Issuer Comment: Deutsche Bank AG

Deutsche Bank AG: Earnings Commentary - Third Quarter 2009

Deutsche Bank's 3Q09 results held no rating implications. The bank has a B bank financial strength rating (BFSR) and its deposits and senior debt are rated Aa1. The rating outlook for all ratings is negative.

Deutsche Bank reported 3Q09 net income of €1.4 billion (€1.3bn pre-tax). Pre-tax results were largely unchanged from the second quarter, and while down from the €1.8 billion reported in the first quarter, results were still stronger than in any quarter during 2008. Pre-tax earnings were €988 million in Corporate Banking & Securities (€1.0 billion excluding fair value losses on own debt), €194 million in Global Transaction Banking, €149 million in Private & Business Clients, and €134 million in Asset and Wealth Management. Corporate Investments had a pre-tax gain of €117 million, offset by a pre-tax loss of -€267 in Consolidation and Adjustments.

Corporate Banking & Securities (CB&S) saw a modest drop in revenues over the second quarter (from €4.6bn to €4.4bn), with continued strong performance in equities sales and trading and in equity originations and advisory offset by lower revenues in debt and other sales and trading and in debt originations. The decline in fixed income revenues from the second quarter reflected seasonal factors as well as higher marks on structured assets, including a €350 million charge on the bank's exposure to Ocala Funding, an asset-backed commercial paper vehicle that funded mortgage assets originated by the bankrupt US mortgage lender Taylor Bean & Whitaker. The decline in revenues from the first quarter was more substantial, despite lower marks relative to those taken in the first quarter. In addition to seasonal factors, we believe the decline relative to the first quarter reflects a reduced benefit from the restoration of more normalized hedging relationships and correlations, as well as tighter bid/ask spreads on a range of traded products.

Noninterest expenses in CB&S excluding severance and other nonrecurring items were flat. The bank only provides a breakdown of operating expenses for the Corporate and Investment Bank segment (which includes both CB&S and Global Transaction Banking). Compensation expenses declined for the quarter, but this was offset by an increase in non-compensation expense. Overall, compensation to revenue remains relatively low, which could reflect a lower rate of performance-related compensation accruals. We believe that competitive pressures could force the bank to increase this accrual rate later in the year.

Loan loss provisions in CB&S of €318 were less than half the €771 in provisions for the previous quarter. Provisions included €215 million on former trading assets previously reclassified in accordance with IAS 39 and no longer marked to market. Deutsche Bank reclassified a sizeable amount of assets in this manner, and we believe these exposures, together with its remaining legacy trading assets, still leave the bank exposed to potential additional losses. Since reclassification Deutsche Bank has provided a cumulative €1.2 billion against the exposure. However, even though the fair value of the assets has increased over the past two quarters, if the assets had not been reclassified, the bank would still have had to take an additional cumulative pre-tax loss of €3.4 billion.

Moody's believes that the bank's de-risking efforts may be coming to an end. Compared to the second quarter, the bank's average 1-day VaR (99%) declined 7%, but the bank's maximum VaR during the quarter was unchanged, and its period-end VaR was up 12%. Average VaR is also still up 13% from a year ago. According to the bank, the increase reflects the impact of methodology changes and increased price volatility over the past year; absent those changes, the bank's VaR would have declined from a year ago. Nonetheless, a number of the bank's competitors reported a decline in VaR even after incorporating the increased price volatility in their calculations. Risk-weighted assets (RWA) declined 2.6% from the second quarter, although the market risk component remained largely unchanged as the lower VaR was offset by an increase in the regulatory capital multiplier. Furthermore, while total Level 3 assets continued to decline, from €64 billion at June 30 to €60 billion at September 30, Level 3 trading securities increased by €3 billion (23%) during the same period. While level 3 assets are not necessarily riskier, they represent illiquid assets that are more difficult to value.

Pre-tax earnings in Global Transaction Banking were up 7% from the second quarter but down 31% from a year ago. Revenues were largely unchanged from the first or second quarter, although this was in part due to a change in transfer pricing which boosted revenues by €63 million (10%) above what they would otherwise have been. Otherwise, revenues would have been under greater pressure as the adverse effects of lower interest rates and lower asset values has been only partially offset by increased volumes. At the same time, expenses remain elevated, reflecting an increase in regulatory charges for deposit and pension protection as well as expansion costs. Deutsche Bank remains committed to growing this business further, although that is clearly having a near-term impact on profits.

Private & Business Clients results improved considerably over the first quarter, although this was entirely due to a reduction in severance costs stemming from efforts to improve platform efficiency. Loan loss provisions also remain elevated, despite a reduction in provisions for the third consecutive quarter due to revised parameter and model assumptions. Excluding the severance and restructuring costs, pre-tax, pre-provision results would still have been down 6% from the first quarter and 15% from a year ago. The decline reflects the heavy reliance this segment has on brokerage activity. Only a portion of the lost brokerage revenue has been offset through loan and deposit growth and higher loan margins. If successful, the restructuring initiative could help return pre-provision profitability to previous levels. .

Deutsche Bank reported a profit in its Asset and Wealth Management segment for the first time in five quarters. Net new money flows were positive in Asset Management for the first time in five quarters and were again positive in Private Wealth Management. The quarter benefited from the absence of further marks on investments in the alternative assets business, as well as lower severance charges and improved operating efficiencies. The segment also saw a modest improvement in portfolio management and brokerage fees over the prior two quarters. However, profitability remains well below pre-crisis levels. The decline in fund management fees and brokerage and transaction related revenues has been only partially offset by headcount and other cost reductions.

Deutsche Bank's credit profile continues to be supported by a good liquidity and capital position. The bank reported that it held cash (€74.3 billion including bank deposits) and central bank eligible securities (amount undisclosed) in excess of its €76 billion short-term wholesale funding position. Tier 1 capital ended the quarter at 11.7% of RWA (Basel 2), up from 11.0% last quarter and 10.3% a year ago. However, the bank is facing potentially significant incremental capital needs over the next few years, including an increase in the capital charge for market risk, the recently announced acquisitions of Sal. Oppenheim and a portion of ABN AMRO Bank's commercial banking business, and the potential acquisition of the remaining shares of Deutsche Postbank. Management has indicated a willingness to raise equity capital for acquisitions, and the Sal. Oppenheim transaction gives Deutsche Bank the option of paying for the purchase with Deutsche Bank shares. However, we expect that the bank's Tier 1 ratio could nonetheless decline from its current level. Management has not changed its Tier 1 capital target, which remains 10%, a level below many of its peers. That said, many of the bank's peers will also face an increase in their capital charge for market risk, which could lead to a decline in their capital ratios as well.

Contacts	**Phone**
David Fanger/New York	212-553-4342
Elisabeth Rudman/London	4420-7772-1684
Paul Schenk/London	4420-7772-1645
Johannes Wassenberg/London	4420-7772-1543

CREDIT RATINGS ARE MOODY'S INVESTORS SERVICE, INC.'S (MIS) CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MIS DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS DO NOT CONSTITUTE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. CREDIT RATINGS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MIS ISSUES ITS CREDIT RATINGS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

© Copyright 2009, Moody's Investors Service, Inc. and/or its licensors including Moody's Assurance Company, Inc. (together, "MOODY'S"). All rights reserved.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and MOODY'S, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings and financial reporting analysis observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER. Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly

make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling.

MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at www.moodys.com under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."