Rating Action: Moody's upgrades Deutsche Bank AG's ratings, outlook positive

04 Aug 2021

Baseline Credit Assessment upgraded to baa3

Frankfurt am Main, August 04, 2021 -- Moody's Investors Service ("Moody's") has today upgraded by one notch all ratings and rating assessments of Deutsche Bank AG (DB). The bank's long- and short-term deposit ratings have been upgraded to A2/P-1 from A3/P-2 and its long-term senior unsecured debt ratings have been upgraded to A2 from A3. The outlook on the long-term deposit and senior unsecured debt ratings has been changed to positive from ratings under review.

The rating agency further upgraded DB's junior senior unsecured debt ratings to Baa2 from Baa3 as well as its Baseline Credit Assessment (BCA) to baa3 from ba1.

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

These rating actions conclude the review for upgrade initiated on the bank's ratings on 17 May 2021.

RATINGS RATIONALE

--- BCA

The one-notch upgrade of the BCA takes account of Moody's assessment that DB is likely to make continued progress towards meeting its medium-term targets, in particular by being able to sustain adequate, yet still relatively modest, profitability. The rating agency believes the bank will be able to safeguard achievements in growing revenues and earnings and keep contained revenue or market share declines in its capital markets business in a less favourable market environment. Together with its substantially reduced expense base, this should bode well for maintaining positive operating leverage over time. Further, additional earnings strain from the persistent ultra-low interest-rate environment is likely to fade from late 2021 onwards, offering the potential for higher earnings in DB's retail and corporate banking segments.

Moody's further expects DB to maintain a prudent and well controlled risk appetite that is aligned with its corporate governance priorities. Together with the bank's diversified loan book displaying manageable exposures to sectors most affected by the pandemic as well as to certain risk pockets such as commercial real estate and leveraged debt capital markets, the rating agency anticipates the bank will be able to keep contained loan loss charges during the continued uncertain macroeconomic environment.

The upgrade of the bank's BCA is also reflective of Moody's expectation that DB will maintain its solid capital and liquidity buffers.

--- 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 recently revised 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 under its recently updated Banks Methodology. For deposits and senior unsecured debt, this continues to lead to three notches of rating uplift from the bank's baa3 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 baa3 Adjusted BCA.

Moody's also maintained its assumption of a moderate probability of government support for junior depositors and senior unsecured creditors to be forthcoming to DB, in case of need. This assumption continues to lead to one notch of additional rating uplift for the bank's and its subsidiaries' as well as branches' deposit and senior unsecured debt ratings, 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.

--- POSITIVE OUTLOOK
The positive outlook on the bank's long-term deposit and senior unsecured debt ratings reflects the possibility that DB's strong and steady progress in rectifying its business challenges could result in it achieving a sustained and improved level of stability in its existing financial profile, that in time would support consideration of a further upward rating shift. In particular, this upward shift could be driven by a continued meaningful and sustained improvement in core earnings as measured by Moody's net income/tangible assets ratio and the resulting higher capital-generation capacity. The positive outlook also takes account of the rating agency's assessment of any foreseeable deterioration in asset quality caused by the continued uncertain operating environment to be manageable and not lead to a decline in the bank's generally sound asset quality indicators or a meaningful negative impact on the bank's earnings.

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

Upward rating pressure will develop if the bank makes further meaningful progress towards its medium-term targets, in particular earning sustainably improved returns at or above its 8% return on tangible equity target level, while continuing to invest to strengthen its technology platform and control infrastructure. 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. Further, improving its leverage ratio and maintaining solid capital and liquidity metrics around current levels could contribute to additional upward rating pressure. The ratings could also be supported by a further reduced dependence on confidence-sensitive capital markets funding as expressed through Moody's market funding ratio.

Downward rating pressure would develop if DB suffers a reversal in moving towards meeting its strategic milestones, particularly with respect to achieving sustainable revenue generation, realised cost saves and related de-risking costs in its non-core unit. The ratings could also be downgraded if DB's earnings were strained by sustained market headwinds or additional litigation costs that materially exceed existing reserves. In addition, the ratings could be downgraded should DB experience a material risk management failure or material deterioration in asset quality, liquidity or capital.

Downward rating pressure 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 OFAffected RATINGS

Issuer: Deutsche Bank AG

...Upgrades:

....Long-term Counterparty Risk Ratings, upgraded to A2 from A3

....Short-term Counterparty Risk Ratings, upgraded to P-1 from P-2

....Long-term Bank Deposits, upgraded to A2 from A3, outlook changed to Positive from Ratings under Review

....Short-term Bank Deposits, upgraded to P-1 from P-2

....Long-term Counterparty Risk Assessment, upgraded to A2(cr) from A3(cr)

....Short-term Counterparty Risk Assessment, upgraded to P-1(cr) from P-2(cr)

....Long-term Issuer Rating, upgraded to A2 from A3, outlook changed to Positive from Ratings under Review

....Baseline Credit Assessment, upgraded to baa3 from ba1

....Adjusted Baseline Credit Assessment, upgraded to baa3 from ba1

....Senior Unsecured Regular Bond/Debenture, upgraded to A2 from A3, outlook changed to Positive from Ratings under Review

....Senior Unsecured Shelf, upgraded to (P)A2 from (P)A3

....Senior Unsecured Medium-Term Note Program, upgraded to (P)A2 from (P)A3
Issuer: Deutsche Bank AG, London Branch

Outlook Action:

Outlook changed to Positive from Rating under Review

Issuer: Deutsche Bank AG, New York Branch

Outlook Action:

Outlook changed to Positive from Rating under Review

Issuer: Deutsche Bank AG, London Branch

Outlook Action:

Outlook changed to Positive from Rating under Review

Issuer: Deutsche Bank AG, New York Branch

Outlook Action:
....Long-term Counterparty Risk Ratings, upgraded to A2 from A3
....Short-term Counterparty Risk Ratings, upgraded to P-1 from P-2
....Long-term Bank Deposits, upgraded to A2 from A3, outlook changed to Positive from Ratings under Review
....Short-term Bank Deposits, upgraded to P-1 from P-2
....Long-term Deposit Note/CD Program Takedown, upgraded to A2 from A3, outlook changed to Positive from Ratings under Review
....Long-term Counterparty Risk Assessment, upgraded to A2(cr) from A3(cr)
....Short-term Counterparty Risk Assessment, upgraded to P-1(cr) from P-2(cr)
....Senior Unsecured Regular Bond/Debenture, upgraded to A2 from A3, outlook changed to Positive from Ratings under Review
....Senior Unsecured Shelf, upgraded to (P)A2 from (P)A3
....Senior Unsecured Medium-Term Note Program, upgraded to (P)A2 from (P)A3
....Junior Senior Unsecured Regular Bond/Debenture, upgraded to Baa2 from Baa3
....Junior Senior Unsecured Shelf, upgraded to (P)Baa2 from (P)Baa3
....Junior Senior Unsecured Medium-Term Note Program, upgraded to (P)Baa2 from (P)Baa3
....Subordinate Regular Bond/Debenture, upgraded to Ba1 from Ba2
....Subordinate Shelf, upgraded to (P)Ba1 from (P)Ba2
....Subordinate Medium-Term Note Program, upgraded to (P)Ba1 from (P)Ba2

Outlook Action:
....Outlook changed to Positive from Rating under Review

Issuer: Deutsche Bank AG, Paris Branch

Upgrades:
....Long-term Counterparty Risk Ratings, upgraded to A2 from A3
....Short-term Counterparty Risk Ratings, upgraded to P-1 from P-2
....Long-term Bank Deposits, upgraded to A2 from A3, outlook changed to Positive from Ratings under Review
....Short-term Bank Deposits, upgraded to P-1 from P-2
....Long-term Counterparty Risk Assessment, upgraded to A2(cr) from A3(cr)
....Short-term Counterparty Risk Assessment, upgraded to P-1(cr) from P-2(cr)

Outlook Action:
....Outlook changed to Positive from Rating under Review

Issuer: Deutsche Bank AG, Singapore Branch

Upgrades:
....Long-term Counterparty Risk Ratings, upgraded to A2 from A3
....Short-term Counterparty Risk Ratings, upgraded to P-1 from P-2
Issuer: Deutsche Bank AG, Sydney Branch

Upgrades:

- Long-term Counterparty Risk Assessment, upgraded to A2(cr) from A3(cr)
- Short-term Counterparty Risk Assessment, upgraded to P-1(cr) from P-2(cr)
- Senior Unsecured Medium-Term Note Program, upgraded to (P)A2 from (P)A3
- Junior Senior Unsecured Regular Bond/Debenture, upgraded to Baa2 from Baa3
- Junior Senior Unsecured Medium-Term Note Program, upgraded to (P)Baa2 from (P)Baa3
- Other Short Term, upgraded to (P)P-1 from (P)P-2

Outlook Action:

Outlook changed to Positive from Rating under Review

Issuer: Deutsche Bank Financial LLC

Upgrades:

- Backed Senior Unsecured Medium-Term Note Program, upgraded to (P)A2 from (P)A3
- Backed Subordinate Medium-Term Note Program, upgraded to (P)Ba1 from (P)Ba2
- Backed Commercial Paper, upgraded to P-1 from P-2

No Outlook assigned

Issuer: Deutsche Finance (Netherlands) B.V.

Upgrades:

- Backed Senior Unsecured Regular Bond/Debenture, upgraded to A2 from A3, outlook changed to Positive from Ratings under Review
- Backed Junior Senior Unsecured Regular Bond/Debenture, upgraded to Baa2 from Baa3

No Outlook assigned

Issuer: Deutsche Postbank Funding Trust I
Upgrade:
....Preferred Stock Non-cumulative, upgraded to Ba3 (hyb) from B1 (hyb)
..No Outlook assigned
Issuer: Deutsche Postbank Funding Trust II
Upgrade:
....Preferred Stock Non-cumulative, upgraded to Ba3 (hyb) from B1 (hyb)
..No Outlook assigned
Issuer: Deutsche Postbank Funding Trust III
Upgrade:
....Preferred Stock Non-cumulative, upgraded to Ba3 (hyb) from B1 (hyb)
..No Outlook assigned

PRINCIPAL METHODOLOGY

REGULATORY DISCLOSURES
For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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