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Deutsche Bank AG

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Deutsche Bank AG

SACP	bbb
Anchor	bbb+	
Business Position	Adequate	0
Capital and Earnings	Adequate	0
Risk Position	Moderate	-1
Funding	Average	0
Liquidity	Adequate	

+

Support	+2
ALAC Support	+2
GRE Support	0
Group Support	0
Sovereign Support	0

+

Additional Factors	-1

Issuer Credit Rating
BBB+/Stable/A-2

Resolution Counterparty Rating
A-/--/A-2

Major Rating Factors

Strengths:	Weaknesses:
• Diversified franchise serving retail, corporate, and institutional clients. • Solid capitalization and high liquidity buffers. • Good track record in credit risk management in traditional retail and corporate banking.	• Pursuit of a long and extensive restructuring program, at a time when many competitors are now focused on business as usual. • Subpar profitability due to revenue pressures and cost inefficiencies. • Inherent complexity of certain activities, particularly in the large capital markets business.

Outlook: Stable

The stable outlook acknowledges the continued execution risks inherent in Deutsche Bank's restructuring, but reflects our view that the management team is pressing ahead in earnest, and has taken decisive actions to help the bank deliver more solid and more sustainable returns. Still, we will continue to observe how the execution of this strategy unfolds over the coming 18-24 months and whether and to what extent the franchise of Deutsche Bank, and its earning generation capacity, has been damaged by the management changes and restructuring during 2018. We will look in particular for robust delivery against 2019 objectives, such as the €22 billion cost target, a meaningful improvement in reported return on tangible equity (ROTE), and evidence the bank has retained the solid support of its clients, something that would help underpin the revenue base in the corporate and investment bank (CIB) division in a period of substantial downsizing.

Downside scenario

We could lower our long-term issuer credit rating (ICR) on the bank if we see setbacks in the delivery of the updated strategy or signs that 2019 financial objectives could slip materially, leading to a stalling of improving profitability. This would be consistent with a view that, notwithstanding Deutsche Bank's position as a leading European bank, the business stability that comes with an end to restructuring and delivery of satisfactory financial performance is likely to remain elusive, and also that its franchise and competitive position have weakened. In this scenario, we would very likely revise downward the 'bbb' stand-alone credit profile (SACP), and so lower our issue credit ratings on all rated debt, including the senior subordinated debt and regulatory capital instruments.

Upside scenario

An upgrade is unlikely in the coming 12-18 months because we expect the financial benefits of strategic execution in 2018 to become more evident only in 2019 and to represent progress in the ongoing journey rather than its conclusion. Still, we could upgrade the bank once we gain greater confidence in Deutsche Bank's execution such that it appears well set to achieve a more stable and predictable business model, thereby narrowing the gap with its global peers in terms of revenue generation and cost control. We would likely make this revision by removing the notch of negative adjustment to the ICR. It would therefore affect only the senior (preferred) debt, not our ratings on the senior subordinated debt and regulatory capital instruments.

Rationale

Following Deutsche Bank's management changes in Spring 2018 and the announcement of the refreshed strategy, we consider management's timely and effective delivery of that strategy and its related financial targets--while retaining the solid support of clients--to be the most important determinant of the future direction of our ratings. The bank's third-quarter 2018 results reflected, in our view, the early stages of this transition, with signs of delivery particularly on the cost base. However, the third-quarter revenue dip demonstrates the challenges inherent in repositioning the bank, while also regaining market share from competitors that have completed their restructuring programs. Deutsche Bank's long-term target is an ROTE of about 10% in a normalized operating environment, which would align it with the best-performing peers and support greater franchise stability.

We consider Deutsche Bank's maintenance of a visibly solid capital ratio and substantial liquidity buffer as an important feature, particularly until it establishes a clear improving trend in its other financial metrics and restores investor confidence. Through the end of the third quarter, the fully-loaded common equity Tier 1 (CET1) ratio improved to 14.0% and the liquidity coverage ratio was 148%. The bank also continues to maintain substantial gone-concern loss-absorbing capacity, €19 billion above its €99 billion regulatory minimum requirement for own funds and eligible liabilities (MREL) for 2018.

Despite these early signs of strategic progress, and a clear reduction in material legal and regulatory cases over the past years, the bank still has some legacy cases. It also continues to attract negative media coverage related to other investigations, most recently in relation to the Panama Papers and to Danske Bank Estonia, for which Deutsche Bank was one of several correspondent banks until 2015. While we do not rule out the possibility of the bank making further settlements, we note the existing €1.3 billion provision for litigation expense, and consider litigation and related headline risk more as a negative influence on efforts to restore its franchise than as a potential solvency concern.

Our view of Deutsche Bank's intrinsic creditworthiness is captured by the 'bbb' SACP. This stands at the lower end of the range for global universal bank peers due to the bank's subpar performance and prolonged restructuring activity. The 'BBB+' ICR incorporates two notches of uplift for its substantial additional loss absorbing capacity (ALAC), but also reflects a one-notch negative adjustment as we consider that Deutsche Bank compares unfavorably with 'A' rated peers. Notably, we expect that Deutsche Bank's restructuring will likely only start bearing fruit in 2019, and only fully by 2021. By contrast, key peers such as Barclays, Commerzbank, Credit Suisse, and the Royal Bank of Scotland have now worked through their restructuring and business model optimization and are already starting to see improved performance.

From time to time, media reports link Deutsche Bank to a potential merger with Commerzbank, itself a perennial focus of such speculation. While we consider in-market mergers to be more likely than cross-border mergers in Europe, we consider that Deutsche Bank's current priorities are completing its internal restructuring and improving profitability.

Deutsche Bank has historically leveraged EU passporting rights to book a considerable amount of CIB activity in its London branch. It appears highly likely that this passporting arrangement will end when the U.K. leaves the EU, either on March 29, 2019, in the event of a no-deal Brexit, or end-2020 if a transitional arrangement takes effect. In our view, Deutsche Bank is relatively well advanced in its plans to repatriate part of the London branch's balance sheet, staff, and related client contracts to Germany before end-March.

We set the resolution counterparty rating (RCR) on Deutsche Bank at 'A-', one notch above the 'BBB+' long-term ICR, reflecting the typical approach under our framework when the ICR ranges from 'BBB-' to 'A+'. It also reflects our jurisdiction assessment on Germany.

Anchor: 'bbb+', reflecting the German home market and geographic mix of total credit exposure

The 'bbb+' anchor draws on our Banking Industry Country Risk Assessment (BICRA) methodology and our view of the weighted-average economic risk across the countries in which Deutsche Bank operates, based on the geographic distribution of its total credit exposure. We view total credit exposure as a better measure of Deutsche Bank's business and risk profiles than loans because it captures the material trading and securities portfolios. We adjust the geographic distribution for planned changes under the bank's strategic plan.

The resulting geographic distribution is approximately 30% in Germany, 25% in the rest of Europe, 30% in North

America (primarily the U.S.), 10% in Asia-Pacific, and 5% in the rest of the world. The weighted-average economic risk score rounds to '3' on a scale of '1' to '10' ('1' representing the lowest risk and '10' the highest), which compares to '1' for a bank operating solely in Germany.

The industry risk score of '3' is based solely on Deutsche Bank's home market. We regard industry risks for the German banking sector as intermediate, in line with many European banking industries. Our assessment recognizes Germany's extensive funding market and banks' domestic funding surpluses, as well as material improvements that have been made to strengthen banking regulation and supervision given ongoing EU-wide regulatory harmonization and convergence under Basel III. Returns in the German banking industry have compared well with those of many other European banking industries in recent years due to ongoing historically low credit losses in Germany. However, we believe that low interest rates coupled with high competition remain a drag on profitability, which is partly compensated for by the German banking industry's progress in counterbalancing measures to improve its lower cost efficiency and fee generation.

Table 1

Deutsche Bank AG Key Figures

		--Year-ended Dec. 31--			
(Mil. €)	**2018***	**2017**	**2016**	**2015**	**2014**
Adjusted assets	1,370,926	1,465,893	1,581,564	1,619,052	1,693,752
Customer loans (gross)	384,936	392,782	400,179	418,594	386,622
Adjusted common equity	50,076	48,699	42,958	45,941	46,967
Operating revenues	19,741	26,508	29,569	33,214	31,637
Noninterest expenses	17,510	24,015	24,930	26,706	25,595
Core earnings	890	5	2,710	4,877	2,714

*Data as of Sept. 30.

Business position: Clearer strategic plan but further restructuring required to deliver it

Our assessment of Deutsche Bank's business position as adequate balances its diversified franchise and clearer strategic plan with its prolonged business restructuring and volatile track record. We believe that the bank was slow to adapt to the changed regulatory and economic environment and is now catching up while its peers are focusing on smaller optimization measures under a business-as-usual approach. The revised strategic priorities announced in March 2017 and since updated in April 2018 could in time yield increased business stability given a greater bias for stable sources of revenue and returns that should meet shareholders' expectations. However, Deutsche Bank has a mixed track record in execution. Ultimately, Deutsche Bank is looking to achieve stronger and more consistent performance, but we believe that this outcome is still some way off and dependent on the successful implementation of the revised business plan. If it falls short, we would likely revise down this assessment.

Since 2017, Deutsche Bank operates across three operating units:

- Corporate and Investment Bank (CIB). Deutsche Bank split its capital markets and corporate banking businesses into separate divisions in 2015, but decided in March 2017 to reunite them to facilitate cost and revenue synergies. It has shifted its focus toward corporate clients and away from institutions, and is now trying to regain market share and capture growth opportunities while de-emphasizing certain activities, notably in U.S. equities. CIB continues to wind down legacy assets such as long-dated interest rate and securitization positions and un-cleared derivatives. We believe the updated strategy recognizes that CIB struggles to compete on a global basis with U.S. peers, but can maintain a leading position in Europe supported by profitable franchises in other regions.

- Private and Commercial Bank (PCB). PCB combines Deutsche Bank's activities in retail, commercial, and private banking and wealth management, which are largely centered in Germany. We have a positive view of the decision to retain Postbank because it should provide greater balance to the capital markets business and therefore support business stability. The previous intention to sell Postbank was driven by capital rather than strategic considerations, but Deutsche Bank ultimately decided to raise equity instead. Although the German retail and commercial banking market is fragmented and competitive, the synergies available from combining Postbank with its Deutsche Bank-branded sister business should enable satisfactory performance once the euro yield curve becomes more supportive.
- Deutsche Asset Management (branded DWS). DWS is a leading asset manager with around €700 billion of invested assets. It has a strong position within Germany but is also globally diversified across asset classes and distribution channels. Deutsche Bank now holds 77.5% of DWS, having divested a minority stake in March 2018. This has served to raise DWS's profile and create a separate acquisition and remuneration currency for DWS. This transaction also created a capital gain for Deutsche Bank, which it sees as a secondary benefit.

Deutsche Bank intends that its restructuring actions will increase revenues, reduce underlying costs to €23 billion in 2018 and €22 billion in 2019 (cutting at least 7,000 roles in the process), and raise the ROTE to about 10% in a normalized operating environment. We expect restructuring provisions to ebb in 2019 and core earnings to increasingly flow through to the bottom line as the new strategy takes hold.

Deutsche Bank's business stability came under severe pressure in September 2016 following a leak to the media about its negotiations with the U.S. Department of Justice to settle litigation concerning the issuance of residential mortgage-backed securities (RMBS) prior to the global financial crisis. Since the settlement, the bank has reported that it has regained most of the client funds it lost. We believe that Deutsche Bank coped relatively well during this period of market volatility, but it was undoubtedly damaging to the bank's reputation. The period of strategic uncertainty in Spring 2018 would likely have been similarly unhelpful in our view, as would recent negative media coverage related to anti-financial crime investigations. In our view, the retention of key clients and funding sources are critical to whether management can deliver on its strategy, not least to achieve the tricky balance of holding on to revenues while cutting costs.

We principally compare Deutsche Bank's business position with other diversified banks headquartered in countries with similar BICRA industry risk assessments as Germany. We focus particularly on peers with large capital markets activities and/or material restructuring programs. They include European peers Barclays, BNP Paribas, Commerzbank, Credit Suisse, RBS, and UBS, and U.S. peers Bank of America, Citigroup, Goldman Sachs, and Morgan Stanley. In our view, these peers generally exhibit greater business stability and more consistent performance than Deutsche Bank.

Table 2

Deutsche Bank AG Business Position

		--Year-ended Dec. 31--			
(%)	**2018***	**2017**	**2016**	**2015**	**2014**
Total revenues from business line (€ mil.)	19,741	26,448	29,639	33,268	31,660

Table 2

Deutsche Bank AG Business Position (cont.)					
		--Year-ended Dec. 31--			
(%)	**2018***	**2017**	**2016**	**2015**	**2014**
Commercial banking/total revenues from business line	14.0	20.9	33.8	17.2	16.9
Retail banking/total revenues from business line	39.0	38.5	26.0	26.8	30.4
Commercial and retail banking/total revenues from business line	53.1	59.4	59.8	43.9	47.3
Investment banking/total revenues from business line	38.9	32.9	22.8	39.5	39.6
Asset management/total revenues from business line	8.5	9.6	10.2	16.3	14.9
Other revenues/total revenues from business line	(0.4)	(1.8)	7.2	0.3	(1.8)

Capital and earnings: Solid and a counterweight to the complex risk profile

We view Deutsche Bank's capital and earnings as adequate because, although the April 2017 equity increase significantly bolstered its S&P Global Ratings risk-adjusted capital (RAC) ratio, we do not expect the bank to operate at a level consistent with a stronger assessment. Consistent with management guidance, we expect the bank to be barely profitable in 2018, with the benefit of cost-cutting and a somewhat improved revenue environment starting to materialize in 2019. The normalization of the euro interest rate would provide a tailwind, but we assume limited benefit until at least 2020.

Deutsche Bank reported a 14.0% fully loaded CET1 ratio on Sept. 30, 2018. It intends to maintain this ratio comfortably above 13% in the medium term. In 2018, Deutsche Bank's minimum phase-in capital requirements under the European Central Bank's Supervisory Review and Evaluation Process (SREP) are a 10.65% CET1 ratio, 12.1% Tier 1 ratio, and 14.1% total capital ratio, and it meets these comfortably. If there are no changes to the Pillar 2 and countercyclical buffers, the SREP CET1 requirement will rise further from January 2019 when the capital conservation and systemic buffers will be fully phased in. The SREP requirements exclude the Pillar 2 guidance buffer, which, like its peers, Deutsche Bank has not disclosed.

Our RAC ratio stood at 9.6% at year-end 2017 (see table 4), a marked improvement from 8.7% a year earlier due the equity raise. We project that the ratio will be in the 9.0%-9.5% range through year-end 2020 based in large part on the following factors:

- Deutsche Bank has managed risk-weighted assets (RWAs) tightly since late 2016. We expect some moderate growth in 2019, due to credit RWA growth and possible greater willingness to support client activity.
- We see modest scope to improve revenues in the near term while the yield curves remain unsupportive. CIB division revenues continue to be challenged.
- We project that costs will fall, consistent with Deutsche Bank's 2018 and 2019 targets.
- We expect restructuring costs in line with Deutsche Bank's guidance of up to €0.8 billion in 2018, reducing thereafter. Noting the €2.3 billion contingent liability that Deutsche Bank has identified versus the €1.3 billion provision, we also include litigation charges across 2018-2020, though at lower levels than in previous years.
- In 2018, the one-time, -€0.4 billion effect of the bank's first-time adoption of International Financial Reporting Standard (IFRS) 9 was offset by the €1.3 billion capital gain from the completed disposal of the DWS stake.
- Dividend payments will continue at a modest but increasing rate.

- Slightly reduced hybrids in total adjusted capital (TAC) at end-2018 and end-2019 than at end-2017, due to tapering and maturities that are not fully offset by new issuance.

We consider the bank's quality of capital to be satisfactory--hybrids account for 15% of TAC. The bank's weak earnings buffer--our measure of a bank's ability to absorb normalized losses through preprovision earnings--is symptomatic of its weak profitability. We expect the ratio to be around 0.1%-0.2% at end-2018, but to then move closer to the 1.0% level that we see as typical among solidly profitable peers.

Table 3

Deutsche Bank AG Capital And Earnings

		--Year-ended Dec. 31--			
(%)	**2018***	**2017**	**2016**	**2015**	**2014**
Tier 1 capital ratio	15.3	15.4	13.1	12.3	12.9
S&P Global Ratings' RAC ratio before diversification	N.A.	9.6	8.7	8.6	9.3
S&P Global Ratings' RAC ratio after diversification	N.A.	11.4	9.9	10.3	11.2
Adjusted common equity/total adjusted capital	86.7	85.0	80.2	81.4	77.3
Net interest income/operating revenues	49.1	46.7	49.7	47.8	45.1
Fee income/operating revenues	39.6	41.5	39.7	38.4	39.2
Market-sensitive income/operating revenues	9.9	13.1	6.7	11.9	14.3
Noninterest expenses/operating revenues	88.7	90.6	84.3	80.4	80.9
Preprovision operating income/average assets	0.2	0.2	0.3	0.4	0.4
Core earnings/average managed assets	0.1	0.0	0.2	0.3	0.2

*Data as of Sept. 30. N.A.--Not available.

Table 4

Deutsche Bank AG Risk-Adjusted Capital Framework Data

(Mil. €)	**Exposure***	**Basel III RWA**	**Average Basel III RW (%)**	**S&P Global RWA**	**Average S&P Global RW (%)**
Credit risk					
Government and central banks	295,785	15,641	5	3,584	1
Of which regional governments and local authorities	12,208	35	0	514	4
Institutions and CCPs	28,613	14,489	51	5,181	18
Corporate	377,076	113,710	30	288,541	77
Retail	226,492	46,311	20	85,869	38
Of which mortgage	170,526	26,038	15	42,047	25
Securitization§	62,802	10,179	16	17,613	28
Other assets†	13,120	6,830	52	24,581	187
Total credit risk	1,016,096	207,159	20	425,369	42
Credit valuation adjustment					
Total credit valuation adjustment	--	6,450	--	25,742	--
Market risk					
Equity in the banking book	906	7,406	817	7,699	850
Trading book market risk	--	30,963	--	46,814	--

Table 4

Deutsche Bank AG Risk-Adjusted Capital Framework Data (cont.)

Total market risk	--	38,368	--	54,513	--
Operational risk					
Total operational risk	--	91,613	--	89,825	--
(Mil. €)		**Basel III RWA**		**S&P Global RWA**	**% of S&P Global RWA**
Diversification adjustments					
RWA before diversification		343,590		595,449	100
Total diversification/concentration adjustments		--		(93,597)	(16)
RWA after diversification		343,590		501,851	84
(Mil. €)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		57,631	16.8	57,278	9.6
Capital ratio after adjustments‡		57,631	16.8	57,278	11.4

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Other assets includes Deferred Tax Assets (DTAs) not deducted from ACE. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2017, S&P Global.

Risk Position: Elevated execution and residual litigation risks

We assess Deutsche Bank's risk position as moderate, reflecting the elevated execution and litigation risks we see at present and the inherent complexity and volatility of parts of its large capital markets business. The sophisticated nature of many of Deutsche Bank's trading risks are difficult to model and may not be fully reflected in our RAC framework, in our view. We believe that these risks remain elevated despite the closure of the noncore operations unit and the bank's continued progress in simplifying and derisking its capital markets activities and resolving outstanding litigation. These risks are only partly mitigated by the bank's good track record in credit risk management in its retail and commercial banking activities. Deutsche Bank has managed its balance sheet tightly in recent years as it focused on reducing legacy and low-returning assets, and exposures have generally reduced as a result. Under the revised strategy, leverage will reduce further in the coming year.

Deutsche Bank held €1.3 billion of litigation reserves on Sept. 30, 2018. Such reserves have been as high as €7.8 billion at end-2016, but are now lower after the conclusion of some key matters, notably on RMBS. Under IFRS, companies can make provisions only when a loss is considered probable and can be reasonably estimated. Deutsche Bank identified a further €2.3 billion of unreserved contingent litigation liabilities, which are defined as obligations that can be estimated, and where a loss is considered less than probable but more than remote. In terms of the potential financial impact, the main outstanding litigation cases in our view are investigations by U.S. authorities into mirror trades in Russian equities and Deutsche Bank's historic compliance with U.S. sanctions and embargoes. In recent quarters, certain smaller legal cases have been closed, dismissed, or settled at a lower cost than the associated provisions.

Deutsche Bank reported €22 billion of level 3 financial assets on Sept. 30, 2018, which equates to 40% of TAC. The level 3 designation means the assets are valued based on unobservable inputs and the valuations could be vulnerable to adverse changes in the underlying assumptions. Deutsche Bank reported that reasonably possible alternative parameters for valuing the level 3 assets could raise or lower their fair values by €1.6 billion and €1.0 billion, respectively.

According to its value-at-risk (VaR) and stressed VaR metrics, Deutsche Bank cut directional traded market risks during the period of speculation over its RMBS settlement, and it has not subsequently raised them. Its exposure tends to lie at the lower end of the range among global investment banks in absolute terms. While we anticipate a modest appetite to increase market risk positions, market RWAs could rise if market volatility rises.

Table 5

Deutsche Bank AG Risk Position

		--Year-ended Dec. 31--			
(%)	**2018***	**2017**	**2016**	**2015**	**2014**
Growth in customer loans	(2.7)	(1.8)	(4.4)	8.3	8.3
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N.A.	(15.7)	(11.3)	(16.3)	(16.4)
Total managed assets/adjusted common equity (x)	27.6	30.3	37.0	35.5	36.4
New loan loss provisions/average customer loans	0.1	0.1	0.3	0.2	0.3
Net charge-offs/average customer loans	0.2	0.3	0.4	0.3	0.4
Gross nonperforming assets/customer loans + other real estate owned	9.3	2.0	2.2	2.3	2.9
Loan loss reserves/gross nonperforming assets	11.8	48.9	52.0	52.6	47.1

*Data as of Sept. 30. N.A.--Not available. 2018 data reflects Deutsche Bank's adoption of the IFRS 9 accounting standard. We treat all level 2 and level 3 loans as nonperforming assets (NPAs). As for its peers, Deutsche Bank's level 2 loans are lightly reserved, leading to a marked reduction in the NPA coverage ratio.

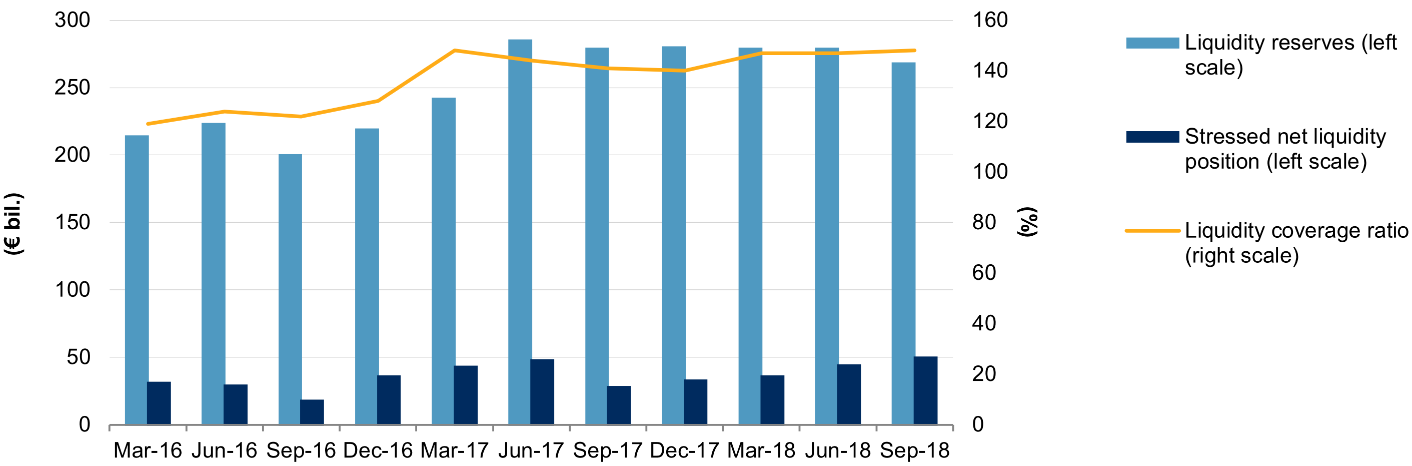
Funding and liquidity: Sustained high liquidity buffer

We assess Deutsche Bank's funding position as average and its liquidity as adequate. Like peers, its profile has strengthened significantly since the financial crisis as it has reduced its dependence on less stable sources such as discretionary short-term wholesale funding. For example, the contribution of secured funding and short positions fell to 15% on Sept. 30, 2018, from about 40% at year-end 2007. Deutsche Bank's funding and liquidity position was tested in the fourth quarter of 2016 by speculation over the RMBS settlement. We believe that it navigated this real-life stress test relatively well, and we note that it has since maintained high liquidity buffers.

Deutsche Bank's stressed net liquidity position--an internal metric that assesses surplus liquidity reserves under a severe market and idiosyncratic stress event--was a substantial €50 billion on Sept. 30, 2018, well above Deutsche Bank's €10 billion risk appetite(see chart 1). The large liquidity reserve is, however, a drag on profitability, particularly as the vast majority is cash, primarily held at central banks. Our broad liquid assets-to-short-term wholesale funding ratio stood at 151% on Sept. 30, 2018, and has been consistently at this comfortable level for some years.

Chart 1

Liquidity Trends



Source: Deutsche Bank.

We see Deutsche Bank's retail, wealth, and transaction banking balances as providing balance to its wholesale funding sources, which themselves comprise a substantial long-term element. In our view, the legal merger of Postbank and Deutsche Bank Privat- und Geschäftskunden AG in mid-2018 has supported funding synergies. Postbank is essentially ring-fenced from a funding perspective, though the combined entity (DB Privat- und Firmenkundenbank AG) cannot pass its structural funding surplus to affiliates. We see Deutsche Bank's large volume of transaction banking deposits as more stable than typical short-term wholesale funding since they relate to custody, clearing, and cash-management services, but are still less reliable than insured retail deposits.

Our stable funding ratio stood at 98% on Sept. 30, 2018, a further increase from a year earlier and an indication that long-term and less liquid assets are funded by stable funding sources. Deutsche Bank does not yet disclose its regulatory net stable funding ratio but we do not expect it to be an outlier compared with peers.

Given the maturity profile and our expectation of a fairly flat funded balance sheet, we envisage that Deutsche Bank would raise around €20 billion-€25 billion of wholesale funding in 2019. We expect this to be focused heavily on senior subordinated, and, to a lesser extent, senior preferred issuances. This would be similar in volume and mix to the bank's 2018 issuances.

Table 6

Deutsche Bank AG Funding And Liquidity

		--Year-ended Dec. 31--			
(%)	**2018***	**2017**	**2016**	**2015**	**2014**
Core deposits/funding base	53.7	52.4	48.9	51.7	52.1
Customer loans (net)/customer deposits	83.7	80.5	91.1	92.3	89.8
Long-term funding ratio	71.1	69.4	69.6	72.0	72.4

Table 6

Deutsche Bank AG Funding And Liquidity (cont.)					
		--Year-ended Dec. 31--			
(%)	2018*	2017	2016	2015	2014
Stable funding ratio	98.2	103.1	94.9	90.8	89.8
Short-term wholesale funding/funding base	31.1	32.7	32.5	30.0	29.8
Broad liquid assets/short-term wholesale funding (x)	1.5	1.5	1.4	1.5	1.5
Net broad liquid assets/short-term customer deposits	30.7	32.4	29.1	26.7	28.9
Short-term wholesale funding/total wholesale funding	65.8	67.5	62.2	60.6	60.2
Narrow liquid assets/3-month wholesale funding (x)	1.9	1.8	1.6	1.6	1.8

*Data as of Sept. 30.

External Support: Rating includes two ALAC notches

We include two ALAC notches in the long-term rating on Deutsche Bank because its ALAC ratio stands above our 8.5% threshold today and over our two-year projection period. In our view, the German resolution regime is effective under our ALAC criteria because, among other factors, we believe it contains a well-defined bail-in process under which the authorities would permit nonviable systemically important banks to continue critical functions as a going concern following a bail-in of eligible liabilities.

Deutsche Bank's ALAC buffer is supported by the German law that came into force in January 2017 and made term, non-structured, senior unsecured bonds subordinate to other senior claims in liquidation and resolution. As a result, Deutsche Bank already has a comfortable surplus of total loss-absorbing capacity- and MREL-eligible instruments over the minimum regulatory requirements. At end-September, Deutsche Bank reported €118 billion of MREL-eligible instruments, comfortably above the €99 billion minimum. The bank also has a substantial buffer under our ALAC methodology, with an 11.3% ALAC ratio at year-end 2017. Consistent with Deutsche Bank's highly internationally-active peers, we use an ALAC threshold for two notches of ALAC uplift of 8.5%, as opposed to the standard 8.0%. This is because Deutsche Bank operates through multiple regulated legal entities worldwide and we believe that prepositioning requirements might constrain the flexible deployment of ALAC in a stress scenario.

In our ALAC projection, we take into account that Deutsche Bank might possibly lower its buffer a little closer to the minimum regulatory requirements over time. This is perhaps more likely following a further change to German insolvency law in mid-2018 that now enables banks to issue benchmark-sized, senior preferred debt. These term, non-structured bonds rank pari passu with senior unsecured claims such as deposits owing to large corporates and institutions.

Since June 2015, we have regarded the prospect of extraordinary government support for German banks as uncertain in view of the country's well-advanced and effective resolution regime, which is based on the bank recovery and resolution directive. Therefore, although we consider Deutsche Bank to have high systemic importance in Germany, we do not factor potential extraordinary government support into our ratings. We do not completely exclude the possibility that support may be provided in a stress scenario, but we believe the prospect of government intervention is lower and less predictable than previously.

Table 7

Deutsche Bank AG -- Summary Of ALAC Calculation As Of Dec. 31, 2017

		(Bil. €)	% of S&P Global Ratings RWA
A	Adjusted common equity	48.7	
B	Hybrids in TAC	8.6	
C (A+B)	Total adjusted common equity	57.3	9.6
D	TAC in excess of our 7% threshold	15.6	2.6
E	ALAC-eligible instruments	51.5	8.7
	o/w Senior subordinated	55.0	
	o/w Dated subordinated and other minimal equity content hybrids	7.3	
	o/w Deducted, e.g. due to maturities >0.5% RWAs in 12-24 months	(10.8)	
F (=D+E)	ALAC buffer	67.0	11.3
	S&P Global Ratings RWA	595.5	

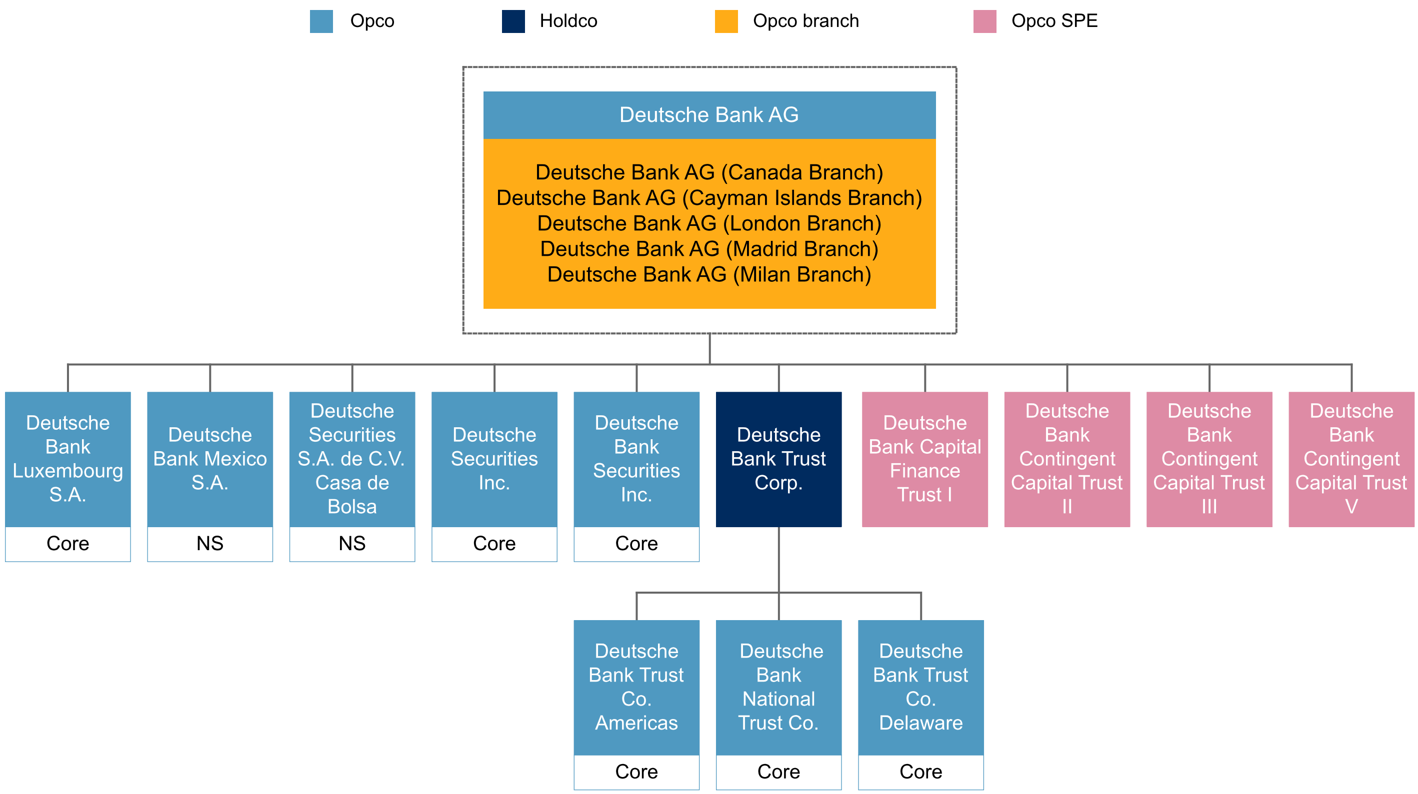
Source: S&P Global Ratings database. ALAC--Additional loss-absorbing capacity. RWAs--Risk-weighted assets. TAC--Total adjusted capital.

Group structure and rated subsidiaries

Deutsche Bank is both a significant operating entity and the top-most legal entity in the group (see chart 2). Unlike Swiss, U.K., and U.S. peer global systemically important banks, Deutsche Bank does not have a nonoperating holding company.

Chart 2

Deutsche Bank Organization Structure



Opco--Operating company. Holdco--Holding company. SPE--Special-purpose entity. NS--Nonstrategic.

The ICRs on Deutsche Bank's rated branches are at the same level as the ICR on Deutsche Bank itself. We also rate a number of subsidiaries:

- We view six subsidiaries as core to Deutsche Bank and therefore equalize the ratings with those on their ultimate parent.
- We also equalize the ratings on the U.S. nonoperating holding company Deutsche Bank Trust Corp. (DBTC) with those on Deutsche Bank because we expect that parental support for DBTC's subsidiaries would be routed through DBTC.
- We view two Mexican subsidiaries--Deutsche Bank Mexico S.A. and Deutsche Bank Securities, S.A. de C.V., Casa de Bolsa--as nonstrategic because Deutsche Bank has sought to exit Mexico, and, until recently, was intending to sell these entities.

We also maintain 'trAAA/trA-1+' Turkey national scale ICRs on Deutsche Bank.

Hybrid issue ratings

We notch down our ratings on hybrid instruments (Tier 1 and Tier 2 regulatory capital issues and senior subordinated debt) issued by Deutsche Bank and related special-purpose entities from the 'bbb' SACP. A default on the hybrid instruments would not automatically lead to a default on the ICR.

In February 2016, we lowered the ratings on the Tier 1 and perpetual Tier 2 capital instruments by one notch due to constrained available distributable items (ADIs). For Tier 1 issues, we understand that interest cancellation is compulsory if, among other circumstances, aggregate interest payments on these instruments in a financial year exceed adjusted ADIs on an unconsolidated basis under German generally accepted accounting principles. This relatively narrow definition results in a lower level of ADIs than in the bank's consolidated IFRS accounts (see table 7).

Table 8

Available Distributable Items And Tier 1 Interest Payments

(€ mil.)		Financial year ending 31-Dec-14	Financial year ending 31-Dec-15	Financial year ending 31-Dec-16	Financial year ending 31-Dec-17
A	Distributable profit	1,169	165	447	399
B	Other revenue reserves after net income attribution	6,332	6,323	6,280	6,560
C=A+B	Total dividend potential before amount blocked	7,501	6,488	6,727	6,959
D	Dividend amount blocked	5,483	6,254	6,213	6,562
E=C-D	Available distributable items	2,017	234	514	397
F	Actual aggregate interest expense on Tier 1 instruments	852	858	724	694
G=E+F	Amount available to cover interest expense on Tier 1 instruments	2,869	1,092	1,238	1,091

Source: Deutsche Bank.

Our central expectation is that Deutsche Bank will be able to maintain sufficient ADIs to support continued Tier 1 interest payments. Nevertheless, we consider that Deutsche Bank's ADIs remain more restricted than most peers' since they are more narrowly defined. As a result, we continue to deduct one notch from the issue ratings on Deutsche Bank's Tier 1 and perpetual Tier 2 capital instruments under step 2b of our hybrid rating criteria. The Tier 1 issues are accordingly rated 'B+'. Looking to the medium term, the European Commission has proposed to bring the ADI definition into line across the EU, using IFRS as a basis. If this legislation proceeds, we would consider the associated implications for our ratings on these instruments.

Resolution counterparty ratings (RCRs)

We have assigned RCRs to Deutsche Bank, its rated branches, and to its rated European and U.S. operating subsidiaries. For European entities, these RCRs are one notch above the long-term ICRs on these entities, while for U.S. entities, they are in line with the ICRs, reflecting our jurisdiction assessments for these countries. We do not assign an RCR to other subsidiaries, mainly because we regard the jurisdictions under which other operating banks run their businesses as having non-effective resolution regimes.

An RCR is a forward-looking opinion of the relative default risk of certain senior liabilities that may be protected from default through an effective bail-in resolution process for the issuing financial institutions. RCRs apply to issuers in jurisdictions where we assess the resolution regime to be effective and we consider the issuer likely to be subject to a resolution that entails a bail-in if it reaches nonviability.

Related Criteria

- Criteria - Financial Institutions - General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables, Aug. 14, 2017
- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: National And Regional Scale Credit Ratings, Sept. 22, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Global Banks 2019 Outlook: Bracing For More Volatility, Dec. 3, 2018
- Credit Conditions EMEA: Bracing For Turbulence, Nov. 29, 2018
- The ECB's New Normal And How We Might Get There, Nov. 29, 2018
- Bulletin: Deutsche Bank Third Quarter Results Show Cost Discipline As Revenues Dip; Ratings Unaffected, Oct. 24, 2018
- Déjà Vu All Over Again: Money-Laundering And Sanctions Woes Continue To Haunt Europe's Banks, Oct. 16, 2018
- European Bank M&A: More Talk Than Action, Aug. 6, 2018
- Bulletin: Deutsche Bank Second Quarter Results Show Early Signs Of Progress; Ratings Unaffected, July 25, 2018

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- Resolution Counterparty Ratings Jurisdiction Assessment For Germany Completed, June 11, 2018
- Resolution Counterparty Ratings Jurisdictional Assessment For The U.S. Completed, June 7, 2018
- Deutsche Bank Long-Term Rating Lowered To 'BBB+' On Elevated Strategy Execution Risks; Outlook Stable, June 1, 2018
- Deutsche Bank AG Long-Term 'A-' Rating Placed On Watch Negative As Management Change Highlights Strategic Challenges, April 12, 2018
- Chasing Shadows Or Rainbows? Sustainable Profitability Still Eludes Some Major European Banks, March 15, 2018

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	**3**	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	**bbb+**	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of December 21, 2018)

Deutsche Bank AG	
Issuer Credit Rating	BBB+/Stable/A-2
Turkey National Scale	trAAA/--/trA-1+
Resolution Counterparty Rating	A-/--/A-2
Certificate Of Deposit	
Foreign Currency	BBB+/A-2/A-2
Commercial Paper	A-2
Junior Subordinated	B+
Senior Subordinated	BBB-
Senior Unsecured	BBB+
Short-Term Debt	A-2
Subordinated	BB+
Issuer Credit Ratings History	
01-Jun-2018	BBB+/Stable/A-2

Ratings Detail (As Of December 21, 2018) (cont.)		
12-Apr-2018		A-/Watch Neg/A-2
28-Mar-2017		A-/Negative/A-2
15-Dec-2016		BBB+/Watch Pos/A-2
19-Jul-2016		BBB+/Negative/A-2
09-Jun-2015		BBB+/Stable/A-2
03-Feb-2015		A/Watch Neg/A-1
29-Apr-2014		A/Negative/A-1
28-Jun-2018	*Turkey National Scale*	trAAA/--/trA-1+
08-Jul-2016		trAAA/--/trA-1
Sovereign Rating		
Germany		AAA/Stable/A-1+
Related Entities		
Deutsche Bank AG (Canada Branch)		
Issuer Credit Rating		BBB+/Stable/A-2
Resolution Counterparty Rating		A-/--/A-2
Deutsche Bank AG (Cayman Islands Branch)		
Issuer Credit Rating		BBB+/Stable/A-2
Resolution Counterparty Rating		A-/--/A-2
Commercial Paper		
Foreign Currency		A-2
Deutsche Bank AG (Hong Kong Branch)		
Senior Subordinated		BBB-
Deutsche Bank AG (London Branch)		
Issuer Credit Rating		BBB+/Stable/A-2
Resolution Counterparty Rating		A-/--/A-2
Senior Subordinated		BBB-
Senior Unsecured		BBB+
Deutsche Bank AG (Madrid Branch)		
Issuer Credit Rating		BBB+/Stable/A-2
Resolution Counterparty Rating		A-/--/A-2
Deutsche Bank AG (Milan Branch)		
Issuer Credit Rating		BBB+/Stable/A-2
Resolution Counterparty Rating		A-/--/A-2
Deutsche Bank AG (New York branch)		
Subordinated		BB+
Deutsche Bank AG (Sydney Branch)		
Senior Subordinated		BBB-
Deutsche Bank Capital Finance Trust I		
Preferred Stock		BB-
Deutsche Bank Luxembourg S.A.		
Issuer Credit Rating		BBB+/Stable/A-2
Resolution Counterparty Rating		A-/--/A-2

Ratings Detail (As Of December 21, 2018) (cont.)	
Deutsche Bank Mexico S.A.	
Issuer Credit Rating	
CaVal (Mexico) National Scale	mxBBB+/Stable/mxA-2
Deutsche Bank National Trust Co.	
Issuer Credit Rating	BBB+/Stable/A-2
Resolution Counterparty Rating	BBB+/--/A-2
Deutsche Bank Securities Inc.	
Issuer Credit Rating	
Local Currency	BBB+/Stable/A-2
Resolution Counterparty Rating	
Local Currency	BBB+/--/A-2
Deutsche Bank Trust Co. Americas	
Issuer Credit Rating	BBB+/Stable/A-2
Resolution Counterparty Rating	BBB+/--/A-2
Deutsche Bank Trust Co. Delaware	
Issuer Credit Rating	BBB+/Stable/A-2
Resolution Counterparty Rating	BBB+/--/A-2
Deutsche Bank Trust Corp.	
Issuer Credit Rating	BBB+/Stable/A-2
Senior Unsecured	A-2
Senior Unsecured	BBB+
Subordinated	BB+
Deutsche Securities Inc.	
Issuer Credit Rating	BBB+/Stable/A-2
Deutsche Securities, S.A. de C.V., Casa de Bolsa	
Issuer Credit Rating	
CaVal (Mexico) National Scale	mxBBB+/Stable/mxA-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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