FitchRatings

Fitch Downgrades Deutsche Bank to 'A-'; Outlook Stable

Fitch Ratings-Frankfurt/London-08 December 2015: Fitch Ratings has downgraded Deutsche Bank's (DB) Long-term Issuer Default Rating (IDR) and long-term senior debt ratings to 'A-' from 'A'. Its Viability Rating (VR) has also been downgraded to 'a-' from 'a'. The Short-term IDR and Short-term debt ratings have been affirmed at 'F1'. The Outlook on the Long-term IDR is Stable. A full list of rating actions is available at the end of this rating action commentary.

The rating actions have been taken in conjunction with Fitch's periodic review of the Global Trading and Universal Bank (GTUB), which comprises 12 large and globally active banking groups. Fitch's outlook for the GTUBs is stable as we expect the stable outlook for the groups' commercial banking and wealth and asset management businesses in 2016 to mitigate pressure on earnings from capital markets activities, particularly in fixed income trading.

As globally active universal banks, the 12 GTUBs are among the most affected by evolving regulation, which is bringing capital and resource constraints to some businesses. This means that business models are being adjusted. Specific changes and their timing vary by bank. In the medium term, we believe that the GTUBs with the strongest franchises in their core businesses, sound business models and clear strategies are best placed in this environment, and these company profiles are an important rating factor for most of the GTUBs.

However, DB has fallen behind its GTUB peers in its preparation for heightened regulatory and structural changes in global banking, particularly in its sales and trading businesses. We believe the time and resources needed to bring the bank back on track during a time of challenging market conditions make DB more vulnerable to further setbacks in the industry than its peers.

DB's Long-term IDR, senior debt ratings and VR have been downgraded because the ongoing and necessary restructuring of the bank will in, our view, have a greater- negative impact on its earnings and capital than we had previously expected, which could result in losses that would erode capital at a time when the bank could be building capital resources. With the bulk of restructuring expenses front-loaded, DB's financial metrics will likely be weaker than those of its peers for a prolonged period of time, at least until end-2016. In addition, improvements in the bank's metrics rely, to a large degree, on current revenues being maintained or improved, hence increasing the bank's vulnerability to adverse business conditions. This, in our view, is no longer commensurate with a Long-term IDR of 'A'.

The Outlook is Stable because we believe that DB's management capabilities to execute on its strategic reorganisation have improved and we expect that DB can strengthen its financial metrics in the medium term to support its new rating level.

KEY RATING DRIVERS
IDRs, SENIOR DEBT AND VR
The bank's IDRs, senior debt and VR ratings primarily reflect our view that DB will be more vulnerable to adverse business conditions than its higher-rated peers during its two-year restructuring period. In our opinion, the implementation of the revised strategy, announced in October 2015, entails execution risks on a broader scale than previously expected, specifically litigation costs, initial expenses and most notably larger operational challenges in streamlining DB's IT infrastructure and processes.

In addition, we believe that there may be a negative impact on DB's earnings, CRDIV leverage ratio and fully-loaded CRR/CRD4 common equity Tier 1 (CET1) ratio as a result of DB bringing forward its restructuring efforts, particularly higher-than-expected costs for asset reductions, litigation and restructuring expenses.

However, the Stable Outlook reflects our expectation that DB's reported earnings and capitalisation/leverage will start to improve materially from 2017, albeit from a low level. In addition, we believe that DB's new management is more determined and, therefore, better equipped to deliver on targeted financial ratios set out in its 2020 strategy and partially brought forward to 2018 because it is taking a more radical approach than previous managers.

DB's management is addressing weaknesses in the bank's IT infrastructure and processes, is foregoing dividend payments for two years to balance the front-loading of restructuring charges as well as discounts on asset sales, and is being more realistic about ongoing regulatory headwinds.

In this context, we view the strategic changes announced in October 2015, including plans to reduce DB's net leverage exposure, aiming for a higher leverage ratio above 4.5%, a CET1 ratio above 12.5% and reducing DB's stubbornly high cost/income ratio to around 70% by 2018 as a sensible but also necessary approach to a challenging operating environment.

DB's VR also reflects the bank's diversified franchise by product and geography, even after the planned sale of Postbank and other asset disposals, which has been resistant to bad news about litigation, misconduct and restructurings. DB's 3Q15 results are evidence of the strength of the bank's franchise (see 'Fitch: 'Deutsche Bank's 3Q Results Highlight Need to Execute on Cost Reduction', published 30 October 2015, on www.fitchratings.com).

After the planned Postbank spin-off, DB will combine an entrenched franchise in domestic and European corporate banking with a leading global securities presence, particularly in global fixed income, and an improving global wealth and asset management franchise. DB's retail banking franchise in Germany and Europe will focus on higher-end, affluent customers.

Fitch considers DB's risk controls sound, which underpin the VR, as the bank has sizeable exposures to credit and market risk. The bank remains exposed to non-core assets, which it is both actively reducing and allowing to run-off. Reduction of non-core assets will be accelerated, which we view as positive.

The affirmation of DB's Short-term IDR and Short-term debt rating at 'F1', the higher of the two Short-term IDRs that map to an 'A-' Long-term IDR on our rating scale, reflects our view that DB's liquidity profile is strong for its Long-term IDR rating range. DB's liquidity reserves are ample and its funding profile is well-diversified by geography, product and customer base.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES
Subordinated debt and other hybrid capital issued by DB and its subsidiaries are all notched down from DB's VR in accordance with our assessment of each instrument's respective non-performance and relative loss severity risk profiles. Consequently, we have downgraded these instruments by one notch in line with the downgrade of DB's VR.

Legacy Tier 1 securities are rated four notches below the VR, made up of two notches for high loss severity relative to average recoveries, and two further notches for non-performance risk, reflecting that coupon omission is partly discretionary.

High and low trigger contingent capital Tier 1 instruments are rated five notches below the VR. The issues are notched down twice for loss severity, reflecting poor recoveries as the instruments can be converted to equity or written down well ahead of resolution. In addition, they are also notched down three times for very high non-performance risk, reflecting fully discretionary coupon omission.

DB's sizeable goodwill impairment in 3Q15 does not have a significant impact on the available distributable items required to ensure payment of coupons on additional Tier 1 (AT1) securities. Distributable items referenced for these securities are calculated under German GAAP for the parent bank and are therefore not directly affected by the aforementioned write-downs of goodwill and intangibles.

SUBSIDIARY AND AFFILIATED COMPANY
The IDRs and debt ratings of DB's rated subsidiaries in the US and Australia are equalised with DB's to reflect their core role within the group's operations, especially DB's trading and investment banking activities, and their integration with the parent bank or their role as issuing vehicles.

SUPPORT RATING AND SUPPORT RATING FLOOR
DB's Support Rating (SR) of '5' and Support Rating Floor (SRF) of 'No Floor' reflect our view that senior creditors can no longer rely on receiving full extraordinary support from the sovereign in the event that DB becomes non-viable.

RATING SENSITIVITIES
IDRS, SENIOR DEBT AND VR
DB's VR and IDRs are based on our expectation that underlying earnings will remain resilient in 4Q15 and 2016 and that the bank's risk-weighted capitalisation and leverage ratios will improve during 2016. In addition, DB's profitability and execution qualities are important rating drivers.

Consequently, DB's VR and IDRs would come under further pressure if the bank is fails to report a positive net income result for 2016 or to improve its CRDIV leverage ratio and CET1 ratio from end-2015 levels and provide evidence of progress on preparing Postbank for sale or IPO by 2017.

In addition, should DB's planned leverage exposure reduction have a more significant adverse impact on its revenue base or franchise than expected, then this would be negative for the bank's VR and IDRs. Misconduct fines or settlement costs whose incremental costs absorb more than two quarters of pre-tax earnings would also be rating-negative.

DB's planned revenue improvements rely, to some degree, on moderately improving macroeconomic conditions, notably gradually increasing interest rates and resilient costumer activity in DB's securities businesses. Should macroeconomic headwinds remain more adverse for a longer period of time than currently expected and push back any expected revenue improvements, then this could be negative for DB's ratings. Finally, unexpected second order effects related to DB's restructuring, eg exit of key personnel or customer dissatisfaction, would also put pressure on DB's VR and IDRs.

An upgrade of DB's VR is unlikely in the next two years given today's downgrade and the significant execution risks ahead.

Any upgrade to the SR and upward revision to the SRF would be contingent on a positive change in the sovereign's propensity to support its banks. While not impossible, this is highly unlikely in our view.

SUBORDINATED DEBT AND HYBRID SECURITIES
Subordinated debt and other hybrid capital ratings are primarily sensitive to a change in the VRs of DB. The securities' ratings are also sensitive to a change in their notching, which could arise if Fitch changes its assessment of the probability of their non-performance relative to the risk captured in the issuers' respective VRs. This may reflect a change in capital management in the group or an unexpected shift in regulatory buffer requirements, for example.

SUBSIDIARY AND AFFILIATED COMPANIES
DB's subsidiaries' ratings are sensitive to DB's IDR and to a change in assumptions around the propensity or ability of DB to provide timely support to the entities.

The rating actions are as follows:

Deutsche Bank AG (DB)
Long-term IDR: downgraded to 'A-' from 'A'; Outlook Stable

Short-term IDR: affirmed at 'F1'
Viability Rating: downgraded to 'a-' from 'a'
Support Rating: affirmed at '5'
Support Rating Floor: affirmed at 'No Floor'
Senior long-term debt, including programme ratings: downgraded to 'A-' from 'A'
Senior short-term debt, including programme ratings: affirmed at 'F1'
Senior market-linked securities: downgraded to 'A-emr' from 'Aemr'; affirmed at 'F1emr'
Subordinated market-linked securities: downgraded to 'BBB+emr' from 'A-emr'
Subordinated Lower Tier II debt: downgraded to 'BBB+' from 'A-'
Additional Tier 1 Notes: downgraded to 'BB' from 'BB+'

DBSecurities
Long-term IDR: downgraded to 'A-' from 'A'; Outlook Stable
Short-term IDR: affirmed at 'F1'
Support Rating: affirmed at '1'

DBTrust Company Americas
Long-term IDR: downgraded to 'A-' from 'A'; Outlook Stable
Short-term IDR: affirmed at 'F1'
Support Rating: affirmed at '1'
Senior debt, including programme ratings: affirmed at 'F1'

DBTrust Corporation
Long-term IDR: downgraded to 'A-' from 'A'; Outlook Stable
Short-term IDR: affirmed at 'F1'
Support Rating: affirmed at '1'
Long term senior debt, including programme ratings: downgraded to 'A-' from 'A'
Short term senior debt, including programme ratings: affirmed at 'F1'

DBAustralia Ltd.
Commercial paper affirmed at 'F1'

DBFinancial LLC
Short-term IDR affirmed at 'F1'
Commercial paper affirmed at 'F1'

DBCapital Funding Trust VII: downgraded to 'BB+' from 'BBB-'
DBContingent Capital Trust II: downgraded to 'BB+' from 'BBB-'
DBContingent Capital Trust III: downgraded to 'BB+' from 'BBB-'
DBContingent Capital Trust IV: downgraded to 'BB+' from 'BBB-'
DBContingent Capital Trust V: downgraded to 'BB+' from 'BBB-'

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Applicable Criteria
Global Bank Rating Criteria (pub. 20 Mar 2015)
(https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=863501)
Global Non-Bank Financial Institutions Rating Criteria (pub. 28 Apr 2015)
(https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=865351)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form
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