P)Baa2

....Senior Unsecured Medium-Term Note Program, Upgraded to (P)A3 from (P)Baa2

Affirmations:

.... Adjusted Baseline Credit Assessment, Affirmed ba1

.... Baseline Credit Assessment, Affirmed ba1

.... LT Counterparty Risk Assessment, Affirmed A3(cr)

.... ST Counterparty Risk Assessment, Affirmed P-2(cr)

.... LT Counterparty Risk Rating, Affirmed A3

.... ST Counterparty Risk Rating, Affirmed P-2

....Commercial Paper, Affirmed P-2

....Subordinate Medium-Term Note Program, Affirmed (P)Ba2

....Other Short Term Medium-Term Note Program, Affirmed (P)P-2

....Pref. Stock Non-cumulative Preferred Stock, Affirmed B1 (hyb)

....Subordinate Regular Bond/Debentures, Affirmed Ba2

....Subordinate Shelf, Affirmed (P)Ba2

.... LT Deposit Rating, Affirmed A3, Negative outlook

.... ST Deposit Rating, Affirmed P-2

Affirmations and reclassification:

....Senior Senior Unsecured Regular Bond/Debentures, Affirmed A3, Negative outlook, reclassified to Senior Unsecured Regular Bond/Debentures

Withdrawals:

....Senior Senior Medium-Term Note Program, Withdrawn, previously rated (P)A3

Outlook Actions:

....Outlook, Remains Negative

..Issuer: Deutsche Bank AG, London Branch

Assignments:

....Junior Senior Unsecured Medium-Term Note Program, Assigned (P)Baa3

....Backed Junior Senior Unsecured Medium-Term Note Program, Assigned (P)Baa3

Downgrades and reclassification:

....Senior Unsecured Regular Bond/Debentures, Downgraded to Baa3 from Baa2, reclassified to Junior Senior Unsecured Regular Bond/Debentures with no outlook

Upgrades:

...Senior Unsecured Medium-Term Note Program, Upgraded to (P)A3 from (P)Baa2

...Backed Senior Unsecured Medium-Term Note Program, Upgraded to (P)A3 from (P)Baa2

Affirmations:

... LT Counterparty Risk Assessment, Affirmed A3(cr)

... ST Counterparty Risk Assessment, Affirmed P-2(cr)

... LT Counterparty Risk Rating, Affirmed A3

... ST Counterparty Risk Rating, Affirmed P-2

...Subordinate Medium-Term Note Program, Affirmed (P)Ba2

...Subordinate Regular Bond/Debenture, Affirmed Ba2

...Other Short Term Medium-Term Note Program, Affirmed (P)P-2

Affirmations and reclassification:

...Senior Senior Unsecured Regular Bond/Debentures, Affirmed A3, Negative outlook, reclassified to Senior Unsecured Regular Bond/Debentures

Withdrawals:

...Senior Senior Medium-Term Note Program, Withdrawn, previously rated (P)A3

Outlook Actions:

...Outlook, Remains Negative

..Issuer: Deutsche Bank AG, New York Branch

Assignments:

...Junior Senior Unsecured Medium-Term Note Program, Assigned (P)Baa3

Downgrades and reclassification:

...Senior Unsecured Regular Bond/Debentures, Downgraded to Baa3 from Baa2, reclassified to Junior Senior Unsecured Regular Bond/Debentures with no outlook

Upgrades:

...Senior Unsecured Shelf, Upgraded to (P)A3 from (P)Baa2

...Senior Unsecured Medium-Term Note Program, Upgraded to (P)A3 from (P)Baa2

Affirmations:

... LT Counterparty Risk Assessment, Affirmed A3(cr)

... ST Counterparty Risk Assessment, Affirmed P-2(cr)

... LT Counterparty Risk Rating, Affirmed A3

... ST Counterparty Risk Rating, Affirmed P-2

...Subordinate Shelf, Affirmed (P)Ba2

...Subordinate Regular Bond/Debenture, Affirmed Ba2

...Deposit Note/Takedown, Affirmed A3, Negative outlook

.... LT Deposit Rating, Affirmed A3, Negative outlook

.... ST Deposit Rating, Affirmed P-2

Withdrawals:

...Senior Senior Medium-Term Note Program, Withdrawn, previously rated (P)A3

Outlook Actions:

....Outlook, Remains Negative

..Issuer: Deutsche Bank AG, Paris Branch

Affirmations:

.... LT Counterparty Risk Assessment, Affirmed A3(cr)

.... ST Counterparty Risk Assessment, Affirmed P-2(cr)

.... LT Counterparty Risk Rating, Affirmed A3

.... ST Counterparty Risk Rating, Affirmed P-2

.... LT Deposit Rating, Affirmed A3, Negative outlook

.... ST Deposit Rating, Affirmed P-2

Outlook Actions:

....Outlook, Remains Negative

..Issuer: Deutsche Bank AG, Singapore Branch

Assignments:

....Junior Senior Unsecured Medium-Term Note Program, Assigned (P)Baa3

Downgrades and reclassification:

....Senior Unsecured Regular Bond/Debentures, Downgraded to Baa3 from Baa2, reclassified to Junior Senior Unsecured Regular Bond/Debentures with no outlook

Upgrades:

...Senior Unsecured Medium-Term Note Program, Upgraded to (P)A3 from (P)Baa2

Affirmations:

.... LT Counterparty Risk Assessment, Affirmed A3(cr)

.... ST Counterparty Risk Assessment, Affirmed P-2(cr)

.... LT Counterparty Risk Rating, Affirmed A3

.... ST Counterparty Risk Rating, Affirmed P-2

....Other Short Term Medium-Term Note Program, Affirmed (P)P-2

Outlook Actions:

....Outlook, Remains Negative

..Issuer: Deutsche Bank AG, Sydney Branch

Assignments:

....Junior Senior Unsecured Medium-Term Note Program, Assigned (P)Baa3

Downgrades and reclassification:

....Senior Unsecured Regular Bond/Debentures, Downgraded to Baa3 from Baa2, reclassified to Junior Senior Unsecured Regular Bond/Debentures with no outlook

Upgrades:

....Senior Unsecured Medium-Term Note Program, Upgraded to (P)A3 from (P)Baa2

Affirmations:

.... LT Counterparty Risk Assessment, Affirmed A3(cr)

.... ST Counterparty Risk Assessment, Affirmed P-2(cr)

.... LT Counterparty Risk Rating, Affirmed A3

.... ST Counterparty Risk Rating, Affirmed P-2

....Subordinate Medium-Term Note Program, Affirmed (P)Ba2

....Other Short Term Medium-Term Note Program, Affirmed (P)P-2

Outlook Actions:

....Outlook, Remains Negative

..Issuer: Deutsche Bank Capital Finance Trust I

Affirmations:

....Junior Subordinated Regular Bond/Debenture, Affirmed Ba3 (hyb)

..Issuer: Deutsche Bank Contingent Capital Trust II

Affirmations:

....Pref. Stock Preferred Stock, Affirmed B1 (hyb)

..Issuer: Deutsche Bank Contingent Capital Trust V

Affirmations:

....Pref. Stock Preferred Stock, Affirmed B1 (hyb)

..Issuer: Deutsche Bank Financial LLC

Upgrades:

....Senior Unsecured Medium-Term Note Program, Upgraded to (P)A3 from (P)Baa2

Affirmations:

....Backed Subordinate Medium-Term Note Program, Affirmed (P)Ba2

....Backed Commercial Paper, Affirmed P-2

..Issuer: Deutsche Finance (Netherlands) B.V.

Downgrades and reclassification:

....Backed Senior Unsecured Regular Bond/Debentures, Downgraded to Baa3 from Baa2, reclassified to

Backed Junior Senior Unsecured Regular Bond/Debentures with no outlook

Affirmations and reclassification:

...Senior Senior Unsecured Regular Bond/Debentures, Affirmed A3, Negative Outlook, reclassified to Backed Senior Unsecured Regular Bond/Debentures

..Issuer: Deutsche Siedlungs- und Landesrentenbank

Affirmations and reclassification:

...Backed Senior Unsecured Regular Bond/Debentures, Affirmed Aaa, reclassified to Backed Junior Senior Unsecured Regular Bond/Debentures with no outlook

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