FITCH REVISES DEUTSCHE BANK'S OUTLOOK TO NEGATIVE; AFFIRMS AT 'BBB+'

Fitch Ratings-London-21 June 2018: Fitch Ratings has revised Deutsche Bank AG's (Deutsche Bank) Outlook to Negative from Stable while affirming the bank's Long-Term Issuer Default Rating (IDR) at 'BBB+'. At the same time, Fitch has affirmed the bank's Short-Term IDR at 'F2', Viability Rating (VR) at 'bbb+', deposit ratings at 'A-'/'F2' and Derivative Counterparty Rating (DCR) at 'A-(dcr)'. All other debt ratings have also been affirmed.

The Negative Outlook reflects the substantial execution risk Deutsche Bank faces in implementing its restructuring and Fitch's view that failure to strengthen its business model would result in the bank's downgrade.

The rating actions have been taken in conjunction with Fitch's periodic review of the Global Trading and Universal Banks (GTUBs).

A full list of rating actions on the bank and its affected subsidiaries is at the end of this rating action commentary.

KEY RATING DRIVERS
IDRS, VR, DCR, DEPOSIT AND SENIOR DEBT RATINGS
DEUTSCHE BANK
Deutsche Bank's ratings and the Negative Outlook reflect Fitch's view that the bank faces substantial execution risk in its restructuring, which aims to strengthen its business model, stabilise earnings and further strengthen risk controls. Failure to achieve the bank's modest profitability target of a 4% return on tangible equity (RoTE) in 2019 and continued improvements thereafter would put the bank's business model and strategy and management's ability to execute the strategy in question and would likely result in a downgrade. Deutsche Bank's capitalisation, funding and liquidity and asset quality underpin its VR.

The latest announced restructuring measures, which include reductions in resources allocated to its corporate and investment bank (CIB) and a shift towards private and commercial banking and asset management activities, should address the key weaknesses of its strategy in the past and help the bank achieve a more balanced business model over time. But the bank's performance in 2018 will be negatively affected by additional restructuring expenses and by likely pressure on revenue, and the bank's modest return target for 2019 highlights the challenges it faces. In the longer term, the bank's targeted RoTE of 10% requires a turnaround of its investment bank and achievement of cost synergies from the integration of Postbank, which will be challenging, and a more supportive interest rate environment, the timing of which remains uncertain.

Deutsche Bank's capitalisation with an end-1Q18 fully-applied common equity tier 1 (CET1) ratio of 13.4% supports the bank's ratings, and Fitch expects the bank to meet its target of maintaining a CET1 ratio above 13% during 2018. The bank's 3.7% fully-loaded regulatory leverage ratio at end-1Q18 lags behind its global trading and universal bank peers. Plans to scale back the US rates, securities financing transactions and prime finance businesses should reduce the leverage ratio denominator by about 10% by end-2019, which should result in a moderate improvement in the ratio.

The bank's liquidity position has remained comfortable, which is an important rating driver. At end-1Q18, the bank's liquidity portfolio amounted to EUR279 billion, covering around 37% of Deutsche Bank's external non-equity funding, excluding secured financing transactions, and the regulatory liquidity coverage ratio (LCR) stood at 147%, which was comparable with European peers'. The bank stated that its liquidity had remained at similar levels throughout April and May 2018.

Deutsche Bank's Derivative Counterparty Rating (DCR) and long-term deposit and preferred senior debt ratings are one notch above the IDR because derivatives, deposits and structured notes have preferential status over the bank's large buffer of qualifying junior debt and statutorily subordinated senior debt, which Fitch estimates at about 22% at end-1Q18. The short-term deposit and preferred senior debt ratings of 'F2' are the lower of the two short-term ratings that map to an 'A-' long-term rating as there are no clear liquidity enhancements at instrument level.

IDRs, VR, DEPOSIT, SENIOR DEBT AND GUARANTEED DEBT RATINGS
DB PRIVAT- UND FIRMENKUNDENBANK AG (PFK)
PFK's IDR and senior debt ratings are driven by the bank's VR. PFK and its parent Deutsche Bank have a common VR to reflect the high degree of management and operational integration between parent and subsidiary and PFK's large size relative to its parent. Fitch expects that capital and liquidity is fungible between PFK and Deutsche Bank. Consequently, it is our view that the credit profiles of the two entities cannot be meaningfully disentangled.

PFK's Short-Term IDR is mapped to the bank's Long-Term IDR. PFK's long-term and short term deposit ratings are in line with Deutsche Bank's deposit ratings and have the same rating drivers as the parent's.

The rating of the guaranteed notes issued by the former DSL Bank (which was merged into a predecessor bank of PFK) reflects their grandfathered deficiency guarantee from Germany (AAA/Stable). The notes are rated two notches below the guarantor's Long-Term IDR as Fitch sees some uncertainty around the timeliness of payments under the guarantee given its deficiency language, but the uncertainty is small due to the high reputational risk Germany would face if debtholders incur losses.

IDRs, SUPPORT RATINGS, DCRs, DEPOSIT AND SENIOR DEBT RATINGS
DEUTSCHE BANK AG, LONDON BRANCH AND SUBSIDIARIES
The IDRs and debt ratings of Deutsche Bank AG, London branch and of Deutsche Bank's subsidiaries in the US and Australia are equalised with Deutsche Bank's to reflect their core roles within the group, especially Deutsche Bank's capital markets activities, and their high integration with the parent bank or their role as issuing vehicles. The subsidiaries' Support Ratings (SR) reflect our view of the parent's ability to support the subsidiaries.

Deutsche Bank AG, London branch's DCR and long-term deposit and preferred senior debt ratings benefit from the same one-notch uplift above the IDR given to equivalent ratings at Deutsche Bank, as we expect that the insolvency hierarchy would follow the incorporation of the legal entity rather than where the branch is located. In contrast, we have not given uplift to Deutsche Bank Securities' DCR, which is at the same level as the entity's Long-Term IDR.

SUPPORT RATING AND SUPPORT RATING FLOOR
DEUTSCHE BANK AND DB PRIVAT- UND FIRMENKUNDENBANK AG
Deutsche Bank's and PFK's SR of '5' and Support Rating Floors (SRFs) of 'No Floor' reflect our view that senior creditors cannot rely on receiving full extraordinary support from the sovereign in the event that the banks become non-viable.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES
DEUTSCHE BANK AND SUBSIDIARIES

Subordinated debt and other hybrid capital instruments issued by Deutsche Bank and its subsidiaries are all notched down from Deutsche Bank's VR in accordance with our assessment of each instrument's respective non-performance and relative loss severity risk profiles.

Legacy Tier 1 securities issued by Deutsche Bank Contingent Capital Trust II and V and by Deutsche Postbank Funding Trust I, II and III are rated four notches below Deutsche Bank's VR, reflecting higher-than-average loss severity (two notches), as well as high risk of non-performance (an additional two notches) given partial discretionary coupon omission.

High and low trigger contingent additional Tier 1 (AT1) capital 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 notched down three times for high non-performance risk, reflecting fully discretionary coupon omission.

The bank disclosed EUR1,091 million AT1 coupon payment capacity at end-2017. Available distributable items (ADIs) for AT1 securities are calculated annually under German GAAP for the parent bank and reference primarily cumulative retained earnings. Despite earnings weaknesses, we do not expect cumulative retained earnings to fall below a sufficient level to pay AT1 securities in the foreseeable future. The bank has remained current on payment of AT1 coupons to date. Non-payment of AT1 coupon would also be triggered by a breach of the bank's maximum distributable amount (MDA) requirement, which stands at 10.65% for 2018, combining CET1 and the Pillar 2 add-on requirement resulting from the ECB's Supervisory Review and Evaluation Process (SREP). Deutsche Bank has a substantial buffer above this threshold (its end-March 2018 phased-in CET1 ratio was 13.4%).

RATING SENSITIVITIES

IDRs, VR, DCR, DEPOSIT AND SENIOR DEBT RATINGS

DEUTSCHE BANK AND DB PRIVAT- UND FIRMENKUNDENBANK AG

The Negative Outlook reflects the material execution risk the bank faces and Fitch's view that significant setbacks in the implementation of Deutsche Bank's restructuring and failure to strengthen the bank's business model would result in a rating downgrade.

Indicators of a setback include failure to meet its adjusted cost reduction target of EUR900 million for 2018 and of EUR1 billion in 2019 and its adjusted cost targets. A franchise loss in CIB, which would be indicated by market share declines in its chosen businesses, particularly in fixed income and currencies sales and trading and in global transaction banking, would also put pressure on ratings as it would weaken the bank's business model, which will continue to hinge on the bank's corporate franchise.

Capitalisation and funding and liquidity underpin the ratings of Deutsche Bank and its ratings would be downgraded if its CET1 ratio drops below its 13% target or if its liquidity deteriorates, which could be indicated by an outflow of wholesale deposits or a weakening of its liquidity coverage ratio.

The bank has been strengthening its risk controls, and these should improve further over time. The bank operates globally and is subject to regulation in a wide range of jurisdictions. Meeting regulatory requirements is important for the bank and Fitch expects that any possible shortcomings or adverse regulatory findings in key jurisdictions would be remedied swiftly, and failure to do so could put ratings under pressure if this indicates fundamental risk control shortcomings.

Deutsche Bank's Outlook could be revised to Stable if the bank consistently meets financial and organisational targets. A rating upgrade would require significant positive and sustained momentum on earnings and signs of a successful turnaround of retail and commercial banking activities in PFK, which Fitch does not expect in the short term as the benefits from its strategy will likely only be gradual.

The DCRs, deposit and debt ratings are primarily sensitive to changes in the Long-Term IDR. In addition, the DCRs, deposit rating and senior preferred debt ratings are sensitive to the amount of subordinated and non-preferred senior debt buffers relative to the recapitalisation amount likely to be needed to restore viability and prevent default on more senior derivative obligations, deposits and structured notes.

PFK's ratings would move in tandem with Deutsche Bank's because of a common VR. The rating of the guaranteed notes issued by the former DSL Bank is primarily sensitive to a downgrade of Germany's 'AAA' Long-Term IDR.

SUPPORT RATING AND SUPPORT RATING FLOOR
DEUTSCHE BANK AND DB PRIVAT- UND FIRMENKUNDENBANK AG
An upgrade of the SRs and upward revision of the SRFs would be contingent on a positive change in the sovereign's propensity to support banks' senior creditors in full. While not impossible, this is highly unlikely, in our view.

IDRs, SUPPORT RATINGS, DCRs, DEPOSIT AND SENIOR DEBT RATINGS
DEUTSCHE BANK AG, LONDON BRANCH AND SUBSIDIARIES
As Deutsche Bank subsidiaries' ratings reflect the parent bank's the ratings would move in line with Deutsche Bank's IDRs. They are also sensitive to changes in our assumptions around the propensity of Deutsche Bank to provide timely support.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES
DEUTSCHE BANK AND SUBSIDIARIES
Subordinated debt and other hybrid securities are primarily sensitive to a change in Deutsche Bank's VR. 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 respective issuers' VRs. This may reflect a change in capital management in the group or an unexpected shift in regulatory buffer requirements, for example.

For AT1 instruments, non-performance risk could increase and the instruments notched further from the VR if ADI decline significantly or if the maximum distributable amount buffer tightens considerably as a result of a heightened Pillar 2 binding requirement or CET1 erosion from losses.

The rating actions are as follows:

Deutsche Bank AG
Long-Term IDR affirmed at 'BBB+'; Outlook revised to Negative from Stable
Short-Term IDR affirmed at 'F2'
Viability Rating affirmed at 'bbb+'
Support Rating affirmed at '5'
Support Rating Floor affirmed at 'No Floor'
Derivative Counterparty Rating affirmed at 'A-(dcr)'
Deposit ratings affirmed at 'A-'/'F2'
Senior preferred debt ratings affirmed at 'A-'/'F2'
Senior non-preferred debt and senior unsecured programme ratings affirmed at 'BBB+'/'F2'
Subordinated lower Tier II debt affirmed at 'BBB'
Additional Tier 1 notes affirmed at 'BB-'

Deutsche Bank AG, London Branch
Long-Term IDR affirmed at 'BBB+'; Outlook revised to Negative from Stable

Short-Term IDR affirmed at 'F2'
Derivative Counterparty Rating affirmed at 'A-(dcr)'
Deposit ratings affirmed at 'A-'/'F2'
Senior preferred debt ratings affirmed at 'A-'
Senior non-preferred debt ratings and commercial paper affirmed at 'BBB+'/'F2'
Subordinated debt affirmed at 'BBB'

DB Privat- und Firmenkundenbank AG
Long-Term IDR affirmed at 'BBB+'; Outlook revised to Negative from Stable
Short-Term IDR affirmed at 'F2'
Viability Rating affirmed at 'bbb+'
Support Rating affirmed at 5
Support Rating Floor affirmed at 'No Floor'
Deposit ratings affirmed at 'A-'/'F2'
Senior debt issuance programme ratings, including ECP programme: affirmed at 'BBB+'/'F2'
Guaranteed senior unsecured bonds issued by the former DSL Bank: affirmed at 'AA'

Deutsche Bank Securities, Inc.
Long-Term IDR affirmed at 'BBB+'; Outlook revised to Negative from Stable
Short-Term IDR affirmed at 'F2'
Support Rating affirmed at '2'
Derivative Counterparty Rating affirmed at 'BBB+(dcr)'

Deutsche Bank Trust Company Americas
Long-Term IDR affirmed at 'BBB+'; Outlook revised to Negative from Stable
Short-Term IDR affirmed at 'F2'
Support Rating affirmed at '2'
Senior debt ratings affirmed at 'F2'

Deutsche Bank Trust Corporation
Long-Term IDR affirmed at 'BBB+'; Outlook revised to Negative from Stable
Short-Term IDR affirmed at 'F2'
Support Rating affirmed at '2'

Deutsche Bank Australia Ltd.
Commercial paper short-term rating affirmed at 'F2'

Deutsche Bank Contingent Capital Trust II and V
Preferred securities ratings affirmed at 'BB'

Deutsche Postbank Funding Trust I, II and III
Preferred securities ratings affirmed at 'BB'

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Applicable Criteria
Bank Rating Criteria (pub. 23 Mar 2018)
https://www.fitchratings.com/site/re/10023430
Non-Bank Financial Institutions Rating Criteria (pub. 22 Mar 2018)
https://www.fitchratings.com/site/re/10023420

"non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.