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Deutsche Bank AG

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Deutsche Bank AG

SACP	bbb+	+	Support	0	+	Additional Factors	0

Anchor	a-	
Business Position	Adequate	0
Capital and Earnings	Adequate	0
Risk Position	Moderate	-1
Funding	Average	0
Liquidity	Adequate	

GRE Support	0
Group Support	0
Sovereign Support	0

Issuer Credit Rating
BBB+/Stable/A-2

Major Rating Factors

Strengths:	Weaknesses:
• Improved capital position following 2013-2014 issuance and ongoing deleveraging. • Robust corporate and investment banking franchise supplemented by businesses serving retail, corporate, and institutional clients. • Good track record in credit risk management in traditional retail and corporate banking.	• Relative concentration in corporate and investment banking. • Material litigation and restructuring charges and poor cost efficiency are likely to continue to burden organic capital generation over our rating horizon. • Strategic and execution risks as the bank, led by its new CEO, finalizes and then implements a revised business plan.

Outlook: Stable

The stable outlook reflects our expectation that Deutsche Bank will maintain satisfactory risk and balance sheet metrics as it implements its revised strategy. We expect that our risk-adjusted capital (RAC) ratio, which was 9.3% at year-end 2014, will be in the 8.5%-9.0% range at year-end 2016 as core earnings and balance sheet deleveraging only partly mitigate further material exceptional items including litigation and restructuring charges.

We could revise the anchor to 'bbb+' from 'a-' due to the proposed deconsolidation of German retail subsidiary Deutsche Postbank AG or if we revise down our Banking Industry Country Risk Assessment (BICRA) for Germany, which currently features a negative trend for economic risk. We would then reassess the bank-specific rating factors based on updated peer comparisons. We would likely affirm the current counterparty credit ratings in these circumstances. However, a downgrade is possible if we see no mitigating factors that would offset the lower anchor and we conclude that a 'bbb' group credit profile is appropriate relative to German and international peers. We could also lower the ratings if Deutsche Bank falters in the execution of its new strategy.

In time, we could raise the long-term rating if Deutsche Bank makes progress in delivering its revised strategy, leading to a more stable business model, stronger capital generation through earnings, and a more predictable and transparent risk profile. We could also raise the rating if Deutsche Bank builds a larger buffer of additional loss-absorbing capacity (ALAC) than we currently expect or if its RAC ratio moves comfortably and sustainably above our 10% threshold.

Rationale

The starting point for our ratings on Deutsche Bank is its 'a-' anchor, which is based on our view of economic risks across the countries in which it operates and industry risks in its home market of Germany. We then adjust the anchor for our assessment of the following bank-specific factors:

- An "adequate" business position that balances Deutsche Bank's robust franchise in its core markets with the material contribution to group revenues of corporate and investment banking activities and its strategic challenges.
- "Adequate" capital and earnings because we believe that Deutsche Bank's equity and hybrid issuance in 2013-2014 provides a larger cushion to address future uncertainties and maintain the RAC ratio comfortably above our 7% threshold.
- A "moderate" risk position due to the inherent complexity of parts of Deutsche Bank's capital markets business and the elevated litigation and execution risks that we see over our rating horizon.
- "Average" funding and "adequate" liquidity because we consider the bank to have a solid profile that is further underpinned by its deleveraging process.

Finally, although we consider that Deutsche Bank has "high" systemic importance, we consider that the tendency of Germany to support private sector commercial banks is "uncertain" under our criteria. We therefore do not factor potential extraordinary government support into the ratings. In addition, we do not raise the ratings under the ALAC criteria because we believe Deutsche Bank's ALAC ratio is unlikely to exceed our 5.25% threshold over the projection period.

Anchor: 'a-', reflecting German home market and geographic mix of lending

The 'a-' anchor draws on our BICRA methodology and our view of the weighted-average economic risk in the countries in which Deutsche Bank operates, based on the geographic distribution of its gross loan exposures. This distribution is approximately 50% in Germany, 20% in the rest of Western Europe, 15% in North America (primarily the U.S.), 10% in Asia-Pacific, and 5% in the rest of the world. The weighted-average economic risk score rounds to '2' on a scale of 1-10 ('1' representing the lowest risk and '10' the highest), which compares to '1' for a bank operating solely in Germany.

The industry risk score of '3' is based solely on Deutsche Bank's home market. Our industry risk assessment benefits from Germany's extensive funding market and banks' domestic funding surpluses from low domestic credit growth and high savings rates. However, the banking sector's competitive dynamics result in relatively low profitability, which is fueled by significant disparities in banks' commercial targets and the business and risk profiles of market players.

The proposed deconsolidation of Postbank, which is expected to begin around late 2016, would materially reduce Deutsche Bank's outstanding loans in Germany and would likely lower the weighted-average economic risk score to '3' and the anchor to 'bbb+'. We intend to reassess the anchor later this year, once Deutsche Bank has confirmed its plans for executing its new strategy.

Table 1

Deutsche Bank AG Key Figures

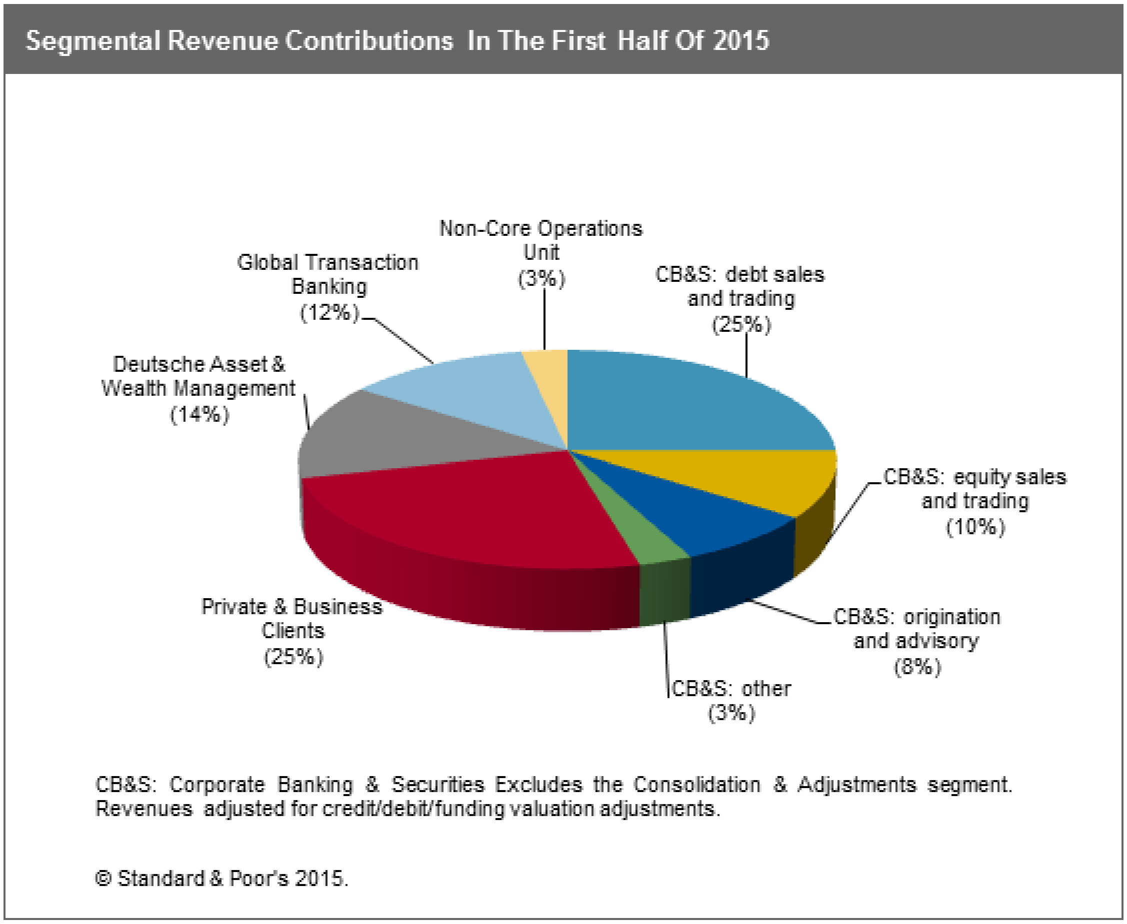
		--Year-ended Dec. 31--			
(Mil. €)	**2015***	**2014**	**2013**	**2012**	**2011**
Adjusted assets	1,678,487.0	1,693,752.0	1,597,468.0	1,998,110.0	2,148,301.0
Customer loans (gross)	405,856.0	386,622.0	357,071.0	374,126.0	381,368.0
Adjusted common equity	49,098.0	46,967.0	37,604.0	36,833.0	35,166.0
Operating revenues	19,389.0	31,637.0	31,539.0	33,540.0	32,880.0
Noninterest expenses	13,483.0	25,595.0	24,419.0	26,042.0	25,792.0
Core earnings	2,815.5	2,714.3	2,406.4	3,330.2	4,212.8

*Data as of June 30. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Business position: Significant strategic changes lie ahead

Our assessment of Deutsche Bank's business position as "adequate" balances its robust franchise in its core markets with the relatively high contribution to group revenues of correlated corporate and investment banking activities (see chart 1). It also reflects the material strategic and execution challenges we see at present.

Chart 1



Deutsche Bank experienced an eventful second quarter of 2015, with a new strategy announced in April and the appointment of a new CEO in June. Its revised business plan, known as Strategy 2020, was particularly aimed at improving its below-par cost efficiency, return on capital, and leverage ratio, in our view. We consider that Deutsche Bank has been less decisive than European peers in adjusting its business model to the new regulatory and market environment, and we view Strategy 2020 as its initiative to catch up. The six high-level decisions underpinning Strategy 2020 were:

- Reposition the Corporate Banking & Securities (CB&S) division by shrinking large, low-yielding asset portfolios such as long-dated, uncleared derivatives and repos, and exiting unprofitable client relationships. Since 2013, CB&S has already exited some businesses (such as commodities and most single name credit derivatives) and deleveraged others. However, we consider it was slower than some European peers to downsize fixed income activity, partly because it hoped to gain market share as rivals retrenched. Net of selective reinvestments in products such as equities, origination, and advisory, Deutsche Bank's objective under Strategy 2020 was to cut CB&S' leverage exposure by €130 billion-€150 billion, or about 15%.
- Reshape retail and commercial banking by deconsolidating German subsidiary Postbank, which was acquired in 2010, and redesigning the distribution network and business model of the Deutsche Bank-branded business. These measures are expected to reduce the group's leverage exposure by about €140 billion. Postbank contributed €328 million to the Private and Business Clients division's €1.0 billion pretax earnings in the first half of 2015.

- Invest up to €1 billion by 2020 in digitalization to improve customer service and create new revenue opportunities.
- Invest more than €1.5 billion to scale up Global Transaction Banking and Deutsche Asset & Wealth Management, which are relatively efficient activities from a leverage and capital perspective.
- Rationalize the bank's geographic footprint from 70 countries to about 60-63 while investing in higher growth markets such as China and India.
- Transform the operating model to achieve an additional €3.5 billion of annual gross cost savings. The estimated cost to achieve these savings was €3.7 billion.

John Cryan, the recently-appointed CEO, has indicated that he believes the high-level objectives of Strategy 2020 remain broadly appropriate. We believe Mr. Cryan will likely accelerate the timing and possibly broaden the scope of some of the specific targets, such as potentially increasing the scale and speed of the cuts to CB&S' balance sheet. Deutsche Bank is due to provide more details of its execution plan by the end of October.

We believe Deutsche Bank faces more strategic challenges than many peers in delivering a business model that meets the expectations of its various stakeholders. This view reflects its overweight position in investment banking, particularly fixed income, and its lack of a major, profitable franchise in other markets to support group earnings. In retail and commercial banking, we consider that Deutsche Bank's performance is hampered by Germany's relatively fragmented, low margin industry, as well as prolonged low interest rates and its internal cost inefficiencies. We believe its asset and wealth management and transaction banking businesses have performed reasonably well, but require further development to become genuine profit engines for the group. We conclude that Deutsche Bank faces an extended restructuring period and requires strong strategic execution to overcome its challenges.

We principally compare Deutsche Bank's business position with other complex groups that have a comparable revenue mix and are headquartered in countries with similar BICRA industry risk assessments as Germany. They include European peers Barclays, BNP Paribas, Commerzbank, Credit Suisse, and UBS, and U.S. peers Bank of America, Citigroup, Goldman Sachs, JP Morgan Chase, and Morgan Stanley. We mostly assess the business positions of these banks as "adequate" or "strong", with a couple as "very strong". The latter group has greater business stability, more revenue diversity by business or geography, and a lower dependence on corporate and investment banking than Deutsche Bank.

Table 2

Deutsche Bank AG Business Position

		--Year-ended Dec. 31--			
(%)	**2015***	**2014**	**2013**	**2012**	**2011**
Total revenues from business line (currency in millions)	19,389.0	31,660.0	31,539.0	33,540.0	33,021.0
Commercial banking/total revenues from business line	14.6	16.9	14.4	15.2	15.5
Retail banking/total revenues from business line	24.9	30.4	30.3	28.4	32.2
Commercial & retail banking/total revenues from business line	39.5	47.3	44.7	43.7	47.7
Trading and sales income/total revenues from business line	43.4	39.6	41.7	43.4	40.5
Asset management/total revenues from business line	14.4	14.9	15.0	13.3	11.4
Other revenues/total revenues from business line	2.7	(1.8)	(1.4)	(0.4)	0.5
Investment banking/total revenues from business line	43.4	39.6	41.7	43.4	40.5
Return on equity	3.9	2.7	1.2	0.4	8.1

*Data as of June 30. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Capital and earnings: 2013-2014 equity issuance provided a stronger cushion

In our view, Deutsche Bank's capital raising in 2013-2014 mitigates its below-par capital generation through earnings and provides a sizable cushion to offset further litigation and restructuring charges, lackluster underlying earnings, and changing regulatory requirements. Its earnings and capitalization are somewhat difficult to project due to uncertainties such as the scale of future nonoperating charges and the timing and terms of the Postbank deconsolidation. However, we believe its RAC ratio should remain comfortably above 7%. Mr. Cryan has indicated that the bank does not intend to raise further capital for business strategy and planning purposes.

Following a €3.0 billion (gross proceeds) equity increase in April 2013, Deutsche Bank raised a further €8.5 billion in June 2014. A vehicle controlled by the Qatari royal family was an anchor investor in the latter transaction and holds a 5.8% stake in the bank. Deutsche Bank additionally issued €4.7 billion of CRD IV-compliant Additional Tier 1 (AT1) instruments during 2014, which fills the majority of the regulatory capital allowance for these securities (1.5% of regulatory RWAs). We include these AT1s in our total adjusted capital (TAC) measure as "intermediate" equity content hybrids under our criteria. TAC additionally includes "legacy" Tier 1 hybrids with fully discretionary coupons and no step-up.

Deutsche Bank's capital issuance and non-core asset deleveraging caused its RAC ratio, our preferred capital measure, to strengthen to 9.3% at year-end 2014 from 7.2% a year earlier (see table 4). Hybrid instruments comprise close to 20% of TAC, which is a higher proportion than most peers due to Deutsche Bank's accelerated AT1 issuance.

Table 3

Deutsche Bank AG Capital And Earnings

		--Year-ended Dec. 31--			
(%)	**2015***	**2014**	**2013**	**2012**	**2011**
Tier 1 capital ratio	12.5	12.9	16.9	15.1	12.9
S&P RAC ratio before diversification	N.M.	9.3	7.2	6.7	N.M.
S&P RAC ratio after diversification	N.M.	11.2	9.1	8.4	N.M.
Adjusted common equity/total adjusted capital	82.5	77.3	79.8	78.7	79.8
Net interest income/operating revenues	43.0	45.1	47.0	47.4	53.1
Fee income/operating revenues	34.7	39.2	39.0	34.3	35.1
Market-sensitive income/operating revenues	19.7	14.3	13.6	18.2	9.2
Noninterest expenses/operating revenues	69.5	80.9	77.4	77.6	78.4
Preprovision operating income/average assets	0.7	0.4	0.4	0.4	0.3
Core earnings/average managed assets	0.3	0.2	0.1	0.2	0.2

*Data as of June 30. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 4

Deutsche Bank AG RACF [Risk-Adjusted Capital Framework] Data

(Mil. €)	**Exposure***	**Basel II RWA**	**Average Basel II RW (%)**	**Standard & Poor's RWA**	**Average Standard & Poor's RW (%)**
Credit risk					
Government and central banks	161,419	5,513	3	9,411	6
Institutions	62,483	14,675	23	17,916	29

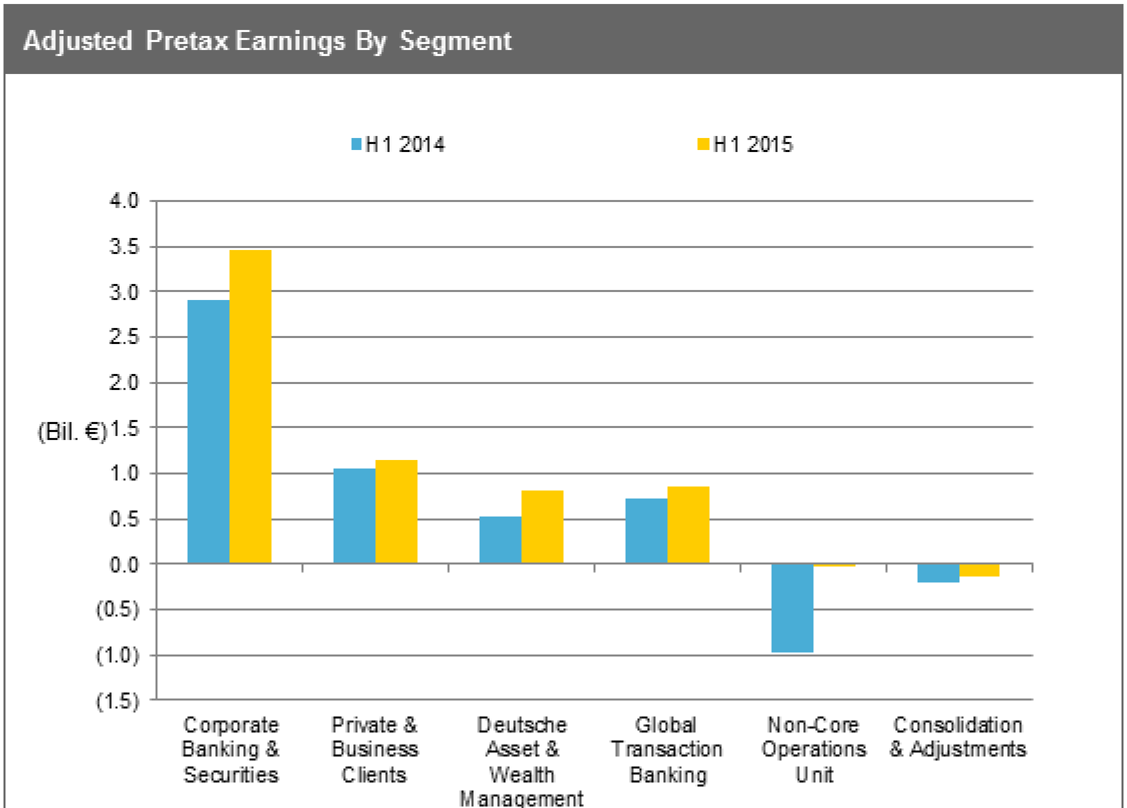
Table 4

Deutsche Bank AG RACF [Risk-Adjusted Capital Framework] Data (cont.)					
Corporate	338,530	118,788	35	255,397	75
Retail	202,302	45,913	23	62,480	31
Of which mortgage	160,194	1,350	1	36,616	23
Securitization	55,074	14,488	26	26,348	48
Other assets	14,949	19,113	128	14,520	97
Total credit risk	834,757	218,488	26	386,071	46
Market risk					
Equity in the banking book¶	32,786	23,975	82	85,330	260
Trading book market risk	--	64,213	--	102,431	--
Total market risk	--	88,188	--	187,761	--
Insurance risk					
Total insurance risk	--	--	--	0	--
Operational risk					
Total operational risk	--	67,088	--	77,018	--
(Mil. €)		**Basel II RWA**		**Standard & Poor's RWA**	**% of Standard & Poor's RWA**
Diversification adjustments					
RWA before diversification		373,763		650,850	100
Total adjustments to RWA		--		(106,460)	(16)
RWA after diversification		373,763		544,390	84
(Mil. €)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**Standard & Poor's RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		50,695	13.6	60,758	9.3
Capital ratio after adjustments§		50,695	12.9	60,758	11.2

*Exposure at default. € Securitisation Exposure includes the securitisation tranches deducted from capital in the regulatory framework. ¶Exposure and Standard & Poor's risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. §Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2014, Standard & Poor's.

Deutsche Bank reported a modest €2.7 billion pretax profit in the first half of 2015 as €2.8 billion of litigation charges and €351 million of restructuring charges weighed on its underlying performance. In aggregate, Deutsche Bank reported €7.4 billion of litigation charges between January 2013 and June 2015 as well as €3.0 billion of restructuring charges pursuant to its Strategy 2015+ cost cutting initiative, which pre-dated Strategy 2020. Excluding nonoperating items, adjusted pretax earnings improved to €6.1 billion in the first half of 2015 from €4.1 billion in the same period in the prior year, primarily reflecting the near-elimination of losses from the non-core operations unit (NCOU) and improved market conditions for most of CB&S's businesses (see chart 2).

Chart 2



Adjusted for credit/debit/funding valuation adjustments, restructuring costs, other severance payments, litigation, and impairment of intangibles.

We project the RAC ratio in the 8.5%-9.0% range at year-end 2016, which we have revised down from our previous 9.25%-9.75% projection. Our updated projection incorporates litigation charges in excess of the €3.2 billion contingent liability that Deutsche Bank identified at June 30, 2015, and further material, front-loaded restructuring charges in connection with the cost savings targeted under Strategy 2020. We also assume no new equity or AT1 issuance and an unchanged dividend per share. The lower projection also partly reflects the redemption in the first half of 2015 of some "legacy" Tier 1 hybrids that we included in TAC.

Among the financial targets that Deutsche Bank announced as part of Strategy 2020, the stand-out for us was its intention to raise the CRD IV fully loaded leverage ratio to 5% or higher. Its actual ratio at June 30, 2015 was 3.6%. If it achieves its objective, Deutsche Bank would move from the longstanding laggard to a leader among European peers on this metric. It would still lag U.S. banks, partly due to structural differences between these markets such as residential mortgage financing. The deconsolidation of Postbank's mortgages and deleveraging of CB&S' derivative and securities portfolios are key to the achievement of the 5% target, as well as the continued run-off of non-core assets.

Deutsche Bank's fully-loaded CRD IV Common Equity Tier 1 ratio stood at 11.4% at June 30, 2015. It was 14.2% under the phase-in approach, comfortably above the 10% minimum set by the ECB under the supervisory review and evaluation process. Deutsche Bank announced as part of Strategy 2020 that it intends to maintain the fully-loaded ratio at about 11%. Like peers, we consider that Deutsche Bank faces multiple regulatory and structural reforms that could influence its future regulatory capital position, potentially requiring further business model changes as part of a mitigation plan. The reforms include:

- Deutsche Bank has guided that forthcoming rules on prudent valuation of fair-valued positions could have a €1.5 billion-€2.0 billion adverse impact on reported regulatory capital, partly mitigated by a reduction of about €0.5 billion in the regulatory deduction for unprovisioned expected losses. Further changes could arise as the ECB enhances the consistency of eurozone banks' regulatory capital ratios;
- Regulatory RWAs for operational risk are rising as a result of the banking industry's litigation charges, which feed into advanced measurement models, and reviews of the model parameters. Although they are unlikely to take effect before 2018, the Basel Committee's fundamental review of the trading book and proposed capital floors based on the standardized approach could also have a material impact on Deutsche Bank. Before mitigating actions, Deutsche Bank has estimated that these regulatory changes could add about €100 billion to its regulatory RWAs, which were €416 billion at June 30, 2015;
- The global subsidiarization or "balkanization" trend most impacts Deutsche Bank through U.S. rules on foreign banking organizations, which will require it to improve the capital, leverage, and total loss absorbing capacity (TLAC) profiles of its U.S. activities. The U.S. enhanced prudential standards take effect from July 2016;
- Germany has introduced ring-fencing legislation that requires proprietary trading and private equity investments to be ring-fenced in a separate legal entity. The EU has similar proposals in development. However, we believe these policies are unlikely to have a material impact on Deutsche Bank in practice.

Risk position: Dominated by complex corporate and investment banking business

We assess Deutsche Bank's risk position as "moderate", reflecting the inherent complexity and volatility of parts of its large capital markets business and the elevated litigation and strategic execution risks that we see at present. The highly sophisticated risks of many of Deutsche Bank's trading activities are difficult to model and are not fully reflected in our RAC framework, in our view. We believe that these risks remain high despite the bank's continued progress in deleveraging its non-core assets, and are only partly mitigated by its good track record in credit risk management in its retail and commercial banking activities.

Deutsche Bank held €3.8 billion of litigation reserves at June 30, 2015 plus $0.5 billion of reserves against $2.6 billion of potential U.S. mortgage repurchase demands. Under IFRS, companies can make provisions only when a loss is considered probable and can be reasonably estimated. Deutsche Bank has identified a further €3.2 billion of contingent litigation liabilities, which are defined as obligations that can be estimated and where a loss is considered less than probable but more than remote. Our RAC ratio forecasts anticipate the crystallization of the contingent liability with additional charges on top. The main outstanding litigation actions in our view include regulatory and civil cases concerning U.S. asset-backed securities, investigations regarding compliance with U.S. sanctions and embargoes, civil cases concerning interbank interest rate benchmarks, and investigations into suspicious Russian equity trades in Russia and the U.K.

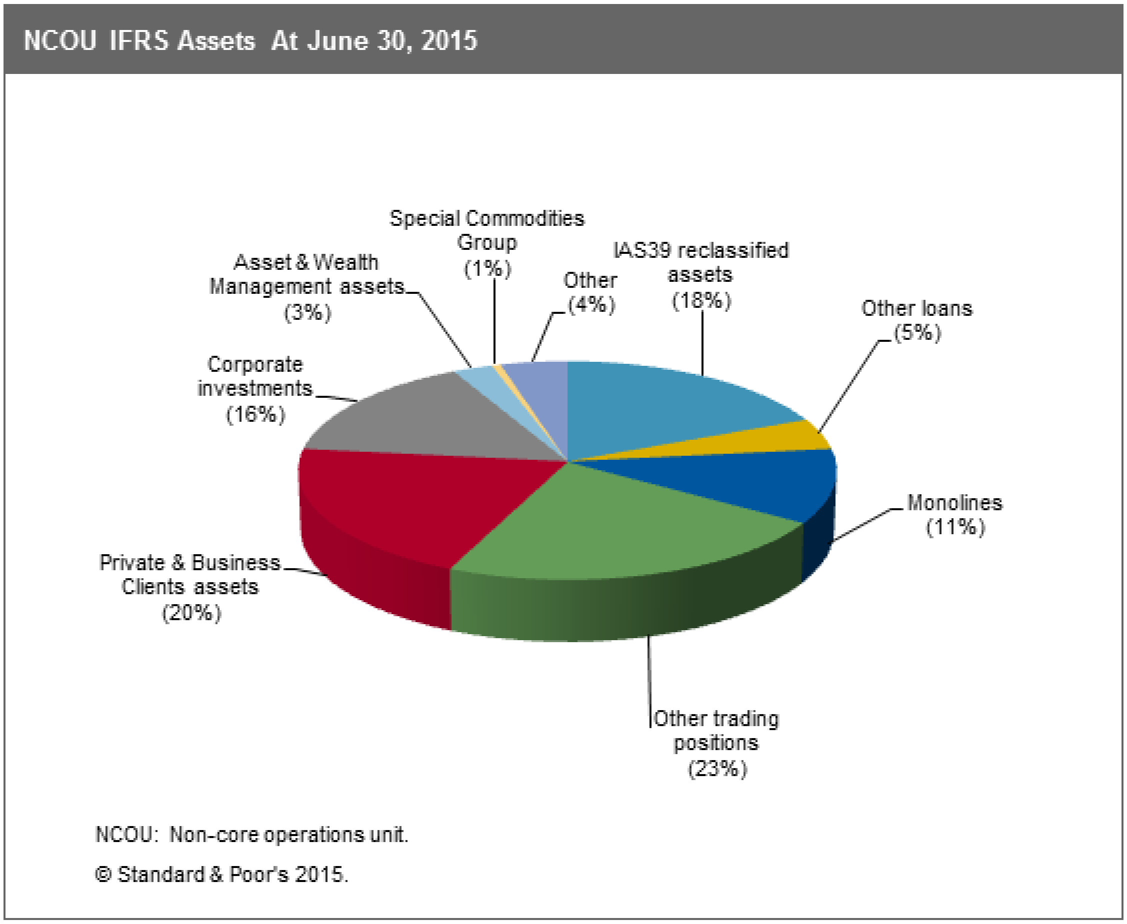
Earlier this year, Deutsche Bank's U.S. subsidiary Deutsche Bank Trust Corporation (DBTC) was assessed by the Federal Reserve under the Dodd Frank Act Stress Test and Comprehensive Capital Analysis and Review (CCAR) processes. DBTC holds the majority of the group's U.S. transaction banking and asset and wealth management activities but excludes the large U.S. broker-dealer Deutsche Bank Securities Inc. DBTC is strongly capitalized and comfortably passed the quantitative stress test but the Federal Reserve objected to its capital plan for qualitative reasons. This was not a surprise to us since it was the first time that Deutsche Bank had been reviewed under CCAR and its multi-year program to strengthen systems and controls remains work-in-progress. DBTC is due to file its next CCAR submission in April 2016 and its aggregate U.S. businesses (headed by intermediate holding company Deutsche Bank USA Corporation) will be reviewed in 2018.

According to its value-at-risk (VaR) and stressed VaR models, Deutsche Bank's trading risks reduced slightly over the past 18 months. The effect of increased market volatility in segments such as foreign exchange was offset by an increased diversification benefit resulting from changes to interest rate trading positions. We expect Deutsche Bank will continue to look for trading revenue opportunities when client volumes increase without taking significantly higher market risks on its balance sheet.

Deutsche Bank reported €30.8 billion of level 3 financial assets at June 30, 2015, which is close to one-half of its TAC. The level 3 designation means the assets are valued based on unobservable inputs and the valuations could be vulnerable to adverse changes in the underlying assumptions. Deutsche Bank reported that reasonably possible alternative parameters for valuing the level 3 assets could raise or lower their fair values by €3.2 billion and €3.0 billion, respectively.

Derisking and deleveraging of the NCOU have significantly reduced, but not eliminated, the potential for further material earnings volatility from these assets, in our view. The NCOU portfolio reduced to €35 billion at June 30, 2015 from about €140 billion three years earlier and it is spread across a range of asset classes (see chart 3). It includes the remaining securities that Deutsche Bank reclassified as loans in 2008-2009 to mitigate the risk of further writedowns. The €6.4 billion carrying value of these reclassified securities at June 30, 2015 was a little higher than the €6.3 billion estimated fair value.

Chart 3



We consider that Deutsche Bank has a good track record in traditional credit risk management. At June 30, 2015, impaired loans represented 2.0% of its total €430.1 billion gross loan portfolio and were 58% covered by balance sheet provisions. Potentially higher risk elements of the portfolio included commercial real estate (€17.7 billion) and leveraged finance (€6.4 billion). Residential mortgages accounted for 37% of the total gross loan portfolio, and were mostly to German borrowers with relatively conservative loan-to-value ratios. Of loans and other exposures to corporates, 71% carried investment grade internal ratings.

Deutsche Bank carries larger exposures to the so-called eurozone periphery than many peers, largely due to its retail and commercial banking subsidiaries in Italy and Spain as well as CB&S' trading positions. Based on the country of domicile of the primary counterparty, its aggregate net credit risk exposure to Greece, Ireland, Italy, Portugal, and Spain was €25.3 billion at June 30, 2015. Its exposures to Russia (€4.0 billion) and Ukraine (€0.4 billion) were less material.

Table 5

Deutsche Bank AG Risk Position

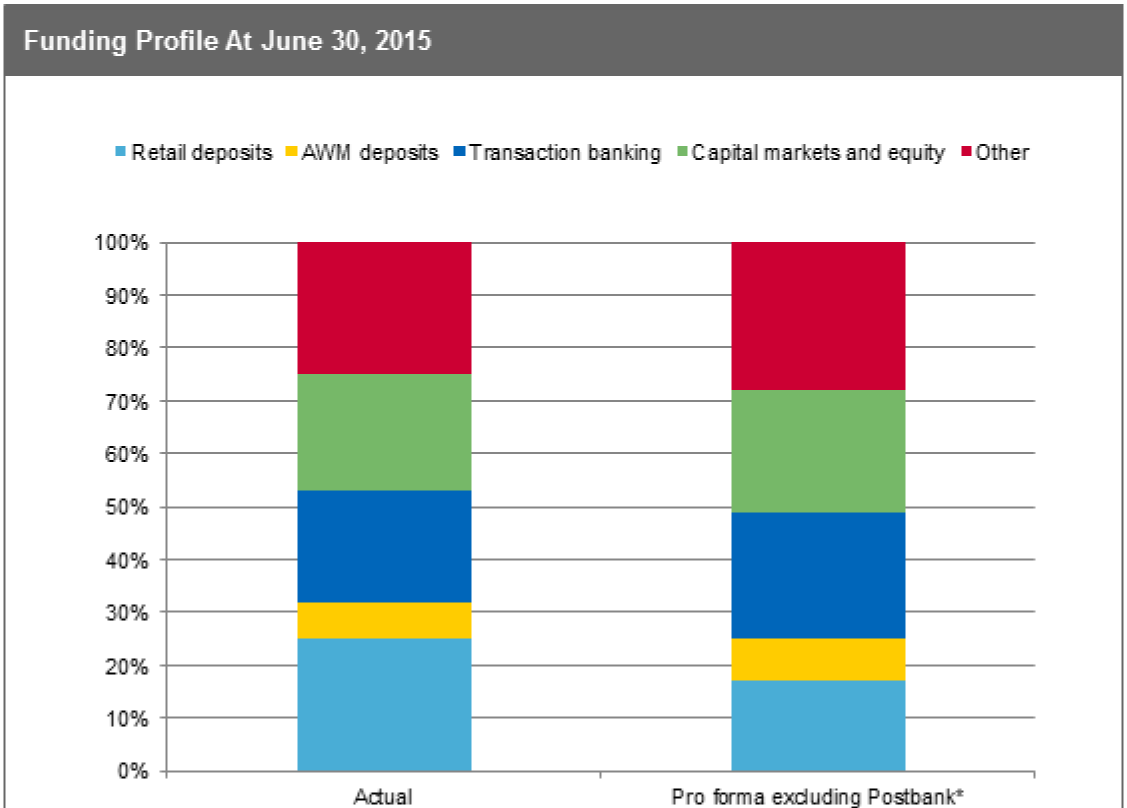
	--Year-ended Dec. 31--				
(%)	**2015***	**2014**	**2013**	**2012**	**2011**
Growth in customer loans	9.9	8.3	(4.6)	(1.9)	2.5
Total diversification adjustment / S&P RWA before diversification	N.M.	(16.4)	(20.8)	(20.6)	N.M.
Total managed assets/adjusted common equity (x)	34.5	36.4	42.9	54.6	61.5
New loan loss provisions/average customer loans	0.2	0.3	0.6	0.5	0.5
Net charge-offs/average customer loans	0.3	0.4	0.3	0.3	0.2
Gross nonperforming assets/customer loans + other real estate owned	2.3	2.9	2.8	2.8	2.5
Loan loss reserves/gross nonperforming assets	53.4	47.1	55.1	45.4	44.1

*Data as of June 30. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Funding and liquidity: Improved profile but still confidence-sensitive elements

Deutsche Bank's funding position is "average" and its liquidity is "adequate", in our view. Like peers', its profile has strengthened significantly since before the financial crisis as it has reduced dependence on less stable sources such as discretionary short-term wholesale funding. For example, the contribution from secured funding and shorts fell to 10% at June 30, 2015 from 39% at year-end 2007. We see transaction banking deposits as more stable than typical short-term wholesale funding since they relate to custody, clearing, and cash-management services, but still less reliable than insured retail deposits. The proposed deconsolidation of Postbank is set to reduce the share of retail deposits in the funding base by about one-third (see chart 4). However, we note that Postbank is a self-funding entity that makes no material funding contribution to the rest of the group, and that CB&S' continued deleveraging should further reduce usage of short-term wholesale market funding.

Chart 4



*Standard & Poor's estimate AWM: Asset and Wealth Management "Other" includes unsecured wholesale, secured funding and shorts, financing vehicles, and other customers. © Standard & Poor's 2015.

Our stable funding ratio stood at 90% at year-end 2014, little changed from a year earlier. The ratio indicates that long-term and less liquid assets are largely but not fully funded by stable funding sources. We do not consider Deutsche Bank an outlier compared with large European peers but expect funding gaps to steadily reduce further. Its funding plan calls for €30 billion-€35 billion of issuance during 2015, of which €23 billion was completed in the first half.

Our broad liquid assets-to-short-term wholesale funding ratio stood at 150% at year-end 2014, up from 132% a year earlier, and indicates that Deutsche Bank maintains a buffer of liquid assets in excess of its short-term wholesale funding. Under our methodology for this ratio, we include liquid trading book assets in the numerator but we recognize that some of these are hedges or other positions that may not be easily monetized, and our ratio therefore likely overstates Deutsche Bank's underlying liquidity position. The bank disclosed a pro forma 119% Basel III liquidity coverage ratio at year-end 2014 and stated that the Postbank deconsolidation would have no material impact. At June 30, 2015, it reported liquid assets with a carrying value of €199 billion, comprising €81 billion of cash and cash equivalents (mostly held at central banks), €103 billion of government bonds and other highly liquid securities, and €15 billion of other unencumbered central bank-eligible securities.

Table 6

Deutsche Bank AG Funding And Liquidity

		--Year-ended Dec. 31--			
(%)	2015*	2014	2013	2012	2011
Core deposits/funding base	53.4	52.1	46.9	42.9	47.6
Customer loans (net)/customer deposits	86.2	89.8	85.0	85.3	75.0
Long term funding ratio	73.0	72.4	63.0	58.4	61.6
Stable funding ratio	89.7	89.8	90.6	86.3	87.8
Short-term wholesale funding/funding base	29.1	29.8	39.1	43.6	40.0
Broad liquid assets/short-term wholesale funding (x)	1.5	1.5	1.3	1.2	1.2
Net broad liquid assets/short-term customer deposits	29.7	28.9	26.7	18.5	21.7
Short-term wholesale funding/total wholesale funding	60.8	60.2	72.1	75.1	75.2
Narrow liquid assets/3-month wholesale funding (x)	1.8	1.8	1.4	N/A	N/A

*Data as of June 30. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

External support: No government support or ALAC notches in the ratings

Since June 2015, we have regarded the prospect of extraordinary government support for German banks as "uncertain" in view of the country's well-advanced and effective resolution regime, which is based on the fully-implemented EU Bank Recovery and Resolution Directive. Therefore, although we consider Deutsche Bank to have high systemic importance in Germany, we do not factor potential extraordinary government support into our ratings. We do not completely exclude the possibility that support may be provided in a stress scenario, but we believe the prospect of government intervention is lower and less predictable than previously.

We do not include notches in the long-term rating on Deutsche Bank under our ALAC criteria because we believe its ALAC ratio is unlikely to exceed our 5.25% threshold over a four-year projection period. We calculate that Deutsche Bank's ALAC was 2.4% of Standard & Poor's RWAs at year-end 2014. We include in this assessment the consolidated Deutsche Bank group's Tier 1 and Tier 2 capital instruments that were issued under German law or feature contractual recognition of bail-in. We believe these issues have capacity to absorb losses without triggering a default on senior obligations. We consider that the ALAC ratio is likely to rise into the 3.0%-4.0% range over our projection period as more jurisdictions implement resolution regimes we deem "effective" under our criteria and Deutsche Bank refinances maturing and called capital instruments.

Important factors in our ALAC projection are our views that Germany's proposed law subordinating senior unsecured bonds is likely to pass and that Deutsche Bank is likely to rely materially on these instruments to meet the regulatory TLAC requirement. We would not view senior unsecured bonds as ALAC under Germany's proposed law because we would revise the issuer credit rating to 'D' or 'SD' (selective default) if Deutsche Bank were in default on any instrument other than hybrid capital instruments. We would not view Deutsche Bank's senior unsecured obligations as hybrid capital instruments even if they could potentially be bailed-in as part of a resolution.

Consistent with our criteria, we raised the threshold for one notch of ALAC uplift by 25 basis points to 5.25% because Deutsche Bank operates through multiple regulated legal entities worldwide and we believe this might constrain the flexible deployment of ALAC in a stress scenario. We extended the projection period to four years because we believe Germany is in an extended regulatory transition period in which banks will progressively build larger buffers of loss-absorbing capacity.

Additional rating factors: None

No additional factors affect this rating.

Group structure and rated subsidiaries

Deutsche Bank AG is both the principal operating entity and the top-most legal entity in the group. Unlike Swiss, U.K., and U.S. peers, there is no ultimate non-operational holding company and we do not expect Deutsche Bank to create one.

We rate Deutsche Bank's branches in Canada, the Cayman Islands, London, Milan, and Spain at the same level as Deutsche Bank. We also rate a number of Deutsche Bank's subsidiaries:

- We view six subsidiaries as "core" to Deutsche Bank under our criteria and therefore equalize the ratings with those on their ultimate parent. These subsidiaries are Deutsche Bank Luxembourg S.A., Deutsche Bank National Trust Co., Deutsche Bank Securities Inc., Deutsche Bank Trust Co. Delaware, Deutsche Bank Trust Co. Americas, and Deutsche Securities Inc.
- The ratings on the U.S. non-operational bank holding company DBTC are also equalized with those on Deutsche Bank;
- We view two Mexican subsidiaries--Deutsche Bank Mexico SA and Deutsche Bank Securities, S.A. de C.V., Casa de Bolsa--as "highly strategic" and we rate them 'mxAAA/A-1+' under our Mexico national scale;
- We view BHW Bausparkasse AG Hameln as a "strategically important" subsidiary of Postbank. The 'BBB' long-term counterparty credit rating on this entity is one notch above its SACP.

Related Criteria And Research

Related criteria

- Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- Standard & Poor's National And Regional Scale Mapping Tables, Sept. 30, 2014
- National And Regional Scale Credit Ratings, Sept. 22, 2014
- Group Rating Methodology, Nov. 19, 2013
- Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks, May 4, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related research

- Deutsche Bank AG 'BBB+/A-2' Ratings Affirmed; Outlook Stable; Deutsche Bank National Trust Co. Ratings Raised To 'BBB+', Aug. 18, 2015
- Banking Industry Country Risk Assessment: Germany, July 23, 2015
- Deutsche Bank Ratings Lowered To 'BBB+/A-2' On Government Support Review, ALAC Criteria Implementation;

Outlook Stable, June 9, 2015

- S&P Takes Various Rating Actions On Certain U.K. And German Banks Following Government Support And ALAC Review, June 9, 2015
- How Standard & Poor's Applied Its Government Support And ALAC Criteria To U.K., German, Austrian, And Swiss Banks, June 9, 2015
- Germany's Proposal To Subordinate Senior Unsecured Debt In Insolvency Shows Systemic Support Is Evolving, April 9, 2015

Anchor Matrix

Industry Risk	Economic Risk									
	1	**2**	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	**a-**	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of August 21, 2015)

Deutsche Bank AG	
Counterparty Credit Rating	BBB+/Stable/A-2
Greater China Regional Scale	cnA+/--/--
Junior Subordinated	BB
Preferred Stock	BB
Senior Unsecured *Greater China Regional Scale*	cnA+
Senior Unsecured	BBB+
Subordinated *Greater China Regional Scale*	cnA-
Subordinated	BBB-
Counterparty Credit Ratings History	
09-Jun-2015	BBB+/Stable/A-2
03-Feb-2015	A/Watch Neg/A-1
29-Apr-2014	A/Negative/A-1
02-Jul-2013	A/Stable/A-1
26-Mar-2013	A+/Watch Neg/A-1
25-Jan-2012	A+/Negative/A-1
07-Dec-2011	A+/Watch Neg/A-1
29-Nov-2011	A+/Negative/A-1
09-Jun-2015 *Greater China Regional Scale*	cnA+/--/--

Ratings Detail (As Of August 21, 2015) (cont.)	
03-Feb-2015	cnAA+/Watch Neg/--
02-Jul-2013	cnAA+/--/--
17-Apr-2013	cnAAA/Watch Neg/--
Sovereign Rating	
Germany (Federal Republic of)	AAA/Stable/A-1+
Related Entities	
BHW Bausparkasse AG Hameln	
Issuer Credit Rating	BBB/Stable/A-2
Senior Unsecured	BBB
Subordinated	BB+
Deutsche Bank AG (Canada Branch)	
Issuer Credit Rating	BBB+/Stable/A-2
Deutsche Bank AG (Cayman Islands Branch)	
Issuer Credit Rating	BBB+/Stable/A-2
Deutsche Bank AG (London Branch)	
Issuer Credit Rating	BBB+/Stable/A-2
Senior Secured	B+
Deutsche Bank AG (Madrid Branch)	
Issuer Credit Rating	BBB+/Stable/A-2
Deutsche Bank AG (Milan Branch)	
Issuer Credit Rating	BBB+/Stable/A-2
Deutsche Bank AG (New York branch)	
Junior Subordinated	BB
Senior Unsecured	BBB+
Subordinated	BBB-
Deutsche Bank Cap Fdg Trust VIII	
Preferred Stock	BB
Deutsche Bank Capital Finance Trust I	
Preferred Stock	BB+
Deutsche Bank Capital Funding Trust I	
Preferred Stock	BB
Deutsche Bank Capital Funding Trust V	
Preferred Stock	BB
Deutsche Bank Capital Funding Trust VI	
Preferred Stock	BB
Deutsche Bank Capital Funding Trust VII	
Preferred Stock	BB
Deutsche Bank Luxembourg S.A.	
Issuer Credit Rating	BBB+/Stable/A-2
Deutsche Bank Mexico S.A.	
Issuer Credit Rating	
CaVal (Mexico) National Scale	mxAAA/Stable/mxA-1+
Deutsche Bank National Trust Co.	
Issuer Credit Rating	BBB+/Stable/A-2

Ratings Detail (As Of August 21, 2015) (cont.)	
Deutsche Bank, S.A.E.	
Senior Secured	A/Stable
Deutsche Bank Securities Inc.	
Issuer Credit Rating	
Local Currency	BBB+/Stable/A-2
Deutsche Bank Trust Co. Americas	
Issuer Credit Rating	BBB+/Stable/A-2
Deutsche Bank Trust Co. Delaware	
Issuer Credit Rating	BBB+/Stable/A-2
Deutsche Bank Trust Corp.	
Issuer Credit Rating	BBB+/Stable/A-2
Senior Unsecured	A-2
Senior Unsecured	BBB+
Subordinated	BBB-
Deutsche Securities Inc.	
Issuer Credit Rating	BBB+/Stable/A-2
Deutsche Securities, S.A. de C.V., Casa de Bolsa	
Issuer Credit Rating	
CaVal (Mexico) National Scale	mxAAA/Stable/mxA-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

Additional Contact:

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