Deutsche Bank

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Deutsche Bank reports first quarter 2012 net income of EUR 1.4 billion

- Income before income taxes (IBIT) was EUR 1.9 billion, after EUR 0.3 billion impairment in Corporate Investments (CI) related to Actavis and EUR 0.2 billion litigation related charges in CB&S
- Consolidation & Adjustments (C&A) loss before income taxes of EUR 431 million, incl. EUR 319 million of accounting effects which reverse over time
- CIB and PCAM income before income taxes of EUR 2.6 billion
- Core Tier 1 ratio of 10.0%, well on track to meet regulatory requirements ahead of time. Utilization of risk levels in CIB well below limits
- Progress on litigation issues, de-risking and successful disposal of Actavis
- Pre-tax return on average active equity of 14%

Corporate & Investment Bank (CIB): Strong recovery versus the second half 2011 demonstrates strength of diversified client franchise while maintaining strict risk discipline

- Income before income taxes of EUR 2.1 billion, after EUR 0.2 billion litigation related charges
- Sales & Trading revenues of EUR 4.1 billion, up 160% versus fourth quarter last year and down 11% year-over-year, despite approximately 30% reduction in VaR and a more difficult market environment compared to the prior year quarter
- Origination and Advisory ranked number 3 globally, its best position ever
- Global Transaction Banking (GTB) generated record first quarter IBIT of EUR 340 million driven by strong performance across products and regions

Private Clients and Asset Management (PCAM): Positive volume trends offset by lower client investment activity reflecting uncertain environment

- Income before income taxes of EUR 555 million
- Private & Business Clients (PBC) IBIT of EUR 413 million driven by strong credit and deposit business but impacted by negative effects from Postbank de-risking and muted client investment activity
- Asset and Wealth Management (AWM) IBIT of EUR 142 million

Issued by Investor Relations of Deutsche Bank AG
Taunusanlage 12, 60325 Frankfurt am Main
Phone +49 69 910 35395, Fax +49 69 910 38591

Internet: http://www.deutsche-bank.com
http://www.deutsche-bank.com/ir
E-Mail: db.ir@db.com

- Asset Management (AM) IBIT decreased to EUR 54 million due to continued low market levels and a more cautious investor sentiment related to the progress of the strategic review
- Private Wealth Management (PWM) IBIT of EUR 88 million with good revenue momentum quarter-over-quarter in Germany, EMEA and Asia Pacific

Deutsche Bank (XETRA: DBKGn.DE / NYSE: DB) today reported results for the first quarter 2012.

Net income for the quarter was EUR 1.4 billion, compared to EUR 2.1 billion in the first quarter 2011. Diluted earnings per share for the quarter were EUR 1.44, versus EUR 2.13 in the first quarter 2011. Pre-tax return on average active equity, on a reported basis, was 14%.

Dr. Josef Ackermann, Chairman of the Management Board said:
"Against a background of continued caution in global financial markets, we delivered solid results."

He added: "We continue to pursue our strategy of reducing legacy risks and strengthening our capital position, as evidenced by our disposal of Actavis and ongoing progress on litigation issues. Simultaneously, we are focusing on winning new and deepening our relationships with existing customers, driving returns on investments in our platform and maintaining tight cost and capital discipline."

Group Results of Operations

In the Corporate & Investment Bank (CIB), net revenues were down 8% in the first quarter 2012 to EUR 6.2 billion versus EUR 6.7 billion in the first quarter 2011. Against the backdrop of a far less favorable environment compared to the prior year quarter, this is a strong result which reflects good performance across most businesses, despite continued risk discipline and lower client activity than in the prior year. Private Clients and Asset Management (PCAM) net revenues were EUR 3.4 billion in the first quarter 2012 compared to revenues of EUR 4.1 billion in the first quarter 2011 which was positively impacted by EUR 263 million related to our stake in Hua Xia Bank for which equity method accounting was applied for the first time. The remaining decrease was mainly attributable to lower operating revenues in Postbank driven by the impact of de-risking activities and also reflecting a low interest rate environment, as well as lower releases of loan loss allowances recorded prior to consolidation (which are shown as interest income). Further, retail client investment activity remained muted, primarily in Germany, and continued low market levels as well as ongoing uncertainties during the quarter adversely impacted the funds business. Overall, the Group's net revenues in the first quarter 2012 were EUR 9.2 billion, after a EUR 257 million impairment charge related to our exposure in Actavis recorded in Corporate Investments, which is a decrease of EUR 1.3 billion, or 12% versus the first quarter 2011.

Provision for credit losses was EUR 314 million in the quarter, a decrease of 16%, from EUR 373 million in the first quarter 2011. The decrease was mainly attributable to lower provisions recorded at Postbank and the positive performance of our retail portfolio as well as the successful sales of non-performing loans, partly offset by higher provision for credit losses in CIB, being in line with our expectation. The provision for credit losses excludes releases from Postbank related loan loss allowances recorded prior to consolidation of EUR 36 million which are included in net interest income.

Noninterest expenses were EUR 7.0 billion in the quarter, essentially unchanged compared to the first quarter 2011. Compensation related costs decreased by EUR 622 million as a result of lower performance related compensation, based on lower operating performance and a reduced deferred compensation charge for employees eligible for career retirement. These effects were offset by litigation related charges (approximately EUR 210 million) and increased policyholder benefits and claims in Abbey Life, both in Corporate Banking & Securities (CB&S). The first quarter 2012 also included an accrual of EUR 73 million for the German bank levy in Consolidation & Adjustments (C&A) which did not occur in the prior year quarter. In addition, there was a negative impact of EUR 40 million related to a buyback offer for a specific closed-end fund in Private & Business Clients (PBC).

Income before income taxes was EUR 1.9 billion in the quarter, down EUR 1.1 billion versus the first quarter 2011. The result reflects the specific items mentioned before (Actavis and Hua Xia Bank) as well as weaker conditions in the first quarter 2012, as compared to the strong start in 2011, which are characterized by continued caution of financial markets participants.

Net income for the first quarter 2012 was EUR 1.4 billion compared to EUR 2.1 billion in the first quarter 2011. Diluted earnings per share were EUR 1.44 in the first quarter 2012, versus EUR 2.13 in the first quarter 2011. Income tax expense was EUR 478 million in the first quarter 2012. The effective tax rate of 25.4% in the current quarter mainly benefited from share-based payments related tax effects. Income tax expense in the first quarter 2011 was EUR 891 million. The effective tax rate of 29.5% in the first quarter 2011 benefited from the partial tax exemption of net gains related to our stake in Hua Xia Bank.

The Bank's Core Tier 1 capital ratio was 10.0% at the end of the first quarter up from 9.5% at year end, well on track to meet regulatory requirements ahead of time. The Tier 1 capital ratio was 13.4%, up 55 basis points compared to 12.9% at year end 2011. Risk-weighted assets decreased to EUR 368 billion at the end of the first quarter 2012 from EUR 381 billion at year end 2011 as a result of tight risk management.

Total assets slightly decreased to EUR 2,103 billion at the end of the first quarter versus EUR 2,164 billion at year end 2011. On an adjusted basis, which reflects netting of derivatives and certain other balances, total assets were EUR 1,256 billion, a decrease of EUR 12 billion compared to year end 2011. As per our target definition, the leverage ratio was at 21 - unchanged from year end 2011.

Liquidity reserve in excess of EUR 195 billion, maintained at a high level. 47% of 2012 funding plan already completed.

Segment Results of Operations

Corporate & Investment Bank Group Division (CIB)

Corporate Banking & Securities Corporate Division (CB&S)

Sales & Trading (debt and other products) net revenues were EUR 3.4 billion in the first quarter 2012, a decrease of EUR 301 million, or 8%, compared to the first quarter 2011. While overall performance was strong reflecting increased client activity compared to the second half of 2011, the environment remains less favorable than in the prior year quarter. Revenues in Credit benefited from solid client activity, although these were lower than in the prior year quarter reflecting deliberately lower inventory levels. Money Markets revenues were significantly higher than the prior year quarter across all regions. Revenues in Rates were higher compared to the prior year quarter due to increased client activity in flow and client solutions, generating the second best first quarter ever for the business. Foreign Exchange had record volumes, but revenues were in line with the prior year quarter, reflecting lower margins. Revenues in Emerging Markets were lower than in the prior year quarter with higher flow activity offset by reduced demand for client solutions. Commodities revenues were in line with the prior year quarter, with a strong performance across all products. RMBS revenues were significantly lower than in the prior year quarter, reflecting reduced client demand.

Sales & Trading (equity) generated net revenues of EUR 726 million in the first quarter 2012, a decrease of EUR 218 million, or 23%, compared to the first quarter 2011. While improved market sentiment was reflected in increases across major equity indices, industry-wide client activity remained significantly lower than in the prior year quarter. Equity Trading revenues were lower than in the prior year quarter despite market share increases in Europe and the U.S, reflecting lower industry-wide market volumes as well as the non-recurrence of a gain on the sale of our stake in the Russian stock exchange RTS in the prior year quarter. Equity Derivative revenues were also lower than in the prior year quarter due to reduced flow and corporate volumes. Prime Finance revenues were in line with the prior year quarter, as higher balances were offset by pricing pressures. During the quarter Deutsche Bank was voted number one for European Sales, Trading, and Research in Institutional Investor 2012 All-Europe surveys.

Origination and Advisory generated revenues of EUR 638 million in the first quarter 2012, a decrease of EUR 79 million, or 11%, compared to the first quarter 2011, reflecting lower industry-wide activity. Deutsche Bank was ranked number three globally by share of Corporate Finance fees, its highest ranking ever. Deutsche Bank was also ranked top five across M&A, Equity Origination, and Debt Origination globally. Advisory revenues of EUR 121 million were down 24% on the prior year quarter reflecting subdued activity levels compared to the prior year, and Deutsche Bank was ranked number five for the quarter. Debt Origination revenues of EUR 379 million were in line with the prior year quarter, and Deutsche Bank was ranked number two in All International Bonds and number two in All Bonds in Europe, according to Thomson Reuters. Equity Origination revenues decreased by 23% to EUR 138 million compared to the prior year quarter reflecting lower industry-wide equity capital market activity, although issuance levels grew towards the end of the quarter as volatility declined. Deutsche Bank was ranked number five globally in equity issuance and number one in IPOs (Bloomberg). (All rankings sourced from Dealogic unless stated otherwise).

Loan products revenues were EUR 303 million in the first quarter 2012, a decrease of EUR 149 million or 33% on the prior year quarter due to the combination of reduced balances, markdowns and the net effect of movements in credit spreads.

Net revenues from other products were EUR 162 million in the first quarter 2012, an increase of EUR 123 million from the prior year quarter. This increase was driven by higher mark-to-market gains on investments held to back insurance policyholder claims in Abbey Life, which are offset in noninterest expenses.

Provision for credit losses, in CB&S were a net charge of EUR 85 million in the first quarter 2012 compared to a low net charge of EUR 12 million in the prior year quarter.

Noninterest expenses were EUR 3.4 billion in the first quarter 2012, a decrease of EUR 121 million, or 3%, compared to the first quarter 2011. This decrease was substantially driven by lower performance related compensation, based on lower operating performance and a reduced deferred compensation charge for employees eligible for career retirement. These decreases were partly offset by approximately EUR 210 million of litigation related expenses, and the impact of the afore-mentioned effects from Abbey Life.

Income before income taxes in CB&S was EUR 1.7 billion in the first quarter 2012, compared to EUR 2.3 billion in the prior year quarter.

Global Transaction Banking Corporate Division (GTB)

GTB's net revenues were EUR 967 million in the first quarter 2012, an increase of EUR 114 million, or 13%, compared to the first quarter 2011. The increase was driven by growth in fee and interest income spread across product lines reflecting GTB's robust business model. Compared to the prior year quarter, interest income increased benefiting from higher balances, offsetting the continued low interest rate environment, particularly in the U.S. and the euro area, while rates in Asia remained favorable. Trade Finance generated strong revenues driven by ongoing growth in client volumes and demand for financing products. Trust & Securities Services revenues grew based on strong momentum in the custody business, especially securities lending, as well as higher balances in trust and agency services. In Cash Management, revenues increased as a result of higher transaction and deposit volumes.

In provision for credit losses, GTB recorded a net charge of EUR 33 million in the first quarter 2012, compared to EUR 21 million in the prior year quarter. The charges in both periods were mainly related to the commercial banking activities acquired in the Netherlands in 2010. The remaining GTB businesses showed a net release which partly counterbalanced the aforementioned increase.

Noninterest expenses of EUR 593 million in the first quarter 2012 were up EUR 35 million, or 6%, compared to the first quarter 2011. This increase was mainly driven by performance related compensation as well as insurance related costs. In addition, integration costs for the acquisition in the Netherlands contributed to this increase.

Income before income taxes was EUR 340 million for the quarter, an increase of EUR 67 million, or 24%, compared to the prior year quarter.

Private Clients and Asset Management Group Division (PCAM)

Asset and Wealth Management Corporate Division (AWM)

AWM reported net revenues of EUR 883 million in the first quarter 2012, a decrease of EUR 119 million, or 12%, compared to the same period in 2011. Revenues from other products declined by EUR 87 million (from EUR 116 million to EUR 29 million) compared to the same period last year. Of this decline EUR 57 million, or 63%, was attributable to Private Wealth Management (PWM), which was significantly impacted by positive effects from the realignment of Sal. Oppenheim in 2011. The remaining decline in revenues from other products of EUR 30 million was attributable to Asset Management (AM) reflecting lower gains on sale of investments. Discretionary portfolio management/fund management revenues in AWM decreased by EUR 40 million, or 8%. The decline was EUR 32 million in AM and EUR 9 million in PWM. Both developments were driven by negative market impacts resulting in lower asset flows and lower performance fees. Advisory/brokerage revenues decreased by EUR 31 million, or 14%, to EUR 199 million. This was mainly driven by a lower client activity reflecting investor uncertainty. Partly offsetting these decreases were EUR 32 million (or 92%) higher revenues in deposits and payment services compared to the same period in 2011, mainly due to the launch of various product initiatives targeting stable funding. Revenues from credit products were EUR 8 million, or 8% higher compared to the first quarter 2011, mainly due to higher lending volume in Asia/Pacific and Americas.

Provision for credit losses decreased to a level below EUR 1 million by EUR 18 million compared to the same period last year, mainly related to lower provisions in Sal. Oppenheim.

Noninterest expenses in the first quarter 2012 were EUR 739 million, down by EUR 52 million, or 7%, compared to the first quarter 2011. The decline reflected mainly lower retention and severance expenses. In addition, the decrease also reflected improved platform efficiencies in AM.

In the first quarter 2012, AWM recorded an income before income taxes of EUR 142 million compared to EUR 190 million in the first quarter last year. Income before income taxes declined by EUR 28 million in PWM and by EUR 20 million in AM.

Invested Assets in AWM increased EUR 7 billion to EUR 820 billion in the first quarter of 2012. In PWM, invested assets were EUR 278 billion, an increase of EUR 9 billion compared to December 31, 2011. The increase included EUR 11 billion due to market appreciation and EUR 2 billion net inflows, partly offset by EUR 3 billion from foreign currency movements. Invested assets in AM decreased by EUR 2 billion. Net outflows of EUR 10 billion, mainly related to one single customer in Europe, and negative effects from foreign currency movements of EUR 8 billion, were partly offset by EUR 16 billion due to market appreciation.

Private & Business Clients Corporate Division (PBC)

Net revenues in the first quarter 2012 were EUR 2.5 billion, down EUR 571 million, or 19%, compared to the first quarter 2011. Most of this decline was attributable to lower revenues from other products, which decreased by EUR 548 million. This development reflected the non-recurrence of a one time positive impact of EUR 263 million related to our stake in Hua Xia Bank. In addition, Postbank contributed EUR 354 million to the decrease, with EUR 972 million revenues in the current quarter, compared to EUR 1.3 billion in the prior year quarter. The decrease was attributable to lower operating revenues, driven by the impact of de-risking activities and also reflecting a low interest rate environment, as well as lower releases of loan loss allowances recorded prior to consolidation (which are shown as interest income). Furthermore, revenues in Postbank were negatively affected by EUR 34 million impairments on Greek government bonds. Advisory/brokerage revenues were down by EUR 33 million, or 11%, in both Advisory Banking Germany and International. Revenues from discretionary portfolio management/fund management decreased by EUR 19 million, or 26%, mainly in Advisory Banking Germany. Both product categories were impacted by the ongoing reluctance of retail clients to invest. Revenues from deposits and payment services were EUR 550 million, up EUR 31 million, or 6 %, compared to the first quarter 2011, mainly driven by an increase in deposit volumes in both Advisory Banking units. Credit products revenues were essentially unchanged, compared to the first quarter 2011. Increased revenues resulting from higher loan volumes offset the impact of lower margins in all major regions of Advisory Banking.

Provision for credit losses was EUR 194 million in the first quarter of 2012 versus EUR 320 million in the first quarter 2011, of which EUR 125 million and EUR 206 million, respectively, related to Postbank. The decrease of EUR 81 million in Postbank provision for credit losses was attributable to releases of loan loss allowances recorded after consolidation. In the current quarter, releases of loan loss allowances recorded prior to consolidation were EUR 36 million (versus EUR 117 million in the first quarter 2011) and are reported as net interest income. Excluding Postbank, provisions for credit losses decreased by EUR 44 million, compared to the same quarter last year. The decrease was primarily attributable to an improved credit performance in consumer finance. In addition, the decline was attributable to a positive impact from the sale of non-performing loan portfolios of EUR 51 million, whereas the first quarter 2011 included a positive effect from portfolio sales of EUR 33 million.

Noninterest expenses were EUR 1.9 billion in the first quarter 2012, slightly below the first quarter 2011. The decrease included EUR 54 million related to Postbank, mainly due to lower operating expenses and the non-recurrence of expenses related to measures recorded in the prior year's quarter. Excluding Postbank (and costs related to Postbank integration reflected in Advisory Banking Germany), noninterest expenses were up EUR 31 million, mainly resulting from a negative impact of EUR 40 million related to a buyback offer for a specific closed end fund.

Income before income taxes was EUR 413 million in the first quarter, a decrease of EUR 375 million, or 48%, compared to the first quarter 2011. The decrease was mainly driven by the non-recurrence of the aforementioned one time positive impact in Advisory Banking International related to our share in Hua Xia Bank. Advisory Banking International recorded an income before income taxes of EUR 127 million in the current quarter compared to EUR 298 million in the prior year quarter. Income before income taxes in Advisory Banking Germany was EUR 191 million in the current quarter and EUR 231 million in the first quarter 2011. In Consumer Banking Germany income before income taxes was EUR 95 million and EUR 258 million, respectively.

Invested assets were EUR 308 billion as of March 31, 2012, up EUR 5 billion compared to December 31, 2011. The increase was driven by EUR 6 billion related to market appreciation, partly offset by EUR 1 billion of net outflows.

PBC's total number of clients was 28.5 million, of which 14.0 million related to Postbank. PBC's number of clients at March 31, 2012 was essentially unchanged from December 31, 2011.

Corporate Investments Group Division (CI)

Net revenues were EUR 4 million in the first quarter 2012, compared to EUR 180 million in the first quarter 2011. The current quarter included an impairment of EUR 257 million on Actavis. This was recognized as a result of substantial progress towards an agreement for a third party to acquire Actavis. The first quarter last year reflected a share of net loss of EUR 55 million, on that exposure. Remaining revenues in both quarters mainly contained recurring revenues from Actavis, BHF-BANK and from our consolidated investments in The Cosmopolitan of Las Vegas and Maher Terminals.
Noninterest expenses were EUR 312 million in the first quarter 2012, compared to EUR 344 million in the same period last year. The decrease was mainly related to a specific charge in the first quarter 2011 that was related to the at that time announced sale of the Group's headquarters in Frankfurt am Main.
CI recorded a loss before income taxes of EUR 303 million in the first quarter 2012 and of EUR 165 million in the first quarter 2011.

Consolidation & Adjustments (C&A)

Loss before income taxes in Consolidation & Adjustments (C&A) was EUR 431 million in the first quarter 2012, compared to EUR 353 million in the prior year.

Revenues in both periods included significant negative effects from different accounting methods used for management reporting and IFRS. These amounted to EUR 319 million in the current quarter, of which approximately half was driven by the development of U.S. dollar/euro basis swap spreads. The Group predominantly funds its operations in euro and then converts some of these funds into U.S. dollars using the basis swap market. The funding and the related basis swaps represent an economically hedged position and different accounting methods may result in material effects in C&A. While the funding instrument is accounted for at amortized costs, the mark-to-market valuation of the swaps is sensitive to movements in U.S. dollar/euro mid- to long-term basis swap spreads. These valuation related timing effects reverse over the life of these positions. In the current year quarter, these spreads narrowed significantly resulting in a mark-to-market loss. Revenues in the current quarter also included mark-to-market losses of approximately EUR 70 million from the narrowing of the credit spreads of certain of our own debt as well as effects of approximately EUR 80 million from different accounting methods related to economically hedged short-term positions which resulted from changes in short-term euro interest rates and from the reversal of prior period interest rate effects. This accounting difference was the main driver for the loss before income taxes of EUR 353 million in the first quarter 2011. Revenues in both periods also reflected negative effects from the hedging of net investments in certain foreign operations.

Noninterest expenses in the current year quarter included the accrual for the German bank levy of EUR 73 million, whereas in the prior year, the accrual for the German bank levy only started in the second quarter. The positive effect in C&A from the reversal of noncontrolling interests, which are deducted from income before income taxes of the divisions, was mostly related to Postbank in both quarters. It significantly decreased in comparison to the prior year quarter.