Commentary

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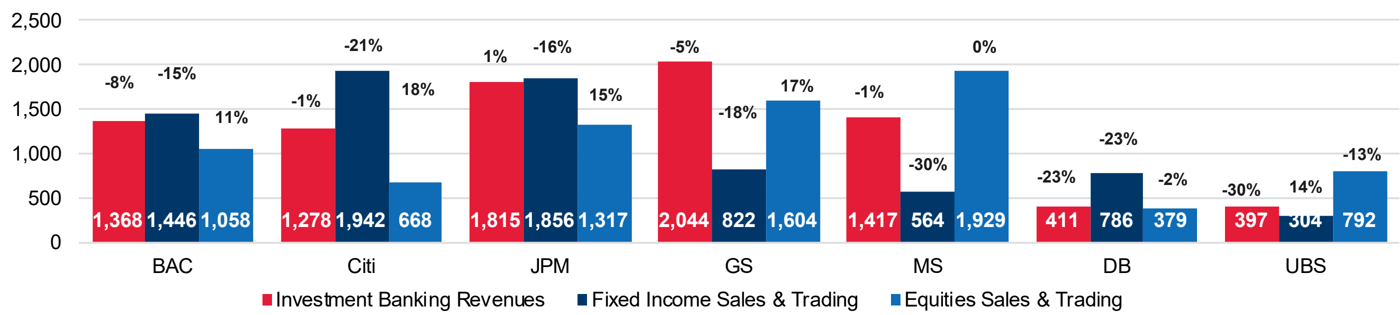
DBRS
Insight beyond the rating.

DBRS: DB's 4Q18 Capital Markets Weakness Partially Offset by Business Diversity & Good Cost Containment

- Deutsche Bank AG (DB or the Company) reported a marginal net loss of EUR 409 million in 4Q18, an improvement versus a significant net loss of EUR 2.4 billion in 4Q17. For the full year, the Company was modestly profitable with net income of EUR 341 million as compared to a net loss of EUR 735 million in 2017. Capital markets revenues were notably impacted by challenging market conditions in 4Q, along with those of peers. While not enough to fully offset the capital markets weakness in the quarter, DB's other businesses were important contributors to overall results, namely Global Transaction Banking (GTB) and the Private & Commercial Bank (PCB). Returns were improved, but remain well below large capital markets peers.

- DB consolidated revenues in 4Q18 were down modestly year-on-year (YoY), mainly due to the adverse impact of challenging capital markets. This was particularly evident within the Corporate & Investment Bank (CIB). Weak FIC Sales & Trading (S&T) and Debt Origination results were driven by sidelined clients in an uncertain macro environment. These results were not surprising given the significant market volatility and uncertainty that impacted large capital markets players in the quarter. Furthermore, DB's CIB franchise is skewed heavily toward FIC S&T (41% of 2018 CIB revenues), and these businesses were negatively impacted by widening spreads and especially difficult trading conditions in Europe.

4Q18 Investment Banking and Sales & Trading Revenues (As Reported)

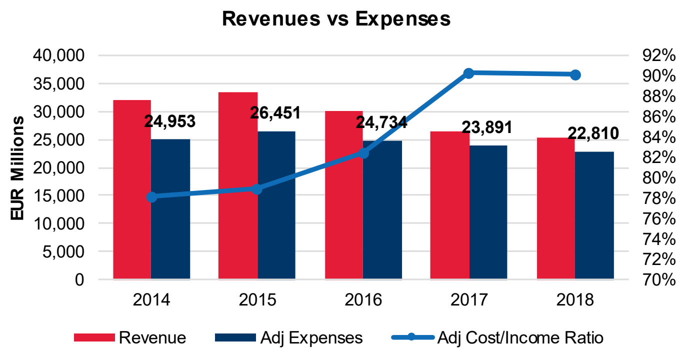


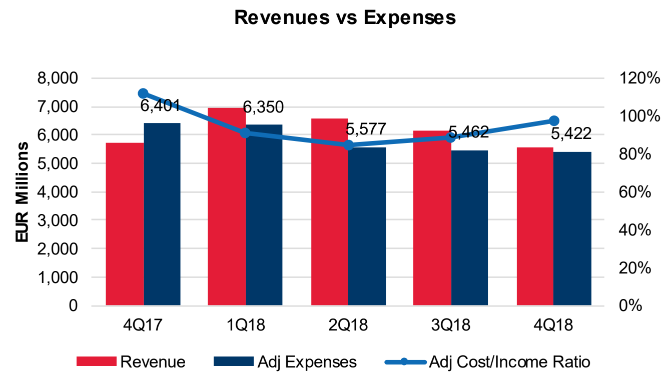
- Somewhat offsetting this, within CIB, GTB revenues grew 5% YoY with higher net interest income and transaction growth, most notably in cash management. Advisory was also a bright spot, albeit a smaller contributor, with revenues up 17% YoY with strong deal flow. Continued success in enhancing revenues across the CIB businesses to drive a more balanced mix is important for the rating.

- Revenues within PCB rose 6% YoY in 4Q18 despite the ongoing impact of the low interest rate environment. Loan growth was solid, mainly in Germany, across commercial clients, mortgages and consumer finance. PCB bottom line results are benefitting from synergies related to the Postbank integration, as well as continued cost discipline, reorganization measures and lower headcount.

- Within the Company's Asset Management (AM) segment, revenues were down 17% YoY in 4Q18, impacted by negative net flows, lower performance fees and sold/discontinued businesses. Assets under management (AuM) declined 5% with negative market performance and net outflows, some of which was attributable to fund underperformance. Despite contributing to just 8% of 2018 net revenues, AM performance is an important underpinning to the rating as it typically generates a good amount of recurring revenues. Fund performance is critical to maintaining AuMs, and DBRS will continue to monitor. Positively, the Company reported strong inflows into its passive business, which is the second largest in Europe, in 4Q18.

- Expense initiatives are becoming more apparent with adjusted costs below the Company's target of EUR 23 billion for the year. Cost reduction has been a key priority for management, and meeting this target demonstrates success with stated initiatives. The Company is maintaining its plan to reduce costs by a further EUR 1 billion in 2019, bringing its adjusted costs to EUR 21.8 billion in 2019, below its original target. DBRS remains cognizant that DB still requires significant investment in systems, processes and controls. Positively, the Company's IT costs increased, reflecting ongoing commitments to invest in infrastructure and controls. DB's full-year cost/income ratio, on an adjusted basis, remained elevated at 90% in 2018.





- Balance sheet's fundamentals remain solid and are supportive of the current rating level. DB's fully loaded CET1 capital ratio was a strong 13.6% at year-end 2018, while the Company's leverage ratio was a solid 4.1% and continues to trend upward. Liquidity remains strong with liquidity reserves comprising 26% of the DB's balance sheet and an LCR of 140%.

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.

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

Sources: Company documents and SNL Financial

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