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

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Fitch Ratings-London/Milan-15 December 2011: Fitch Ratings has downgraded Deutsche Bank AG's (Deutsche Bank) Long-term Issuer Default Rating (IDR) to 'A+' from 'AA-' and its Viability Rating (VR) to 'a' from 'aa-'. Both ratings were removed from Rating Watch Negative (RWN), on which they had been placed on 13 October 2011. The Outlook on Deutsche Bank's Long-term IDR is Stable as it is at the same level as its Support Rating Floor. A full list of all rating actions regarding Deutsche Bank and its subsidiaries is at the end of this comment.

Fitch is taking the rating action on Deutsche Bank and its affiliates in the context of its review of global trading and universal banks. The agency has taken rating action on a number of institutions to reflect the outcome of this review, which has been announced in a separate comment, 'Fitch Downgrades Viability Ratings of Eight Global Trading and Universal Banks', published on 15 December 2011 and available on www.fitchratings.com.

The downgrades of Deutsche Bank's Long-term IDR and VR reflect the challenges that Fitch expects for the global trading and universal banks in a difficult and uncertain environment which has put earnings prospects under pressure. The downgrade also reflects the challenges posed by a more stringent regulatory framework, under which Deutsche Bank - and many of its peers - will have to adapt their business models in their investment banking activities more speedily than initially planned by the Basel committee.

It remains uncertain which of the global trading and universal banks will emerge as the strongest once the new regulations are fully implemented and business appropriately adjusted. Fitch expects Deutsche Bank to remain one of the leading banks in the industry, but predicting the impact on revenue and cost with so many moving parts will not be possible in the near term. On the downside, Deutsche Bank is not as well capitalised as some of its global peers, although Fitch anticipates that the bank will reach the 9% core capital ratio required by the European Banking Authority by end-June 2012 by as soon as end-2011, without any need to raise further capital externally.

Capitalisation is a key ratings factor. It is difficult to size the appropriate level of capital for an evolving business model, and Deutsche Bank has strengthened core capital. During 9M11, the bank strengthened its core Tier 1 ratio by 140bp and its Fitch Core Capital ratio by 122bp. Nevertheless, its risk weighted assets will be hit hard by the introduction of Basel 2.5 rules, and Fitch's adjusted leverage ratio for Deutsche Bank looks weaker than those of its highly rated large US peers.

By comparison with other global trading and universal banks, Fitch considers Deutsche Bank to enjoy strong market positions in most of the leading sectors and geographies in securities markets. It is less strong than the leading US firms in mergers and acquisition finance, which places it lower in global rankings by fees than its rankings by volumes of flow business, particularly in fixed income and foreign exchange. Some of the activities Deutsche Bank has been particularly active in are being hit hard by new regulation, while it is well placed to emerge as one of the beneficiaries of the development towards high volume, low margin production. Fitch expects further clarity about the direction the business will take in the medium term after the senior management changes next year.

Deutsche Bank has always been a universal bank, although prior to its acquisition of Deutsche Postbank (Postbank), its earnings had been skewed to its corporate and investment banking business since its acquisition of Bankers Trust in 1999. Fitch expects commercial banking to once again have a permanently strong influence on Deutsche Bank group's balance of earnings, although the agency also factors in potential challenges to earnings during the coming year from any prolonged stagnation in the economic and capital markets' climates.

If Deutsche Bank is able to demonstrate a track record of more balanced earnings and at the same time enhance its capitalisation further, Fitch would consider a positive rating action on its VR.

Fitch considers Deutsche Bank's funding and liquidity sound. Funding benefits from its solid commercial banking franchise and solid access to diversified funding sources. Deutsche Bank's loan/customer deposit ratio stood at 71% at end-September 2011. The bank makes significant use of short-term wholesale funding, much of which is secured. The liquidity risk of this is counterbalanced by maintaining a substantial pool of unencumbered liquid assets, which the bank has increased. At end-September 2011, liquidity reserves amounted to over EUR180bn, of which more than half was in cash.

The Stable Outlook on Deutsche Bank's Long-term IDR reflects the 'A+' Support Rating Floor. Any change in this would, therefore, only result from a change in the German authorities' ability or propensity to support the bank. Fitch does not expect this propensity to decline in the short-term for systemically important banks in Germany. However, Fitch notes that over the longer term support from the authorities might become less probable, given the general global view that regimes should be established to ensure that taxpayers' contributions to bailing out banks should be more limited.

Deutsche Bank's performance in 9M11 has remained adequate with an operating return on average equity of 14.8%, but profitability in Q311 suffered from weaker earnings in the bank's corporate banking and securities business, where pre-tax income, including a EUR310m impairment of a German VAT claim, fell 94% year-on-year. The private and business clients division, where earnings benefited from Postbank's performance, reported pre-tax income of EUR310m, including a EUR185m impairment on Greek government bonds, 27% higher than in Q310.

Postbank's IDRs reflect support from the parent and are now at the same level as Deutsche Bank's to reflect the increased integration into the parent and the strategic importance of Postbank. BHF Bank AG's (BHF) ratings reflect support from Deutsche Bank. They remain on RWN to reflect the potential sale of BHF to a third-party. Hybrid capital instruments and subordinated debt issued by Deutsche Bank and its affiliates were downgraded by one notch They remain on RWN to reflect the heightened downgrade risk associated with the pending completion of Fitch's review into how it rates bank regulatory capital. This review was initiated by the exposure draft entitled 'Rating Bank Regulatory Capital Securities' published on 28 July 2011 and available on www.fitchratings.com. Postbank's subordinated lower Tier II debt was placed on RWN as a result of the pending completion of the review.

The rating actions are as follows:

Deutsche Bank
Long-term IDR: downgraded to 'A+' from 'AA-'; RWN removed; Outlook Stable
Short-term IDR: affirmed at 'F1+'
Viability Rating, downgraded to 'a' from 'aa-'; RWN removed
Individual Rating: affirmed at 'B/C'
Support Rating: affirmed at '1'
Support Rating Floor: affirmed at 'A+'
Senior Debt, including programme ratings: Long-term: downgraded to 'A+' from 'AA-' RWN removed; Short-term affirmed at 'F1+'
Senior market-linked securities: downgraded to 'A+emr' from 'AA- emr'; RWN removed
Subordinated Lower Tier II Debt: downgraded to 'A' from 'A+'; remains on RWN

Postbank
Long-term IDR: affirmed at 'A+'; Stable Outlook
Short-term IDR: affirmed at 'F1+'
Viability Rating: 'bbb', not affected
Individual Rating: 'C', not affected
Support Rating: affirmed at '1'
Senior Debt, including programme ratings: affirmed at 'A+' / 'F1+'
Subordinated Lower Tier II Debt: 'A'; placed on RWN
Unsecured guaranteed bonds issued by former DSL Bank: affirmed at 'AA'/'AA emr'

This rating action has no impact on the 'AAA' rating of the outstanding covered bonds issued by Postbank.

BHF
Long-term IDR: downgraded to 'A-' from 'A'; RWN Maintained
Short-term IDR: downgraded to 'F2' from 'F1'; RWN Maintained
Viability Rating: 'bbb' RWN, not affected
Individual Rating: 'C' RWN, not affected
Support Rating: '1'; RWN Maintained

Deutsche Bank Securities
Long-term IDR: downgraded to 'A+' from 'AA-'; RWN removed; Outlook Stable

Short-term IDR: affirmed at 'F1+'
Support Rating: affirmed at '1'

Deutsche Bank Trust Company Americas
Long-term IDR: downgraded to 'A+' from 'AA-'; RWN removed; Outlook Stable
Short-term IDR: affirmed at 'F1+'
Support Rating: affirmed at '1'
Senior debt, including programme ratings: Long-term downgraded to 'A+' from 'AA-'; RWN removed; Short-term affirmed at 'F1+'
Subordinated Debt: downgraded to 'A' from 'A+'; RWN maintained

Deutsche Bank Trust Corporation
Long-term IDR: downgraded to 'A+' from 'AA-'; RWN removed; Outlook Stable
Short-term IDR: affirmed at 'F1+'
Support Rating: affirmed at '1'
Senior debt, including programme ratings: Long-term downgraded to 'A+' from 'AA-'; RWN removed; Short-term affirmed at 'F1+'
Subordinated Debt: downgraded to 'A' from 'A+'; RWN maintained

Deutsche Bank Australia Ltd.
Commercial Paper affirmed at 'F1+'

Deutsche Bank Financial LLC
Short-term IDR affirmed at 'F1+'
Senior debt, including programme ratings: Long-term downgraded to 'A+' from 'AA-'; RWN removed
Subordinated Debt: downgraded to 'A' from 'A+'; RWN maintained
Commercial Paper: affirmed at 'F1+'

Deutsche Bank Capital Funding Trust I: downgraded to 'BBB+' from 'A'; remains on RWN
Deutsche Bank Capital Funding Trust IV: downgraded to 'BBB+' from 'A'; remains on RWN
Deutsche Bank Capital Funding Trust V: downgraded to 'BBB+' from 'A'; remains on RWN
Deutsche Bank Capital Funding Trust VI: downgraded to 'BBB+' from 'A'; remains on RWN
Deutsche Bank Capital Funding Trust VII: downgraded to 'BBB+' from 'A'; remains on RWN
Deutsche Bank Capital Funding Trust VIII: downgraded to 'BBB+' from 'A'; remains on RWN
Deutsche Bank Capital Funding Trust IX: downgraded to 'BBB+' from 'A'; remains on RWN
Deutsche Bank Capital Funding Trust X: downgraded to 'BBB+' from 'A'; remains on RWN
Deutsche Bank Capital Funding Trust XI: downgraded to 'BBB+' from 'A'; remains on RWN
Deutsche Bank Contingent Capital Trust II: downgraded to 'BBB+' from 'A'; remains on RWN
Deutsche Bank Contingent Capital Trust III: downgraded to 'BBB+' from 'A'; remains on RWN
Deutsche Bank Contingent Capital Trust IV: downgraded to 'BBB+' from 'A'; remains on RWN
Deutsche Bank Contingent Capital Trust V: downgraded to 'BBB+' from 'A'; remains on RWN
Deutsche Postbank Funding Trust I (Germany): downgraded to 'BBB+' from 'A'; remains on RWN
Deutsche Postbank Funding Trust II (Germany): downgraded to 'BBB+' from 'A'; remains on RWN
Deutsche Postbank Funding Trust III (Germany): downgraded to 'BBB+' from 'A'; remains on RWN
Deutsche Postbank Funding Trust IV (Germany): downgraded to 'BBB+' from 'A'; remains on RWN
ProSecure Funding Limited Partnership (LP Jersey): downgraded to 'BBB-' from 'BBB+'; remains on RWN

Contact:

Primary Analyst (Deutsche Bank)
Christian Scarafia
Senior Director
+39 02 87 90 87 212
Fitch Italia S.p.A.
1, Vicolo S. Maria alla Porta
20123 Milan