Commentary

**Sonja Förster**
Vice President
Global FIG
+49 69 8088 3510
sforster@dbrs.com

**Elisabeth Rudman**
Managing Director, Head of EU FIG
Global FIG
+44 (20) 7855 6655
erudman@dbrs.com

Insight beyond the rating.

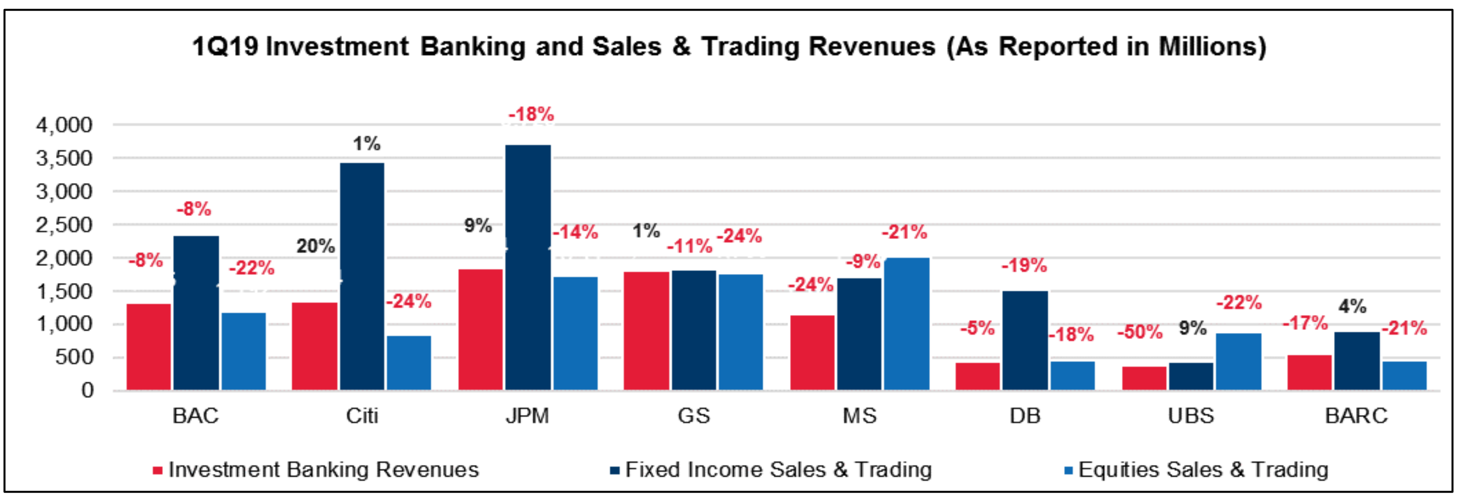
# DBRS: DB's 1Q19 Results Remain Weak, but Progress on Costs Continues

- DBRS commented that Deutsche Bank (DB or the Bank; Issuer Rating of A (low), negative trend) reported 1Q19 net income of EUR 201 million: a very weak result in absolute terms, but demonstrating some progress in the Bank's key target of cost reductions. Revenues remained under pressure and declined by 9% year-on-year (YoY) to EUR 6.35 billion (or 5% excluding certain items), driven by a 13% decline in Corporate and Investment Banking (CIB) revenues. It has been a challenging market environment for investment banks globally, and DB's revenue performance was not out of line with peers. However, the Bank has a substantially less profitable investment banking operation than peers and underperformed peers in its most important CIB business segment, Fixed Income and Currencies Sales and Trading (FIC S&T). Nevertheless, DBRS views positively the fact that cost management stayed on track, and there has been growth momentum in some areas like loans and assets under management, and credit costs remained low.

- The day before its earnings release, Deutsche Bank also announced the termination of merger talks with Commerzbank. According to management, the potential synergy benefits were viewed as not outweighing the expected negatives in the form of restructuring costs, client attrition and other execution risks. Given that the benefits of a merger would have only materialised over the longer time horizon, while costs and management distraction would have exacerbated the Bank's near-term challenges, DBRS considers that DB will be more able to focus on executing its strategy now that the talks have terminated.

- Aside from ongoing operational risk issues, profitability has been DB's main challenge. While DBRS notes the progress made in cost management, improvements in profitability will ultimately hinge on revenue growth. The post-tax return on tangible equity (RoTE) was 1.3% for the quarter, versus 0.9% in the prior year quarter. Since bank levies are front-loaded, assuming an equal apportionment of bank levies paid in the first quarter across the four quarters of 2019, RoTE would have been 3.6% for the quarter, closer to the Bank's 2019 target of 4%, but still a very weak level.

- CIB revenues declined 13% YoY to EUR 3.33 billion. The bright spot in CIB was Global Transaction Banking (GTB,) where revenues increased by 6% YoY to EUR 975 million. GTB with its stable revenue streams has been highlighted by the Bank as an area of growth. Meanwhile Equity Sales & Trading was down 18% YoY to EUR 468 million, reflecting the weak market environment and the Bank's recalibration of the business in 2018. Underwriting and Advisory revenues were down 5% YoY to EUR 455 million, but the Bank reported market share gains across products and geographies. FIC S&T clearly disappointed. Revenues of EUR 1.52 billion declined 19% YoY (or -27% on a USD basis), which partly reflected difficult market conditions and reduced activity in U.S. Rates, but most global peers reported better results. A reduction in total costs in CIB of 7% was not able to offset the revenue decline, resulting in a EUR 88 million loss before tax.




*Peer comp exhibit: Data show is as reported, i.e. in USD for BAC, Citi, JPM, GS, MS, UBS; in EUR for DB; in GBP for BARC. All % changes shown are comparing YoY revenues. Citi and JPM Equity Sales & Trading revenues exclude Securities Services.

- Private and Commercial Banking (PCB) revenues declined by 5% YoY to EUR 2.5 billion, but revenues were flat excluding specific items, as volume growth and repricing actions in Germany offset ongoing deposit margin compression. RoTE was

6.4%, and the cost to income ratio was 84%, leaving room for improvement. DBRS notes the positive growth momentum, but expects profitability to remain muted, while the Bank is integrating Postbank into PCB.

- Asset Management (AM) revenues declined by 4% YoY to EUR 525 million. However, reductions in G&A expenses helped drive the bottom line of EUR 96 million. The cost to income ratio was 75.8%, while RoTE was 15.2%. DBRS positively noted net inflows of EUR 2 billion, with strong inflows into more profitable segments like Passive and Alternatives. However, it remains to be seen if the net asset outflows of recent quarters have been effectively reversed. While margin pressure persists in DBRS's opinion, the partial spin-off under the DWS brand in 2018 has given Deutsche Bank additional strategic options in order to increase its scale.

- Capital ratios did not change significantly and remain solid. The CET1 ratio was 13.7% whereas the leverage ratio was 3.9%, down 20 basis points (bps) quarter-on-quarter (QoQ) on seasonal effects and business growth. The leverage ratio, which is at the low end when compared to peers, is expected to remain at or above 4.0% for 2019 with the medium-term target of 4.5%. DBRS continues to view the leverage ratio as a constraining factor for the Bank.

| Current Ratings | Rating | Trend |
|---|---|---|
| Long-Term Issuer Rating | A (low) | Negative |
| Senior Non-Preferred Debt | BBB (high) | Negative |
| Short-Term Issuer Rating | R-1 (low) | Stable |

Notes:

All figures are in EUR unless otherwise noted.

Sources: Company documents and SNL Financial

For more information on this credit or on this industry, visit www.dbrs.com or contact us at info@dbrs.com.



Corporate Headquarters | DBRS Tower 181 University Avenue Suite 700 Toronto, ON M5H 3M7 | TEL +1 416 593 5577 | www.dbrs.com