Credit Opinion: Deutsche Bank AG

Deutsche Bank AG

Frankfurt, Germany

Ratings

Category	Moody's Rating
Outlook	Negative
Bank Deposits	Aa1/P-1
Bank Financial Strength	B
Issuer Rating	Aa1
Senior Unsecured -Fgn Curr	Aa2
Senior Unsecured -Dom Curr	Aa1
Subordinate	Aa2
Commercial Paper -Dom Curr	P-1
Other Short Term -Dom Curr	P-1
Deutsche Bank Securities Inc	
Outlook	Negative
Senior Unsecured MTN	Aa3
Subordinate MTN	A1
Commercial Paper	P-1
Other Short Term	P-1
Deutsche Bank Trust Company Delaware	
Outlook	Negative
Bank Deposits	Aa3/P-1
Bank Financial Strength	C
Issuer Rating	Aa3

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Key Indicators

Deutsche Bank AG

	[1]**2009**	[2]**2008**	2007	2006	2005	[3]**Avg.**
Total assets (EUR billion)	2103.43	2202.42	1925.00	1584.49	992.16	1508.83
Total capital (EUR billion)	53.30	49.84	53.81	49.20	46.81	47.83
Return on average assets	0.22	-0.19	0.36	0.47	0.39	0.27
Recurring earnings power [4]	0.47	-0.20	0.50	0.66	0.75	0.45
Net interest margin	1.95	1.15	0.70	0.73	0.74	0.81
Cost/income ratio (%)	67.78	130.13	69.79	69.86	72.90	84.37
Problem loans % gross loans	1.65	1.36	1.32	1.51	2.53	2.04
Tier 1 ratio (%)	10.20	10.10	8.60	8.50	8.70	8.90

[1] As of March 31. [2] Statement period in which the bank switched to Basel II accounting framework. [3] The average calculations are based on Basel I and Basel II data where applicable. [4] Preprovision income % average assets.

Opinion

SUMMARY RATING RATIONALE

Moody's assigns a bank financial strength rating (BFSR) of B to Deutsche Bank AG (Deutsche Bank), which translates into a Baseline Credit Assessment of Aa3. The rating derives from the bank's strong European corporate banking franchise, its solid capital and liquidity positions, prominence in international capital markets, the more stable earnings contributions from its Global Transaction Banking (GTB) and Private & Business Clients (PBC) segments, and the bank's recently announced plan to reduce risk positions and volatility in its Corporate Banking and Securities business.

Moody's believes that the probability of systemic support for Deutsche Bank is very high. This results in a two-notch uplift in the senior debt and deposit ratings to Aa1/Prime-1 from its Aa3 Baseline Credit Assessment.

Credit Strengths

- Strong relationship-based corporate banking franchise, generating stable revenues from customer flows in transaction services, trading, and advisory

- Initiation of risk reduction program with reduced leverage and potential for less volatile earnings profile

- Growing emphasis on retail banking, e.g. through potential controlling interest in Deutsche Postbank

- Strong, well managed liquidity position

- Sophisticated risk management, marked reduction in risk concentrations in corporate investments and banking book

- Solid capital management and positioning, albeit with a heavy reliance on hybrid capital and balance sheet leverage

Credit Challenges

- Heavy earnings reliance on capital markets activities, which tend to be more volatile and less transparent

- Longer-term sustainability of risk reduction program in capital markets

- Earnings capacity of more stable businesses (Asset & Wealth Management (AWM) and PBC) in light of global economic slowdown

- Failure of models and stress testing to adequately capture basis and correlation risks in capital markets business

- Role of risk management in investment banking origination activities

- Concentrated exposures to reclassified structured assets

- Eventual integration of Postbank, if acquired

Rating Outlook

The outlook on the Aa1 senior unsecured rating and the B BFSR is negative. The negative outlook reflects the uncertainties of the current market environment as well as the challenges posed to the rating if Deutsche Bank's risk reduction strategy is not successful. Many of the bank's peers are undertaking similar restructurings. Moody's believes that over the medium term the increased industry-wide focus on more liquid, client-focused (i.e. "flow") businesses is likely to pressure margins in those businesses. This will pressure industry participants to once again increase their exposures to more capital-intensive, illiquid businesses.

What Could Change the Rating - Up

In light of the current economic climate and the bank's risk management challenges, any upward pressure on Deutsche Bank's financial strength or debt and deposit ratings appears unlikely to arise in the short term.

Positive implications for Deutsche Bank's ratings depend on (i) a restoration of Deutsche Bank's revenue and earnings dynamics and associated efficiency and profitability measures to levels that fully support the B BFSR and Aa1 senior unsecured ratings, (ii) an improvement in the granularity of the firm's capital markets risk positions and a reduction in its sensitivity to swings in capital markets, (iii) success in achieving a better balance between comparatively stable businesses -- for example, retail and transaction banking, wealth and asset management -- and the more volatile and less predictable performance in investment banking, and (iv) greater transparency on its risks, positions and risk management practices. Any upward pressure on the BFSR is contingent upon Deutsche Bank preserving sound asset quality and robust levels of economic and regulatory capitalisation, with a reduced

reliance on hybrid capital securities, which affect the quality of available capital resources.

What Could Change the Rating - Down

Increased downward pressure on Deutsche Bank's ratings could result from: (i) a failure to develop and grow more stable business lines and activities in order to balance the dynamic expansion in investment banking, (ii) an increased appetite for market or credit risks in contravention of the bank's announced risk reduction program, (iii) a failure to provide greater transparency on risky exposures, or (iv) weaker levels of economic or regulatory capitalisation, or the disproportionate use of low-quality hybrid capital securities to the detriment of retained earnings.

Recent Results and Developments

FINANCIAL RESULTS - FIRST QUARTER 2009

For the first three months of 2009, reported pretax profits amounted to EUR 1.8 billion and net income to EUR 1.2 billion, after providing for EUR 526 million in credit losses, and recognising EUR 2.3 billion in net gains on financial assets/liabilities held at fair value. Pretax earnings were EUR 1.3 billion in Corporate Banking & Securities, EUR 221 million in Global Transaction Banking, EUR 206 million in Private & Business Clients, whereas Asset & Wealth Management suffered a pretax loss of EUR 173 million and Corporate Investments had a pretax gain of EUR 65 million.

Against total consolidated IFRS assets of EUR 2,103 billion and Basel 2 risk-weighted assets (RWA) of EUR 316 billion, the bank held shareholders' equity and Tier 1 capital of EUR 33.7 billion and EUR 32.3 billion (including hybrid capital of EUR 9.7 billion), respectively, at the end of March 2009. Deutsche Bank reported a Tier 1 ratio of 10.2%, slightly above the target range recently revised upward, and an improved total capital ratio of 11.7%. Regulatory capital ratios are calculated conforming to Basel II standards. While the Tier 1 capital ratio has improved by 100 basis points since March 31, 2008, much of the improvement has been due to an increased reliance on hybrid capital instruments; hybrid capital represented 30% of Tier 1 at March 31, 2009, up from 25.6% a year earlier. At March 31, 2009, Moody's estimates that Deutsche Bank's tangible common equity, including Moody's hybrid equity credit, equalled 8.5% of risk-weighted assets, up from 8.0% at year-end 2008 but down from 8.8% a year earlier.

The first quarter results show a significant improvement on 2008, when the bank reported an after-tax loss of -EUR 4.8 billion (-EUR 6.2 billion pre-tax) for the fourth quarter, and an after-tax loss of -EUR 3.9 billion (-EUR 5.7 billion pre-tax) for the full year, primarily driven by trading losses in DB's Corporate Banking & Securities businesses and mark-downs on the bank's structured credit exposures.

During the first quarter the Corporate Banking & Securities business benefited from a restoration of more normalized hedging relationships and correlations, although management declined to estimate how much this one-time factor contributed to revenues during the quarter. In addition, fewer competitors and improved liquidity allowed the bank to capture increased volumes in fixed income sales and trading at substantial bid-ask spreads. Operating expenses were relatively stable, aided by lower headcount and a lower rate of performance-related compensation accruals.

In Moody's opinion, Deutsche Bank will be challenged to sustain the level of performance achieved in the first quarter without increasing its risk profile. Over the medium-term, as noted above, we believe that increased industry-wide focus on more liquid, client-focused businesses (i.e. on "flow") will likely to pressure margins in those businesses. Regarding expenses, we think greater competitive pressures could force the bank to increase its compensation accrual rate above the level booked in the first quarter. Furthermore, the bank remains exposed to a sizable portfolio of reclassified structured assets. While the bank no longer faces mark-to-market losses in that portfolio, we believe that credit costs within that portfolio are likely to remain high. Those assets accounted for nearly half of the bank's first quarter credit losses.

ACCOUNTING EFFECTS

In order to ensure comparability across banks and over time and to determine the true economic substance of reported results, Moody's continues to adjust for certain aspects of accounting conventions. In the current environment, this is particularly relevant for fair value gains on own debt and the effects of reclassifying certain assets into the loans & receivables category.

Deutsche Bank's results benefited only to a comparatively limited extent from a positive impact that relates to the application of the fair-value option on banks' own liabilities. During 2008, the bank recognized a gain in the amount of EUR 349 million on the fair value of its own debt; by contrast, some of the bank's competitors have reported gains on their own debt of several billion euros. Moody's believes that reductions in the value of an issuer's debt due to the credit deterioration of that issuer can give a misleading view of the bank's true credit metrics. Moody's analysts will generally reverse out these gains in our analysis of earnings and our assessment of capital adequacy.

Under the revised guidance given in October 2008 on IAS 39 and IFRS 7 concerning the reclassification of certain

assets reported at fair value, Deutsche Bank has reclassified a total of EUR 38.1 billion of assets. Of this, EUR 26.7 billion relates to trading assets reclassified to loans, and EUR 11.4 billion relates to AfS assets reclassified to loans. A total of EUR 3 billion was reclassified in the first quarter of 2009, together with EUR 35.1 billion already reclassified during 2008.

Were it not for the IAS 39 reclassification, the bank would have reported a pretax loss of -EUR 9.5 billion for 2008 and pretax income of around EUR 600 million for the first quarter of 2009.

ACQUISITION OF DEUTSCHE POSTBANK

On 25 February 2009, Deutsche Bank acquired 50 million shares of Deutsche Postbank AG (rated Aa3/P-1/C, on review for downgrade), corresponding to a stake of 22.9%, in exchange for the issuance of 50 million Deutsche Bank shares (EUR 958 million) to Deutsche Post. The acquisition, together with the Deutsche Bank's existing 2.1% interest in Postbank, brought Deutsche's total holding to 25%. At the same time, Deutsche Bank acquired a mandatory exchangeable bond of EUR 2.7 billion issued by Deutsche Post. After three years, the bond will be fully exchanged for 60 million Postbank shares, or an additional 27.4 % stake. The bank also acquired put and call options from Deutsche Post for its remaining 26.4 million shares (a 12.1 % stake). The options are exercisable between February 2012 and February 2013.

The acquisition followed the restructuring of Deutsche Bank's previous agreement with Deutsche Post. By potentially reducing the ultimate overall cost of its investment, as well as including the issuance of Deutsche Bank shares as a portion of the purchase price, the revised structure reduces the negative impact the transaction might otherwise have on Deutsche Bank's capital position. In connection with this acquisition, Deutsche Bank had previously raised fresh equity of EUR 2.2 billion in late September 2008.

In Moody's opinion, the decision to buy a controlling stake in Postbank, albeit in successive steps, indicates a positive shift in Deutsche Bank's strategic focus that could eventually lead to greater earnings from more granular and inherently more stable and predictable retail banking activities. With combined customers amounting to about 28 million, the acquisition could eventually give Deutsche Bank domestic market shares of approximately 12-14% in key retail product clusters. Combining Deutsche Bank's and Postbank's retail operations could also allow for meaningful efficiency gains and enhanced profitability. In addition, access to Postbank's deposit balances would provide Deutsche Bank with a substantial additional source of stable funding.

However, Moody's believes that the acquisition of a controlling interest may be delayed due to challenges at Postbank. While acquiring Postbank's structured assets portfolio is clearly not desirable, the possibility of delay raises greater uncertainty for Moody's regarding the extent to which Deutsche Bank will continue to rely upon more volatile sources of earnings in the future. Moody's views the eventual acquisition of a controlling interest in Postbank to be an important underpinning of Deutsche Bank's current ratings. To the extent the acquisition or related benefits are delayed, or the acquisition causes a decline in Deutsche Bank's capital position, it could have negative implications for Deutsche Bank's ratings.

DETAILED RATING CONSIDERATIONS

Detailed considerations for Deutsche Bank's currently assigned ratings are as follows:

Bank Financial Strength Rating

Moody's assigns a B BFSR to Deutsche Bank. The rating reflects the bank's good capital and liquidity positions, its strong customer relationships in corporate banking, as well as the growing contribution from its more stable earnings generators, including the Global Transaction Banking and Private & Business Clients segments. The rating also reflects the bank's significant reliance upon capital markets activities, where risk management errors and high leverage have led to greater earnings volatility than expected. In response to this, the bank has undertaken a risk reduction program to reduce risk positions and volatility in its Corporate Banking and Securities business.

As a point of reference, the assigned BFSR is one notch above the B- outcome of Moody's bank financial strength scorecard (incorporating the adjustment for profitability described below). The outlook for the B BFSR is negative since 5 December 2008.

Qualitative Factors (50%)

Factor 1: Franchise Value

Trend: Neutral

Deutsche Bank's franchise value is a key factor underpinning its overall credit quality and ratings. It has a strong and sustainable market position in corporate banking and global transaction services, augmented by a broad-based presence in international investment banking. Its retail banking franchise is less dominant, but it is

nonetheless an important European player especially in Germany but to a somewhat lesser degree also in Italy, Spain and Belgium. Asset management and private client businesses provide less earnings, and have posed earnings challenges for the bank in the past, but have made improvements in more recent years.

In all major business lines, Deutsche Bank covers a broad range of international markets and, in terms of customer segments and geographical markets, benefits from a high degree of diversification of revenues and earnings.

Moody's views Deutsche Bank's comparatively heavy reliance on investment banking and international capital markets as generating inherently less stable and predictable earnings and cash flows. The bank says it derives a significant portion of its revenues and earnings from customer-initiated transactions rather than from proprietary investments, contributing to a more stable earnings profile for this segment. However, in the fourth quarter of 2008 the bank suffered significant losses on its proprietary trading activities, substantially overwhelming the revenues from its flow business. The 2008 results revealed that the relative contribution of the flow business wasn't sufficient to offset the volatility in the proprietary trading and origination businesses.

In response, Deutsche Bank has implemented a risk reduction program. In addition, reduced competition and wider margins contributed to substantially improved revenues from the flow business during the first quarter of 2009. However, we believe that over the medium term, renewed competition will likely erode profitability of the flow business, generating pressure on the bank to increase its proprietary exposures and other more capital-intensive, illiquid businesses.

Deutsche Bank's retail activities tend to have a heavy reliance on brokerage activity and consumer finance. While these retail businesses have generally offered higher growth opportunities, the stability of earnings may not be fully comparable to other, more traditional retail banking activities. Indeed, Moody's believes that the sharp decline in pretax preprovision income in the fourth quarter of 2008 and the first quarter of 2009 in this segment raises some concerns about the overall stability of earnings in this segment.

Deutsche Bank scores B for franchise value in Moody's bank financial strength scorecard.

Factor 2: Risk Positioning

Trend: Neutral

In Moody's view, the current crisis has significantly tested Deutsche Bank's risk positioning. While some elements have held up well, in other areas the bank's risk positioning has been found wanting. In particular, while the bank undertook a significant risk reduction effort earlier in the decade by reducing its portfolio of corporate equity investments and increasing the granularity of exposures in its lending book, it appears that a similar approach was not taken within the bank's investment banking businesses. In Moody's view, further progress in the bank's risk management capabilities is desirable. The bank has already taken initial steps to enhance its risk management efforts, such as through an increased use of notional limits. However, Moody's believes that additional enhancements, and well as increased transparency around risk management, are probably still necessary.

As regards the occasional regulatory actions or minor control failures, we note that these are virtually inherent in the investment banking business model, especially for banks of such size and complexity as Deutsche Bank. However, the bank has not suffered any major control or governance issues in the last 5 years.

It remains Moody's general conviction that credit risk concentrations, including those in the financial services sector, may pose a serious challenge for banks' credit quality. Deutsche Bank has a prominent market position in catering to financial institutions, insurance companies and a broad spectrum of fund managers globally. As such, it's exposure to the financial services sector is significant, although this exposures is concentrated among highly rated institutions. Regarding individual borrower exposures, while the bank's target hold positions (i.e. those positions retained in its banking book) are generally quite conservative, the bank's tolerance for concentration risk in its underwriting activities appears to be considerably greater, as revealed by the substantially larger exposures in leverage finance and commercial real estate to which it was exposed at the start of the current credit crisis. Deutsche Bank's significant participation in these market segments means that a change in sentiment may entail a detrimental impact for the bank's concentration risks, cost of credit and earnings.

The bank runs proprietary trading books in equity, credit, interest-rate, commodity, foreign-exchange and related derivatives products. In conjunction with customer-driven transactions, these may expose the bank to potentially significant risks, related to individual names, transactions or sectors or to changes in volatilities, correlations or liquidity. We understand that the bank primarily uses extensive stress testing for complex transactions and counterparty exposures or asset classes, rather than more simplistic but potentially deficient measures of risk, for determining its risk appetite and for embedding various types of risk in the bank-wide framework for economic capital. However, we note that the bank's stress testing failed to prevent the losses incurred due to basis risk and correlation risk in the fourth quarter of 2008. In response, the bank has implemented a risk reduction program, however we believe that enhancements to risk measurement and risk monitoring may also be warranted.

Deutsche Bank's sources of secured and unsecured funding and liquidity are well diversified by type of investor, instrument, currency, tenor and region and show a good degree of granularity and stability. The bank's liquidity management systems and procedures - across currencies, legal entities, time zones and tenors - are consistent

with the challenges and chances inherent in the bank's business mix and balance sheet. In recent quarters, the bank has further bolstered its more stable long-term funding sources, decreasing its reliance on short-term funding.

In response to the losses suffered by Deutsche Bank in 2008, management reported that the bank would be adopting a more conservative risk appetite, as well as an increased focus on avoiding large notional exposures. Going forward, Moody's will focus on the future earnings and risk profile of Deutsche Bank under its revised strategy, and more importantly the permanence of that strategy. Deutsche Bank's risk reduction program could lead to a less volatile earnings profile. However, even if successful over the near-term, the bank is likely to face pressures to return to a more aggressive strategy in the future, when market conditions improve.

The score for Deutsche Bank's risk positioning is C- in Moody's bank financial strength scorecard.

Factor 3: Regulatory Environment

All German banks are subject to the same score on the regulatory environment. This factor does not address bank-specific issues; instead, it evaluates whether regulatory bodies are independent and credible, demonstrate enforcement powers and adhere to global standards of best practices for risk control.

Factor 4: Operating Environment

Trend: Neutral

This factor is a weighted average of the major markets in which Deutsche Bank has meaningful operations. This gives a score of B+.

Quantitative Factors (50%)

Factor 5: Profitability

Trend: Neutral

Deutsche Bank showed continuous improvement in profitability during the middle years of this decade, until late 2007 when the impact of the financial crisis began to be felt. The improvement reflected the successful execution of a clear management agenda and implementation of the bank's business alignment programme, as well as supportive capital markets and macro-economic conditions. Progress was broad-based across most business lines.

But the financial crisis has eroded Deutsche Bank's profitability. In addition to valuation writedowns on a variety of structured exposures (which would have been larger but for the reclassification of EUR 38.1 billion of illiquid assets), the bank suffered sizable losses in the fourth quarter of 2008 on its proprietary trading portfolio due to basis risk and correlation risk. While we take some comfort from the earnings strength of Deutsche Bank's more stable business segments, as well as the revenues from its capital markets flow businesses, the bank's recent results clearly revealed a vulnerability to earnings volatility not previously anticipated.

Deutsche Bank currently scores an E for profitability in the BFSR scorecard, based on the bank's poor financial performance in 2008, with a pre-provision loss of EUR 4.1 billion and a net loss of EUR 3.8 billion. Because the bank's risk-weighted assets (RWA) are reported under Basel 2 beginning in 2008, the BFSR scorecard does not calculate a three-year average for ratios that use RWA. However, it is important to note the bank's strong profitability performance in the years preceding this loss, with pre-provision income as a percentage of Basel I risk-weighted assets at 3.0% in 2007, and 3.2% in 2006, and a net income return on RWA of 2.1% in 2007 and 2.3% in 2006. Coupled with the 2008 loss, these ratios would put Deutsche's profitability score at C+ on a 3-year average basis. This adjustment also moves the score for Financial Factors from a C- to a B-, and moves the aggregate scorecard-implied BFSR from a C to a B-.

Once the current crisis in financial markets has abated, we expect Deutsche Bank to exploit its strength in customer businesses and restore its profitability, although perhaps not to the level experienced in the years immediately prior to the crisis. We believe that a full return to the profit levels achieved prior to the crisis would require an increase in risk taking which would be counter to the bank's stated intention to reduce its risk profile. To the extent management retains profitability targets similar to those sought prior to the crisis, it could signal a likely increase in the bank's risk profile, and could have negative rating implications.

Factor 6: Liquidity

Trend: Neutral

Deutsche Bank has demonstrated strong liquidity management in challenging market conditions over the past two years. Its funding sources are well diversified across instruments, investors, tenors and currencies and regulatory liquidity ratios generally exceed minimum requirements by a comfortable margin.

The bank continues to enjoy an ample and sticky deposit base which, as at 31 March 2009, amounted to EUR 395.7 billion and relates to both retail and corporate customers in Germany and abroad. Additionally, Deutsche enjoys a very liquid asset base, with the sum of cash, securities, and amounts due from banks totalling EUR 543.0 billion, versus market funds of EUR 415.5 billion, as at the end of 2008. While the bank's volume of liquid assets has declined over the past few years, falling from EUR 1,013.1 billion in 2007, and EUR 870.5 billion in 2006, this decline reflects an intentional decision to delever, and has been more than matched by a decline in market funds.

As at the first quarter 2009, Deutsche reported that it held cash (EUR 56 billion including bank deposits) and central bank eligible securities (amount undisclosed) in excess of its EUR 75 billion short-term wholesale funding position.

Based upon its robust liquidity profile and good liquidity management capabilities, Deutsche Bank scores A for liquidity.

Factor 7: Capital Adequacy

Trend: Neutral

In relation to global banking peers, Deutsche Bank's intrinsic regulatory and economic capitalisation appears solid - a strength which is also necessitated by the bank's business and financial risks. Capital metrics tend to benefit from the relatively low regulatory risk weightings attached to many of the bank's assets. However, as the financial crisis has revealed, such risk weightings didn't necessarily fully capture either the bank's capital markets concentration risks, notably the occasionally large exposures from its capital markets origination activities, or the market risks in its proprietary trading activities. Going forward, Moody's believes that the implementation of an incremental default risk charge on market risk positions as proposed by recent revisions to the Basel II accord could lead to a material impact on Deutsche Bank's Tier 1 ratio.

The relatively low regulatory risk weightings at Deutsche Bank served to mask a sizable increase in balance sheet leverage which also occurred at many of its capital markets peers. While balance sheet leverage is a relatively crude capital metric which Moody's does not use in its BFSR scorecard, it can still highlight the extent to which a bank may be vulnerable if its reported risk-weighted assets do not adequately reflect its risk profile. In response to the financial crisis, the bank has reduced this leverage, albeit not as significantly as at some of its peers. Deutsche Bank has also adopted a published leverage target which may help limit future increases in its balance sheet leverage.

Deutsche Bank took a number of steps to offset the negative impact its 2008 losses would otherwise have had on its capital position. These included a reduction in the annual dividend, leading to a EUR 1.0 billion release of previously accrued dividends. The bank also raised EUR 0.9 billion in Tier 1 capital from the conversion of certain contingent capital instruments. Other additions to Tier 1 totalling EUR 1.2 billion came from a restructuring of restricted equity units and OCI gains from the adoption of a new pension accounting standard, among others. And finally, continued de-leveraging allowed the bank to reduce its risk-weighted assets.

As a result, the bank reported a Tier 1 capital ratio (under Basel 2) of 10.2% at 31 March 2009, up from 9.2% at 31 March 2008. We consider the actions taken by the bank to strengthen its capital position as an important offset to the losses the bank suffered in 2008. Nonetheless, much of the improvement has been due to an increased reliance on hybrid capital instruments; hybrid capital represented 30% of Tier 1 at March 31, 2009, up from 25.6% a year earlier. At March 31, 2009, Moody's estimates that Deutsche Bank's tangible common equity, including Moody's hybrid equity credit, equalled 8.4% of risk-weighted assets, up from 7.9% at year-end 2008 but down from 8.8% a year earlier.

Deutsche Bank scores B+ for capital adequacy.

Factor 8: Efficiency

Trend: Neutral

In a global comparison, operating efficiency is one of Deutsche Bank's weak points despite the progress achieved in recent years through the implementation of the business alignment programme. The improved, but in Moody's view still comparatively weak, efficiency metrics are to a large part explained by Deutsche Bank's business mix, in which high-cost businesses, such as investment banking and asset management, weigh heavily, and the bank still suffers from somewhat less beneficial economies of scale in its retail banking operations. The current market conditions exacerbate this weakness, and the reported efficiency ratio deteriorated significantly in 2008.

Cost reductions and cost containment, and corresponding improvements in operating leverage, have received considerable management attention. But while timely reductions in compensation and non-compensation expenses can help offset the greater volatility of capital markets-driven revenues, the experience of 2008 highlights the limits of such cost flexibility. In the first quarter of 2009 Deutsche Bank reported significantly improved efficiency. However, we believe Deutsche Bank may be challenged to sustain the level of performance achieved in the first quarter of 2009. We think greater competitive pressures could force the bank to increase its compensation

accrual rate above the level booked in the first quarter. Longer-term improvements in efficiency may depend upon changes in the bank's business mix.

Deutsche Bank scores E for efficiency.

Factor 9: Asset Quality

Trend: Weakening

Deutsche Bank's sophisticated portfolio credit risk management has not prevented it from reporting higher levels of problem loans during the current financial crisis. As a function of the deteriorating economic environment in many of Deutsche Bank's key markets, problem loans (according to IFRS criteria) have increased to EUR 4.5 billion at 31 March 2009, from EUR 3.7 billion at the end of 2008, and EUR 2.7 billion a year ago. Contributing substantially to this has been the assets reclassified from the trading book to the loan portfolio, including leveraged loans, commercial real estate, and other exposures. By contrast, the amount of total problem loans in the traditional banking book, where individual loan sizes are generally much smaller, has been considerably less. We expect further deterioration in asset quality as economic weakness takes its toll on the bank's commercial and consumer finance customers.

The bank currently scores B+ for asset quality.

Global Local Currency Deposit Rating (Joint Default Analysis)

Moody's assigns global local currency (GLC) deposit ratings of Aa1 / Prime-1 to Deutsche Bank AG. The outlook for the Aa1 senior unsecured rating is negative since 5 December 2008.

The Aa1 GLC deposit rating is supported by Deutsche Bank's Baseline Credit Assessment of Aa3 and Moody's assumption of a very high likelihood of systemic support. The systemic support assessment reflects Deutsche Bank's important roles as a global capital markets counterparty, a major deposit-taker in the German banking market, and its relevance for the proper functioning of the payment system. Based upon Deutsche Bank's Baseline Credit Assessment of Aa3 and Germany's Aaa sovereign rating, the bank receives a two-notch uplift from its Baseline Credit Assessment, bringing the GLC rating to Aa1. While Deutsche Bank has not received direct support from the German government during the current financial crisis, Moody's believes that it is very likely that it would receive such support if it were required.

Germany is considered a medium support country. Although the German banking market is highly fragmented, Moody's acknowledges the favourable track record for systemic support to financial institutions in times of financial distress.

Notching Considerations

Ratings for Deutsche Bank's junior obligations are notched off the fully supported deposit rating because of the bank's high bank financial strength rating, which substantially reduces the risk of loss due to a coupon omission or the writedown of principal on certain hybrid instruments. In line with Moody's refined notching guidelines for subordinated obligations published in April 2007, Deutsche Bank's subordinated debt securities (LT2 and UT2) are rated one notch below the bank's Aa1 senior unsecured rating whereas the bank's deeply subordinated hybrid capital securities are rated two notches lower at Aa3.

Foreign Currency Deposit Rating

The foreign currency deposit ratings of Deutsche Bank are unconstrained given that Germany, in common with other EU members, has a country ceiling of Aaa. They are Aa1 / Prime-1.

Foreign Currency Debt Rating

The foreign currency debt ratings of Deutsche Bank are unconstrained given that Germany, in common with other EU members, has a country ceiling of Aaa. They are Aa1 / Prime-1.

ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. BFSRs do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of BFSRs include bank-

specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although BFSRs exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the BFSR as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, they are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, which includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of external elements of support into the bank's Baseline Credit Assessment. In calculating the Global Local Currency Deposit rating for a bank, the JDA methodology also factors in the rating of the support provider, in the form of the local currency deposit ceiling for a country, Moody's assessment of the probability of systemic support for the bank in the event of a stress situation and the degree of dependence between the issuer rating and the Local Currency Deposit Ceiling.

National Scale Rating

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. A Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt ratings may also be constrained by the country ceiling for foreign currency bonds and notes; however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's Bank Financial Strength Scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

Deutsche Bank AG

Rating Factors [1]	**A**	**B**	**C**	**D**	**E**	**Total Score**	**Trend**
Qualitative Factors (50%)						**C+**	

Factor: Franchise Value						B	Neutral
Market Share and Sustainability	x						
Geographical Diversification	x						
Earnings Stability				x			
Earnings Diversification [2]							
Factor: Risk Positioning						C-	Neutral
Corporate Governance [2]							
- Ownership and Organizational Complexity							
- Key Man Risk							
- Insider and Related-Party Risks							
Controls and Risk Management			x				
- Risk Management			x				
- Controls		x					
Financial Reporting Transparency		x					
- Global Comparability	x						
- Frequency and Timeliness	x						
- Quality of Financial Information			x				
Credit Risk Concentration	--	--	--	--	--		
- Borrower Concentration	--	--	--	--	--		
- Industry Concentration	--	--	--	--	--		
Liquidity Management	x						
Market Risk Appetite			x				
Factor: Operating Environment						B	Neutral
Economic Stability			x				
Integrity and Corruption		x					
Legal System	x						
Financial Factors (50%)						C-	
Factor: Profitability						E	Neutral
PPP % Avg RWA - Basel II					-1.32%		
Net Income % Avg RWA - Basel II					-1.25%		
Factor: Liquidity						A	Neutral
(Mkt funds-Liquid Assets) % Total Assets	-12.90%						
Liquidity Management	x						
Factor: Capital Adequacy						B+	Neutral
Tier 1 ratio (%) - Basel II		10.10%					
Tangible Common Equity / RWA - Basel II	7.87%						
Factor: Efficiency						E	Neutral
Cost/income ratio					89.93%		
Factor: Asset Quality						B+	Neutral
Problem Loans % Gross Loans		1.39%					
Problem Loans % (Equity + LLR)	8.62%						
Lowest Combined Score (15%)						E	
Economic Insolvency Override						Neutral	
Aggregate Score						C	
Assigned BFSR						B	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non public information
[2] - A blank score under Earnings diversification or Corporate Governance indicates the risk is neutral

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