Fitch Takes Actions on 6 German Banking Groups on Coronavirus Uncertainties

Fitch Ratings - Frankfurt am Main - 27 March 2020:

Fitch Ratings has taken rating actions on 6 German banking groups following the coronavirus disruption. Fitch has affirmed the Long-Term Issuer Default Ratings (IDRs) and Viability Ratings (VRs) of Sparkassen-Finanzgruppe (Sparkassen) and Sparkassen-Finanzgruppe Hessen-Thueringen (SFG-HT) and has revised the Outlooks on both groups' Long-Term IDRs to Negative. Fitch has also placed the Long-Term IDR and VR of Deutsche Bank AG on Rating Watch Negative (RWN) and has downgraded the Long-Term IDR and VR of Commerzbank AG (CBK). The Outlook on CBK's Long-Term IDR remains Negative. The Long-Term IDR of Unicredit Bank AG (HVB) has been affirmed with a Negative Outlook.

Aareal Bank AG's Long-Term IDR has been downgraded to 'BBB+' to reflect Fitch's new Bank Rating Criteria and placed on RWN to reflect the coronoavirus disruption. A full list of rating actions is at the end of this Rating Action Commentary.

While the ultimate economic and financial market implications of the coronavirus outbreak are unclear, Fitch considers the risks to banks' credit profiles to be clearly skewed to the downside and this has driven the rating actions. Fitch revised its sector outlook for German banks to negative in December 2019, and the coronavirus outbreak will put additional pressure on the banks' earnings and asset quality. These are exacerbated by the structural weaknesses of the domestic banking sector, where most banks have been unable to generate adequate returns during periods of strong economic growth.

To reflect this structural weakness, Fitch has lowered its operating environment score for the domestic German banks to 'aa-' from 'aa' and sees further pressure on the strength of the operating environment. Fitch could lower its assessment of the operating environment further if there are signs that the domestic economy suffers longer-term from the current crisis, or if the banking sector is unable to restore its profitability, which is likely to require greater pricing discipline and consolidation to remove excess capacity in the sector.

Fiscal support measures for the private sector and financial markets have mixed first order implications for banks. The German government's measures and additional budget of EUR150 billion for 2020 will support borrowers' viability and hence banks' asset quality. Mortgage loan relief programmes will have negative first order implications for banks, but compensation by the state for direct COVID-19 related losses appears to have the approval of EU state aid authorities, so it is likely that the full financial impact for banks will be mitigated.

Nonetheless, we expect asset quality to weaken relative to our previous expectations and from the record lows achieved at end-2019. Profitability has been a structural rating weakness for most German banks despite the strong economic environment that prevailed in Germany in recent years and is likely to intensify due to weaker business volumes, rising loan impairment charges and the increased likelihood that interest rates will remain very low for a long time. Higher wholesale funding costs represent an additional downside risk in the event monetary policy support packages, including the ECB's EUR750 billion Pandemic Emergency Purchase Programme, fail to mitigate rising funding costs.

We consider the risks to funding profiles to be a longer term (eg term debt refinancing and market issuance), rather than near-term risk, given the large banking group's strong deposit franchises, extensive monetary policy support, including targeted longer-term refinancing operations (TLTRO) and the PEPP.

Key Rating Drivers

AAREAL

Unless noted below, the key rating drivers for Aareal are those outlined in our Rating Action Commentary published in January 2020 (Fitch Revises Aareal's Outlook to Negative; Affirms IDR at 'A-'; https://www.fitchratings.com/site/pr/10107378).

Fitch has downgraded Aareal's Long-Term IDR to 'BBB+', the level of the bank's VR, because we do not expect the bank to hold Tier 2 and AT1 debt buffers sustainably in excess of 10% of its risk weighted assets, which would be required for an IDR uplift under Fitch's updated criteria. Aareal's Derivative Counterparty Rating (DCR), long-term senior preferred (SP) debt and long-term Deposit Ratings have also been downgraded by one notch due to the downgrade of the bank's Long-Term IDR. They remain one notch above the Long-Term IDR due to protection offered to respective creditors by significant layers of subordinated and senior non-preferred (SNP) debt. Aareal's short-term debt ratings and short-term deposit ratings have been downgraded to 'F2', the baseline option mapping to the respective long-term ratings, because the bank's Funding & Liquidity score of 'bbb+' is not sufficient to warrant a higher short-term rating.

Fitch has placed Aareal's VR, Long-Term IDR, DCR and debt ratings on RWN because the economic fallout from the coronavirus crisis represents a near-term risk to the ratings. The bank enters the economic downturn with increased vulnerabilities, despite improved portfolio quality due to recently executed de-risking measures. This is due to the deteriorating economic environment in Germany, the bank's mono-line commercial real estate business model and elevated exposure to hotels (33% of total real estate loans at end-2019) and retail property (24% at end-2019), partially in more volatile regions (South Europe). We expect pressure on the bank's profitability from lower business volumes as well as higher loan impairment charges (LICs) from rising NPLs. At the same time, we believe that the bank's capitalisation will remain a relative rating strength.

Prior to placing them on RWN due to risks posed by the COVID-19 induced crisis, Fitch has taken actions on certain ratings that were placed Under Criteria Observation (UCO) on 4 March (see "Fitch Places German and Austrian Banks Under Criteria Observation") following the publication of Fitch's updated Bank Rating Criteria on 28 February 2020.

We have downgraded the bank's subordinated Tier 2 debt to 'BBB-' to reflect the switch to a baseline notching of two notches for loss severity from the respective VRs under the new criteria from one notch under the old criteria. The additional Tier 1 debt with fully discretionary coupons has been upgraded to 'BB'. It is now notched four times from its VR, which is the baseline notching under the new criteria as opposed to five notches under the old criteria, to reflect a reduction in incremental non-performance risk relative to the VR. This reflects the bank's large buffers above mandatory coupon omission triggers, which we expect to be maintained.

Aareal's senior unsecured debt ratings, still UCO, will be reviewed and resolved as soon as practical and in any case within six months.

Aareal's Support Ratings (SR) and Support Rating Floors (SRF) reflect Fitch's view that due to the EU's Bank Recovery and Resolution Directive (BRRD), under which senior creditors can no longer rely on full extraordinary support from the sovereign if the bank becomes non-viable.

CBK

Unless noted below, the rating drivers for Commerbank are those outlined in our Rating Action Commentary published in January 2020 (Fitch Affirms Commerzbank at 'BBB+'; Outlook Negative; https://www.fitchratings.com/site/pr/10108421).

We have downgraded CBK's Long-Term IDR, VR and SNP/ unsecured debt rating to 'BBB' from 'BBB+' because we believe that the economic disruption in Germany poses material execution risk for the

implementation of the bank's strategic plan, which will negatively affect revenue generation. The bank enters the expected economic fallout from the coronavirus crisis and the economic downturn from a position of relative weakness given its below-average earnings and profitability, which is of high importance to its VR.

The Negative Outlook on CBK's IDR reflects our view that the economic and financial market fallout from the coronavirus outbreak creates additional medium-term downside risks to our assessment of CBK's asset quality, earnings and profitability and capitalisation, which could ultimately affect the bank's company profile.

CBK is in the midst of a substantial restructuring, which we believe could be disrupted by the ongoing crisis and prevent the bank from reaching its modest profitability target. We believe that there is additional downside risk to our assessment of the bank's asset quality because CBK is a key financer of the German Mittelstand and its corporate portfolio entails concentration risks due to large exposures, including to the consumer and automotive industry (EUR15 billion and EUR10 billion exposure, respectively, at end-2019). Despite government programmes to support the economy, there is a heightened probability that corporate and to a lesser extent retail risks will drive up LICs. LICs already increased substantially last year, amounting to about a third of the bank's pre-impairment operating profit.

We therefore expect pressure on the bank's earnings, which is a relative rating weakness of CBK. The pressure on the bank's profitability could be compounded by lower business volumes and even lower interest rates, which Commerzbank's business model is sensitive to. We also expect pressure on CBK's capitalisation, which with a 13.4% CET1 ratio at end-2019 was in line with its European peers, due to negative rating migration that could inflate risk-weighted assets (RWA). We expect CBK's funding and liquidity to remain sound, given the bank's solid deposit and funding franchise.

We have downgraded CBK's Short-Term IDR from 'F1' to 'F2'. The Short-Term IDR is at the higher of the two possible levels that map to a 'BBB' Long-Term IDR to reflect the bank's sound funding and liquidity score of 'a'. We have also downgraded the commercial paper issued by CBK's subsidiary Commerzbank US Finance Inc. to 'F2' from 'F1', in line with the rating action on CBK.

DCR, DEPOSIT RATINGS AND SP DEBT RATINGS

We have downgraded CBK's DCR, long-term SP debt ratings and Long-Term Deposit Ratings by one notch, in line with the rating action on CBK's Long-Term IDR. The DCR, long-term deposit rating and long-term SP debt rating remain one notch above the bank's Long-Term IDR because of the protection that could accrue from CBK's more junior bank resolution debt and equity buffers, which provides superior recovery prospects relative to its IDR.

CBK's short-term deposit rating and short-term SP rating of 'F1' are the higher of two possible levels for a Long-Term rating of 'BBB+' and reflect CBK's 'a' funding and liquidity score.

SUBORDINATED AND HYBRID NOTES

The Tier 2 subordinated notes issued by CBK's and Dresdner Bank Funding Trust IV, which were placed on UCO on 4 March 2020, have been downgraded by two notches to 'BB+' from 'BBB' and removed from UCO. This downgrade reflects the change in CBK's VR and the change in baseline notching for loss-severity to two notches (from one previously) down from the VR since the bank does not meet the specific conditions under our criteria for applying a reduced notching.

We have downgraded the ratings of the hybrid debt instruments issued by HT1 Funding GmbH (Commerzbank) and Dresdner Funding Trust I (Commerzbank) to reflect the rating action on CBK's VR as anchor rating.

SR AND SRF

CBK's SR and SRF have been affirmed and reflect our view that due to the EU's BRRD, senior creditors can no longer rely on full extraordinary support from the sovereign if the bank becomes non-viable.

DEUTSCHE BANK

Unless noted below, the key rating drivers for Deutsche Bank are those outlined in our Rating Action Commentary published in June 2019 (Fitch Downgrades Deutsche Bank to 'BBB'; Outlook Evolving; https://www.fitchratings.com/site/pr/10077665).

Fitch has placed Deutsche Bank's VR, Long-Term IDR and Short-Term IDR and long-term debt ratings on RWN. The RWN reflects heightened near-term risks to the bank's earnings, capitalisation and additional execution risks to its restructuring, if losses associated with the economic fallout from the COVID-19 pandemic increase materially.

Deutsche Bank's ambitious multi-year restructuring should result in a more focused and profitable business model. At end-2019, the bank appeared materially on track with its plan targets, having progressed with the cost reduction and increased capital ratios above plan. Management remains committed to the targets, but we believe that that execution has become more challenging in a more difficult operating environment. The ability to implement its strategy is an important rating consideration, and the reason why we have assigned a '4' ESG score for Corporate Governance.

Lower interest rates and lower client activity will weigh on earnings, although volatility may aid its trading results. We understand that the bank has managed the heightened volatility quite well in recent weeks. At the same, the predictability of future trading performance is limited by definition. A sharp rise in expected or realised credit risk losses would be a threat to solvency given the thin pre-provision earnings buffer, notwithstanding the bank's solid asset quality and conservative underwriting and additional protection from hedging credit exposures. We also see a risk that planned restructuring actions could be delayed, including the reduction of legacy assets cost reductions and investments as management attention will be focused on the challenges posed by the current crisis.

Deutsche Bank went into the crisis with a CET1 ratio of 13.6% at end-2019, slightly ahead of its plans. In addition to an expected reduction to 12.7% prior to the COVID-19 outbreak, capital metrics are now at risk from a deeper than expected net loss, and from RWA-inflation from rating migration and draw-downs on committed credit lines. We believe that increases in RWA due to changes in regulation may be delayed, which will provide some relief to capital ratios. Deutsche Bank's ability to manage the CET1 ratio is an important rating sensitivity given weak earnings during the early years of the restructuring.

Access to funding and liquidity are supported by the bank's conservative liquidity position, low refinancing need in 2020, and by access to liquidity facilities offered by the ECB and other central banks. Deutsche Bank's liquidity was solid at end-2019 with a EUR222 billion liquidity buffer and a 141% LCR. We expect the bank to maintain liquidity metrics at solid levels.

The issuer ratings and long-term debt ratings of DB Privat- und Firmenkundenbank AG (PFK), Deutsche Bank AG, London Branch (DB - London Branch) and Deutsche Bank's US subsidiaries have also been placed on RWN because they are equalised with Deutsche Bank's. The short-term debt ratings have been affirmed because these would likely still be rated 'F2' if the corresponding long-term preferred debt and deposit ratings were downgraded.

Deutsche Bank's DCR, long-term deposit and SP debt ratings and PFK's long-term deposit rating are rated one notch above the respective entities' Long-Term IDRs. This uplift reflects the respective creditors' statutory preferential status over Deutsche Bank's large buffer of junior and SNP debt. The bank benefits from the favorable German resolution regime, which made its stock of legacy senior unsecured debt retroactively SNP. In the current environment of disrupted market confidence and increased issuance spreads, this represents a significant advantage compared with peers based in other jurisdictions that still have to complete the build-up of bail-inable buffers.

We have upgraded by one notch the DCR of Deutsche Bank Securities Inc. to reflect the protection that could accrue to derivative counterparties from the build-up of bail-in debt and equity buffers at the level of the intermediate holding company DB USA Corporation.

We have downgraded by one notch the ratings for subordinated Tier 2 debt issued by Deutsche Bank and DB London Branch and placed them on RWN. The notes were downgraded to a baseline notching of two notches for loss severity from the VR of Deutsche Bank under the new criteria from one notch under the previous criteria.

We have placed Deutsche Bank AG's AT1 debt rating on RWN, driven by the RWN on the VR. These ratings are maintained at five notches below the bank's VR, including three notches for heightened incremental non-performance risk. We have not applied the four-notch baseline under our new Bank Rating Criteria to reflect our view that the bank may be unable to sustainably maintain adequate equity buffers above the point at which the bonds' coupon omission is triggered.

HVB

Unless noted below, the key rating drivers for HVB are those outlined in our Rating Action Commentary published in November 2019 (Fitch Affirms UniCredit Bank AG at 'BBB+'; Negative Outlook; https://www.fitchratings.com/site/pr/10102270).

We have affirmed HVB's Long-Term IDR at 'BBB+' with a Negative Outlook, in line with the Outlook on the Long-Term IDR of HVB's parent Unicredit S.p.A. (UC). The affirmation of HVB's VR reflects our view that HVB's strong capitalisation offers some substantial flexibility to absorb a deterioration of the bank's asset quality and profitability during the current crisis.

However, we believe the economic and financial market fallout from the coronavirus outbreak creates additional downside risks to our assessment of the bank's asset quality, profitability, funding and liquidity relative to our expectations at the time we last reviewed the bank's ratings.

We expect HVB's Stage 3 loans/total loans ratio to increase materially from the 2.1% achieved at end-2019 in case of a prolonged downturn. We expect higher LICs to exacerbate the pressure from declining interest margins and decreasing commission income in HVB's corporate and CIB business, which is significantly exposed to larger German corporates and multinationals. We also believe that loan growth, which helped stabilise the commercial lending division's net interest income over the past years, will decline in 2020 as a result of the current crisis. HVB has some room to reduce its cost base mainly through automating its processes, but progress in this area is likely to be slow, in our view.

We have downgraded by one notch the subordinated Tier 2 debt rating to reflect the switch to a baseline notching of two notches for loss severity from the bank's VR under Fitch's new Bank Rating Criteria, from one notch under the previous criteria. The widened notching reflects our expectation that the bank will not maintain buffers of Tier 2 and AT1 debt exceeding 10% of its respective risk-weighted assets.

Conversely, we have upgraded HVB's DCR, long-term SP debt rating and long-term Deposit Ratings by one notch to reflect that in line with our new criteria, the protection that could accrue to these creditors from the build-up of junior resolution debt and equity buffers.

SFG

Unless noted below, the key rating drivers for SFG are those outlined in our Rating Action Commentary published in September 2019 (Fitch Affirms Sparkassen-Finanzgruppe at 'A+'; Outlook Stable; https://www.fitchratings.com/site/pr/10088857).

Fitch has affirmed German savings banking group SFG's Long-Term IDR at 'A+', Short-Term IDR at 'F1+' and Viability Rating (VR) at 'a+'. Fitch has revised the Outlook on the group's IDR to Negative from Stable because we believe the economic fallout from the coronavirus crisis represents a medium-term risk to SFG's ratings.

Fitch has also affirmed the 'A+' and 'F1+' IDRs of 325 savings banks members of SFG (out of a total of 378 at January 2020) and revised the Outlook for the same reason.

The group enters the economic downturn from a position of relative strength, given its leading domestic retail and SME franchise in Germany, granular and sound credit exposures, solid capitalisation and strong deposit-driven funding and liquidity. SFG's profitability is moderating due to the prolonged decline in net interest income. We believe the economic and financial market fallout from the coronavirus outbreak adds risks to our assessment of Germany's operating environment as well as SFG's asset quality, profitability and capitalisation relative to when we last reviewed the bank's ratings.

Fitch has withdrawn the rating of Stadtsparkasse Bad Sachsa because it no longer exists as separate entity following its merger with another saving bank. As a result, Fitch will no longer provide ratings or analytical coverage of this merged issuer. A full list of rated SFG members is available at www.fitchratings.com or via the link below.

The savings banks' Deposit Ratings are aligned with their IDRs because in our view, SFG's aggregated junior and SNP debt buffers do not offer sufficient default protection to depositors or provide comfort that recoveries in a default scenario would be above average. This is because we define SFG as consisting of the predominantly retail deposit-funded savings banks, excluding their central institutions, the Landesbanken. We do not assign a Deposit Rating to SFG as it is not a legal entity.

SFG's SR and SRF reflect Fitch's view that extraordinary sovereign support for EU banks is possible but cannot be relied upon due to the BRRD. It is likely that senior creditors will be required to participate in losses, if necessary, instead of, or ahead of, the group receiving sovereign support.

SFG-HT

IDRS, VR, HELABA'S SENIOR UNSECURED AND SNP DEBT

Unless noted below, the key rating drivers for SFG-HT are those outlined in our Rating Action Commentary published in September 2019 (Fitch Affirms S - Finanzgruppe Hessen Thueringen and Helaba at 'A+'/Stable; https://www.fitchratings.com/site/pr/10090954).

SFG-HT's Long-Term IDR has been affirmed and the Outlook revised to Negative from Stable, because we believe the economic fallout from the coronavirus crisis represents a medium-term risk to SFG-HT's ratings. The group's VR has been affirmed 'a+'. The group's Short-Term IDR has been affirmed at 'F1+', the higher of two possible levels for a 'A+' Long-Term IDR, because the group's funding and liquidity score is 'aa-'. Fitch has also revised the Outlooks on the IDRs of the savings banks members of SFG-HT's mutual support scheme and its central institution, Landesbank Hessen-Thueringen Girozentrale (Helaba).

The group enters the economic downturn from a relative position of strength, given its diversified and strong regional retail franchise, complemented by Helaba's domestic and international wholesale activities, sound asset quality, strong capitalisation and solid deposit-driven funding and liquidity. The profitability of the group is moderating due to prolonged declining interest rates.

We believe the economic and financial market fallout from the coronavirus outbreak creates additional downside risks to our assessment of Germany's operating environment, the group's asset quality, earnings and profitability and capitalisation and leverage relative to when we last reviewed the bank's ratings.

The group could be more affected by the crisis due to Helaba's wholesale driven business model with concentrated exposure to commercial real estate markets (EUR36 billion at end-3Q19), if the debt servicing capacity of tenants deteriorates and vacancy rates rise. In particular, we expect some vulnerability from its exposure to retail and logistic assets (in total 26% of the CRE portfolio at end-2019).

We have revised the Outlook on the Long-Term IDR of Helaba Asset Services, which is a 100% subsidiary of Helaba, but not a member of SFG-HT, to Negative, mirroring the rating action on its parent.

Deposit ratings and Helaba's DCR and SP rating have been affirmed at one notch above the group's IDR because of the protection could accrue from more junior bank resolution debt and equity buffers, which provides superior recovery prospects relative to its IDR.

Helaba's Tier 2 debt, which was placed on UCO on 4 March 2020, has been downgraded by one notch to 'A-' from 'A' and removed from UCO to reflect the change in baseline notching for loss-severity to two notches (from one previously) from the VR since the bank does not meet the specific conditions under our criteria for applying one notch.

RATING SENSITIVITIES

AAREAL BANK

Unless noted below, the rating sensitivities for Aareal are those outlined in our Rating Action Commentary published in January 2020 (Fitch Revises Aareal's Outlook to Negative; Affirms IDR at 'A-').

The RWN on Aareal's ratings reflects the near-term risks to its ratings from the coronavirus outbreak and the heightened probability that we would downgrade the bank if the economic disruptions caused by the COVID-19 pandemic puts pressure on Aareal's asset quality or if stresses in the property market weaken earnings prospects and increase the likelihood of losses that could ultimately weaken Aareal's substantial capital buffers.

The ratings could be affirmed if the COVID-19 disruptions turn out to be short-lived and if the bank manages to maintain adequate asset quality during the crisis.

The DCR, deposit ratings and SP debt ratings are primarily sensitive to changes in the bank's IDRs. They are also sensitive to changes in the buffer of junior and SNP/ unsecured debt, if we expect the bank to meet required resolution buffers by including SP liabilities, unless the bank's buffer of junior and SNP/ unsecured debt is sustainably above 10% of its RWAs.

The ratings of the Tier 2 and AT1 notes are primarily sensitive to changes in the VR, as well as to our assessment of their non-performance risk relative to the risk captured in the VR.

An upgrade of Aareal's SR and an upward revision of the bank's SRF would require a higher propensity of sovereign support. The BRRD makes this highly unlikely, albeit not impossible

CBK

CBK has headroom to emerge with its IDRs, VR and SNP/senior unsecured debt intact. However, this outcome will depend on the ultimate depth and duration of the economic shock to the German economy. CBK's ratings could be downgraded if the economic disruptions increase the risk that the bank occurs a loss in 2020 and breaches its 12% minimum CET1 ratio limit. The ratings could also be downgraded if there is evidence of material franchise and market share erosion in the bank's core businesses.

Asset quality has been a relative strength for the bank's ratings, but a sharp rise in credit losses could pressure ratings because of the low pre-provision earnings to absorb them. CBK's funding and liquidity benefit from a conservative starting point and central bank actions to insure continued access to liquidity. Ratings would come under pressure if these prove insufficient or if the bank's liquidity metrics deteriorate markedly, which we do not expect.

CBK's ratings could be affirmed with a Stable Outlook if the bank manages to make further progress in the implementation of its strategy and maintains acceptable profitability during the current crisis. An upgrade or positive rating pressure over the medium term would also be contingent on the bank's successful execution of the objectives set out in its restructuring. This would include evidence that client and asset growth can be sustained and boost revenue as well as further progress with cost reduction targets.

CBK's DCR, deposit rating and SP debt ratings are primarily sensitive to changes in the Long-Term IDR. They are also sensitive to changes in the buffer of junior and SNP/unsecured debt, if we expect the bank to meet its resolution buffer requirements by including SP liabilities, unless the bank's buffer of junior and SNP/

unsecured debt is sustainably above 10% of its RWAs. CBK's short-term deposit rating and short-term SP rating are primarily sensitive to a change in the bank's funding and liquidity score to below 'a'.

The rating of Commerzbank U.S. Finance Inc.'s CP programme is primarily sensitive to changes in CBK's Short-Term IDR.

The Tier 2 subordinated notes issued by CBK and Dresdner Bank Funding Trust IV are primarily sensitive to changes in the bank's VR. The ratings of the hybrid notes issued by HT1 Funding GmbH and Dresdner Funding Trust I are also sensitive to Fitch's assessment of their non-performance risk relative to the risk captured in the VR.

DEUTSCHE BANK

The RWN on Deutsche Bank's ratings reflects the near-term risks to its ratings from the coronavirus outbreak. There is a heightened probability that we would downgrade the bank if the economic disruptions lead to larger than expected losses. A downgrade could also be triggered if the bank breaches its 12.5% minimum CET1 limit without a plan to swiftly restore it, or if we believe that the market disruptions make the implementation of mitigating measures uncertain.

A downgrade could also result if there is evidence of undue franchise and market share erosion in the core businesses relative to peers, or if the bank does not progress with the restructuring targets set out in 2019. Rating pressure would also arise if deteriorating economic conditions such as lower for longer interest rates, significant deterioration in DB's clients' financial health, subdued primary capital markets activity, persist into 2H20 as this would make it more difficult for the bank to return to adequate profitability. Asset quality is a relative rating strength, and a sharp rise in credit losses could pressure ratings because of the low available pre-provision earnings to absorb them.

The ratings would also come under pressure if the bank fails to maintain its strong conservative funding profile, which we currently do not expect because it entered the crisis with strong liquidity and because it has access to liquidity from central banks if needed.

Deutsche Bank's ratings could be affirmed with a Stable Outlook if the bank manages pre-tax profitability and asset quality well during the current crisis.

Upward pressure on the ratings over the medium term would require continued successful execution in the bank's restructuring, including evidence of growing revenue, further progress with cost reduction targets and reduction of non-strategic exposures.

The DCR, deposit and senior debt ratings of Deutsche Bank are primarily sensitive to changes to the Long-Term IDR.

PFK's and Deutsche Bank - London branch's ratings will continue to move in tandem with Deutsche Bank's. The subsidiaries' ratings are sensitive to Deutsche Bank's Long-Term IDR from which they are derived. They are also sensitive to our assessment regarding propensity for them to be supported by Deutsche Bank, which is not affected by this rating action.

The ratings of Deutsche Bank AG's AT1 and Tier 2 subordinated notes are primarily sensitive to changes in the bank's VR. The AT1 notes' ratings are also sensitive to Fitch's assessment of their non-performance risk relative to the risk captured in the VR.

Deutsche Bank's AT1 notes could be rated four notches below the VR if the bank proves its ability to maintain a CET1 buffer over requirements in excess of 100bp at the trough of its restructuring, and its ability to replenish this buffer through profits. The bank's management has guided that the CET1 ratio could decline to 12.7% during 2020, which implies a relatively thin 112bp buffer over requirements that would trigger coupon restrictions. The notching of these notes is also sensitive to an unexpected shift in CET1 capital requirements that would trigger coupon restrictions.

Non-performance risk from available distributable items (ADI) has eased for Deutsche Bank and other German banks following the implementation of the Capital Requirements Regulation 2 in 2019. Under the new regulation capital reserves can be used for payment of AT1 coupons.

HVB

HVB's IDRs and VR are primarily sensitive to a change in UC's IDRs due to the close linkage with the parent and increasing fungibility of capital and funding within the UC group. Therefore, we believe a weakening of UC's financial strength would weaken HVB's company profile and increase the risk of upstreaming further capital from HVB. We view this as likely under the European Single Supervision and Single Resolution Mechanisms as long as UC maintains a single-point-of-entry resolution strategy as its preferred option. Tighter linkage between HVB and its parent could result in a closer alignment of HVB's ratings with that of its parent. Conversely, signs of a more effective ring-fencing of HVB and reduced contingency risk could result in a greater de-linkage of both entities' ratings, and the Outlook on HVB's Long-Term IDR could be revised to Stable.

HVB's ratings are also sensitive to a decline in recurring operating profitability, which could be caused by higher LICs if the economic disruption from the COVID-19 crisis results in a prolonged economic disruption. The ratings could be affirmed and the Outlook revised to Stable if the Outlook on the parent is revised to Stable and if COVID-19 related disruptions turn out to be short-lived, provided that the bank manages to maintain adequate earnings and asset quality

HVBs DCR, SP debt and Deposit Ratings are primarily sensitive to changes in the bank's IDRs and could be aligned with the bank's IDRs if its qualifying junior and SNP debt buffers are insufficient to restore viability and protect preferred creditors after a failure.

HVB's subordinated debt and hybrid securities' ratings are sensitive to changes in the bank's VR or to a change in the securities' notching, which could arise if we change our assessment of the notes' loss severity or relative non-performance risk.

SFG

Fitch believes that SFG has headroom to emerge with its ratings intact due to the relative strength of its franchise, capitalisation and asset quality. The Negative Outlook reflects Fitch's view that the ratings would likely be downgraded if the economic disruptions caused by the pandemic intensify and if prospects that the health crisis will be resolved in 2H20 become less likely, which would also make a sharp recovery in GDP growth in 2021 more remote.

Fitch believes that in the absence of a rapid recovery, SFG's earnings and profitability would suffer from higher LICs, which could affect the group's asset quality, which is a relative rating strength, and ultimately its capitalisation.

Funding and liquidity benefit from a conservative starting point and central bank actions to ensure continued access to liquidity and is therefore relatively less sensitive to a significant deterioration. A negative rating action would be warranted if these prove insufficient.

SFG's ratings could be affirmed and the Outlook revised to Stable if the COVID-19 disruptions are short-lived, and if the group manages to maintain adequate asset quality. Fitch believes that the measures taken by the German government to support retail customers and the corporate sector should indirectly support SFG's asset quality and ultimately its viability.

Upwards rating pressure is unlikely as Fitch expects low interest rates to continue to put pressure on the group's profitability.

The Deposit Ratings of SFG's members are primarily sensitive to changes in SFG's IDRs as we do not expect the group to issue a large buffer of subordinated and SNP debt above 10% of the group's RWA,

which would be required for an uplift of the Long-Term Deposit Ratings to one notch above their Long-Term IDRs.

An upgrade of SFG's SR and an upward revision of its SRF would be contingent on a positive change, in our view, of Germany's propensity to support its systemically important banks. While not impossible, this is highly unlikely in light of the prevailing regulatory environment.

SFG-HT

IDRS, VR, HELABA'S SENIOR UNSECURED AND SNP DEBT

Fitch believes that SFG-HT has headroom to emerge with its ratings intact due to the relative strength of its company profile and capitalisation. The Negative Outlook reflects Fitch's view that the ratings would likely be downgraded if the economic disruptions caused by the COVID-19 pandemic intensify and if prospects that the health crisis is resolved in 2H20 become less likely, which would also make a sharp recovery in GDP growth in 2021 more remote.

Fitch believes that in the absence of a rapid recovery, SFG-HT's earnings and profitability and asset quality would come under pressure, as lending includes the wholesale activities of Helaba which could face relatively higher pressure primarily due to concentration risks and commercial real estate exposure.

Funding and liquidity benefit from a conservative starting point and central bank actions to ensure continued access to liquidity and is therefore relatively less sensitive to a significant deterioration. Negative rating action would be warranted if these prove insufficient or if Helaba's access to wholesale funding weakens.

SFG-HT's ratings could be affirmed and the Outlook revised to Stable if the COVID-19 disruptions turn out to be short-lived and if the group manages to maintain adequate earnings and asset quality. Fitch believes that the measures taken by the German government to support retail customers and the corporate sector should indirectly support SFG-HT's asset quality and ultimately its viability.

Upwards rating pressure is unlikely as Fitch expects low interest rates to continue to put pressure on the group's profitability.

Helaba Asset Services' IDRs are equalised with and primarily sensitive to a change in Helaba's IDRs.

The deposit ratings of SFG-HT's members are primarily sensitive to changes in SFG-HT's IDRs. The DCR, deposit and Helaba's SP debt ratings are primarily sensitive to the group's Long-Term IDR. They are also sensitive to changes in the buffer of junior and SNP unsecured debt, if we expect the bank to meet required resolution buffers by including SP liabilities, unless the bank's buffer of junior and SNP unsecured debt is sustainably above 10% of its RWAs. The Deposit Ratings of the savings banks are also sensitive to our assessment of how a resolution of SFG-HT could play out.

The group's Short-Term IDRs are also sensitive to a lowering of the bank's funding and liquidity score that feeds into the bank's VR.

A downgrade of SFG-HT's Long-Term IDR to 'A' would likely not result in a downgrade of the bank's Short-Term IDR to 'F1' from 'F1+, if it can still achieve a funding and liquidity score of at least 'aa-'. A score below this level would result in a Short-Term IDR of 'F1'.

The ratings of Helaba's Tier 2 subordinated notes are primarily sensitive to changes in SFG-HT's VR and to Fitch's assessment of the notes' non-performance risk relative to the risk captured in the VR.

Public Ratings with Credit Linkage to other ratings

Landesbank Hessen-Thueringen Girozentrale (Helaba) is part of Sparkassen-Finanzgruppe Hessen-Thueringen (SFG-HT). SFG-HT is not a legal entity but a network of savings banks in Hessen and Thueringen whose cohesion is supported by a mutual support scheme and which forms a common economic unit together with Helaba. Fitch assigns "group" ratings to SFG-HT and its member banks.

Helaba Asset Services is a subsidiary of Helaba.

Deutsche Bank Securities, Inc.'s and Deutsche Bank London Branch's ratings are linked to Deutsche Bank AG.

Commerzbank US Finance Inc is a subsidiary that issues commercial paper. HT1 Funding GmbH, Dresdner Funding Trust I and IV are funding vehicles, that issue sub-debt and hybrid securities, for which Commerzbank's VR is used as an anchor rating.

Unicredit Bank AG's ratings are linked to Unicredit S.p.A.

ESG Considerations

Deutsche Bank has an ESG score of '4' for Management and Strategy, because operational implementation of its strategy is a highly relevant driver of the bank's ratings.

Fitch assigns SFG a '4' ESG relevance score for group structure, as it is one of the least cohesive groups to which Fitch assigns group ratings. Under Fitch's Bank Rating Criteria, we may assign group ratings to banks that are members of a mutual support mechanism. SFG does not produce consolidated financial accounts and its aggregated risk reporting is less advanced than other European mutual support banking groups rated by Fitch.

Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of 3 - ESG issues are credit neutral or have only a minimal credit impact on the entities, either due to their nature or the way in which they are being managed by the entities. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

VIEW ADDITIONAL RATING DETAILS

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Applicable Criteria

Bank Rating Criteria (pub. 28 Feb 2020)
Non-Bank Financial Institutions Rating Criteria (pub. 28 Feb 2020)

Additional Disclosures

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