



Fitch Upgrades Deutsche Bank's and Aareal Bank's "Preferred" Senior Unsecured Notes

Link to Fitch Ratings' Report: Fitch Upgrades Deutsche Bank's and Aareal Bank's "Preferred" Senior Unsecured Notes - Rating Action Report (<https://www.fitchratings.com/site/re/899777>)

Fitch Ratings-Frankfurt/London-16 June 2017: Fitch Ratings has upgraded 31 structured senior unsecured bonds issued by Deutsche Bank AG (DB, A-/Negative) to 'A' from 'A-' and five by Aareal Bank AG (BBB+/Stable) to 'A-' from 'BBB+'.

A full list of rating actions is in the Rating Action Report available at www.fitchratings.com or by clicking the link above. All other ratings of the issuers in this Rating Action Commentary and in the accompanying Rating Action Report are unaffected by the rating actions.

The rating action follows Fitch's review of the expected ranking of these notes in a resolution scenario given their structural features. The upgrade to one notch above the banks' respective Long-Term Issuer Default Ratings (IDRs) reflects Fitch's view that the terms of these notes are commensurate with "preferred" treatment under Germany's revised resolution regime in force since 1 January 2017. DB's and Aareal's statutorily preferred senior unsecured debt would be protected from default in a resolution scenario by large buffers of junior and statutorily non-preferred senior debt.

The rating action extends the considerations previously applied only to notes classified as market-linked by Fitch, ie structured notes with embedded market risk, identified with an 'emr' suffix.

KEY RATING DRIVERS

"PREFERRED" SENIOR DEBT

The one-notch upgrade reflects the "preferred" liabilities' lower vulnerability to default compared with vanilla senior debt. This reflects our understanding that the affected instruments contain features that allow them to rank senior to vanilla senior unsecured debt in resolution and in insolvency.

In addition, in Fitch's opinion the issuing banks have sufficient outstanding qualifying junior and non-preferred senior debt that could be used to recapitalise them, restore viability and prevent default on preferred senior liabilities upon resolution. Our assessment of the amount needed to recapitalise the banks is based on the assumptions that the authorities will trigger a bail-in once the Common Equity Tier 1 (CET1) ratio has depleted to 6%-7% and the banks will need to meet total pillar 1 and 2 requirements plus combined buffers after being recapitalised.

The identification of preferred senior securities relies on the guidance for interpreting the classification of liabilities under the revised insolvency law in Germany, provided by the relevant authorities, the German banking supervisors, Deutsche Bundesbank and BaFin, and the acting resolution authority, the Federal Agency for Financial Market Stabilisation (FMSA) on 5 August 2016, further amended on 7 November 2016.

The authorities have clarified products that are deemed complex or a potential source of contagion during resolution proceedings (notably those whose principal or interest payment depends on an event that is uncertain at the time of the issuance) rank senior to other senior unsecured debt.

Examples of instruments that would be treated as preferred to other senior debt in resolution and in insolvency include, among others, bonds with embedded derivatives, index-linked bonds, obligations settled in a different currency, floating-rate notes that include interest rate floors, ceilings, or interest rate spreads, and floating-rate notes referencing non-conventional interest rate benchmarks.

RATING SENSITIVITIES

"PREFERRED" SENIOR DEBT

Both banks' "preferred" senior debt ratings are primarily sensitive to (1) changes in the respective banks' IDRs, (2) our assessment of the volume of subordinated and non-preferred senior debt buffers relative to the recapitalisation amount likely to be needed to restore viability and prevent default on preferred obligations, (3) subsequent changes to the resolution regime or Fitch's expectation of how resolution would be implemented in practice, (4) subsequent changes to the resolution regime altering the hierarchy of the various instruments, and (5) reinterpretation by the resolution authorities of the preferential treatment of individual notes triggering a subsequent reclassification of the notes as non-preferred.

The required amount of subordinated and senior vanilla debt buffers is sensitive to increases in the banks' capital requirements, in particular of the individual pillar 2 regulatory requirements, as we assume that these determine the level to which the banks would have to be recapitalised upon resolution.

Furthermore, the ratings are sensitive to Fitch's assumptions regarding the individual points of non-viability at which the regulator is likely to require a recapitalisation by way of bail-in of junior and standard senior instruments.

The guidance provided by the relevant authorities is not an integral part of the resolution legislation. Nevertheless, we expect that the resolution authorities would follow the guidance. Diverging evidence could lead to a re-assessment of the ratings of these securities.

We expect the European Commission's (EC) proposal to amend Directive 2014/59/EU by introducing a new class of non-preferred senior debt, if and when implemented in German law, to leave the subordination of outstanding non-preferred senior debt intact. However, the EC's proposal could trigger a downgrade of the securities upgraded today if its transposition into German law reduces the buffer of junior and non-preferred senior debt or modifies the ranking of senior instruments.

Contact:

Primary Analysts

Bridget Gandy (Deutsche Bank AG)

Managing Director

+44 20 3530 1095

Fitch Ratings Limited

30 North Colonnade

London E14 5GN

Patrick Rioual (Aareal Bank AG)

Senior Director

+49 69 768 076 123

Fitch Deutschland GmbH

Neue Mainzer Strasse 46-50

60311 Frankfurt am Main

Secondary Analysts

Ioana Sima (Deutsche Bank AG)

Associate Director

+44 20 3530 1736

Sebastian Schrimpf, CFA (Aareal Bank AG)

Associate Director

+49 69 76 80 76 136

Committee Chairperson

Christian Scarafia

Senior Director

+44 20 3530 1012

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria

Global Bank Rating Criteria (pub. 25 Nov 2016) (<https://www.fitchratings.com/site/re/891051>)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form (<https://www.fitchratings.com/site/dodd-frank-disclosure/1025228>)

Solicitation Status (<https://www.fitchratings.com/site/pr/1025228#solicitation>)

Endorsement Policy (<https://www.fitchratings.com/regulatory>)

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings)

(<https://www.fitchratings.com/understandingcreditratings>). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM (<https://www.fitchratings.com>). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE

AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory) (<https://www.fitchratings.com/site/regulatory>). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE. Copyright © 2017 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Solicitation Status

Fitch Ratings was paid to determine each credit rating announced in this Rating Action Commentary (RAC) by the obligator being rated or the issuer, underwriter, depositor, or sponsor of the security or money market instrument being rated, except for the following:

Endorsement Policy - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures (<https://www.fitchratings.com/regulatory>) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.