MOODY'S
INVESTORS SERVICE

ISSUER COMMENT
25 October 2023

Contacts

Olivier Panis +33.1.5330.5987
Senior Vice President
olivier.panis@moodys.com

Andrea Pasceri +33.1.5330.1021
Ratings Associate
andrea.pasceri@moodys.com

Laurie Mayers +44.20.7772.5582
Associate Managing Director
laurie.mayers@moodys.com

Ana Arsov +1.212.553.3763
MD-Financial Institutions
ana.arsov@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Deutsche Bank AG

Solid revenue growth, tight cost control and low provisions boost capital buffer

All comparisons in this report are made versus Q3 2022 unless otherwise indicated.

On 25 October, Deutsche Bank AG (DB, A1/A1 stable, baa2[1]) reported another strong quarter for Q3 2023. Adjusted revenue[2] increased 6%, benefitting from solid business growth in corporate banking (CB) and private banking (PB), while growth in operating expenses was controlled below inflation and in line with the firm's guidance. Cost of risk in the quarter was much lower than in the previous quarter thanks to some model changes and improved macroeconomic forecasts, indicating limited risk deterioration in the bank portfolio so far. The positive operating leverage and low provisions in Q3 resulted in a 7% increase in pretax earnings, boosting the bank' capital ratio. Together with the announced expectation of a lower impact on capital from the upcoming implementation of fully loaded Basel III finalisation, the increase in capital buffers is positive for creditors, considering the risks associated with the current weak global operating environment.

Adjusted revenue increased 6%[3] to €7.1 billion and benefited from rising rates, primarily in CB (revenue up 21%) and PB (adjusted revenue up 9%). This performance more than offset the normalisation of investment banking revenue from the strong performance in 2022 (revenue was down 1% when excluding the debit valuation adjustments (DVA) benefit in 2022) and the lower performance of asset management activities (revenue decreased 10%). While DB's net interest margin reduced slightly from the previous quarter in CB and PB, suggesting the positive effect of rising rates has probably reached a peak, the margin remains well above the same period last year in these two business divisions. The performance in CB and PB was achieved despite loan volumes being 9% and 2% lower, respectively, year-on-year. However loan volumes stabilised from the previous quarter.

Group operating costs, excluding all extraordinary items,[4] were up 2% and flat sequentially. The bank continues to deploy its plan to achieve incremental €2.5 billion operational efficiencies by 2025, and to invest in its business growth, technologies and controls.

Credit impairment charges dropped to around €245 million, down from €350 million last year and €401 million in the previous quarter, representing 20 basis points (bps) of gross loans (28 bps for the first nine months of 2023, 28 bps in Q3 2022) as loan performance remains stable and shows no particular directional trend. In Q3, the bank released €101 million of stage 1 and stage 2 provisions, reflecting model changes and improved macroeconomic forecasts for the corporate and investment banking activities in the US. Provisions for nonperforming loans amounted to €346 million, up slightly from the previous quarter. We expect DB's cost of risk to remain at the upper end of its guidance of a 25-30 bps loan loss rate in Q4.

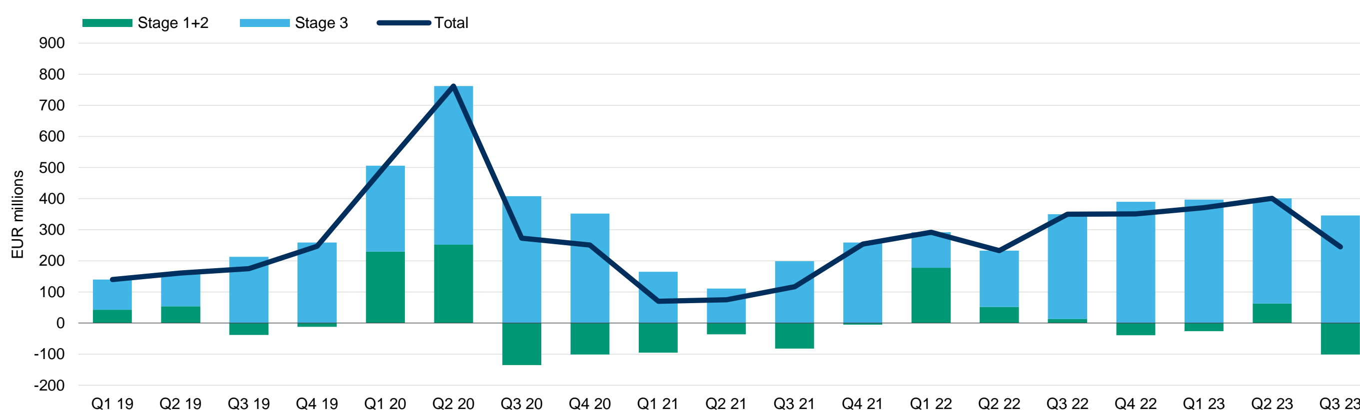
Pretax income was up 7% in the quarter and post-tax profit declined 3% to €1.2 billion due to a higher tax rate. DB reported a net return on tangible equity (RoTE) of 7.3%, lower than 8.2% achieved the prior year and the 10% target set for 2025. RoTE including annualised bank levies and excluding nonoperating costs remained stable at 7.7%. At the group level, DB reported for Q3 an adjusted net return[5] on shareholders' equity of 7.9% (7.0% in Q3 2022), a net return on total assets of 0.37% and a net return on risk-weighted assets (RWA) of 1.41%.

DB's solid earnings during the quarter allowed it to boost capital ratios despite the launch of its share buyback plan since August (around 10 bps negative impact only in the quarter). DB's Common Equity Tier 1 (CET1) capital ratio ended the quarter at 13.9%, up 19 bps sequentially and around 280 bps above its minimum regulatory requirement in 2023 of around 11.1%. Some expected negative impacts from model changes in Q3 were more than offset by solid earnings, the positive effects of data and process enhancement and risk mitigation actions, and RWA reduction. As a result, we expect the bank to post a CET1 ratio well above 13% at the end of the year. Considering the bank has already achieved around €10 billion of its €15-20 billion RWA reduction target by 2025, it has revised its ambition to a €25-30 billion range. In addition, the bank reviewed its expected impact on RWA of the finalisation of Basel II requirements by €10-15 billion, which will provide an improved capacity to grow the business, distribute earnings and shield the operations against unexpected risk deterioration. The leverage ratio was 4.7%, stable quarter-on-quarter.

The bank's strong high-quality liquid assets of €210 billion increased by €6 billion sequentially, but remain lower than their €219 billion level at year-end 2022. However, the liquidity coverage ratio (LCR) decreased slightly to 132% from 137% in the previous quarter, representing an excess of €51 billion above the minimum, and its Net Stable Funding Ratio remained broadly stable at 121% at the top end of the bank's managed target of 115-120%. Deposit volumes increased 3% in the quarter almost back to the year-end 2022 level, whilst loans were broadly flat sequentially and in the first nine months.

Exhibit 1

Loan loss charges (LLC) remain low but provisions for nonperforming loans gradually increase (€ millions)

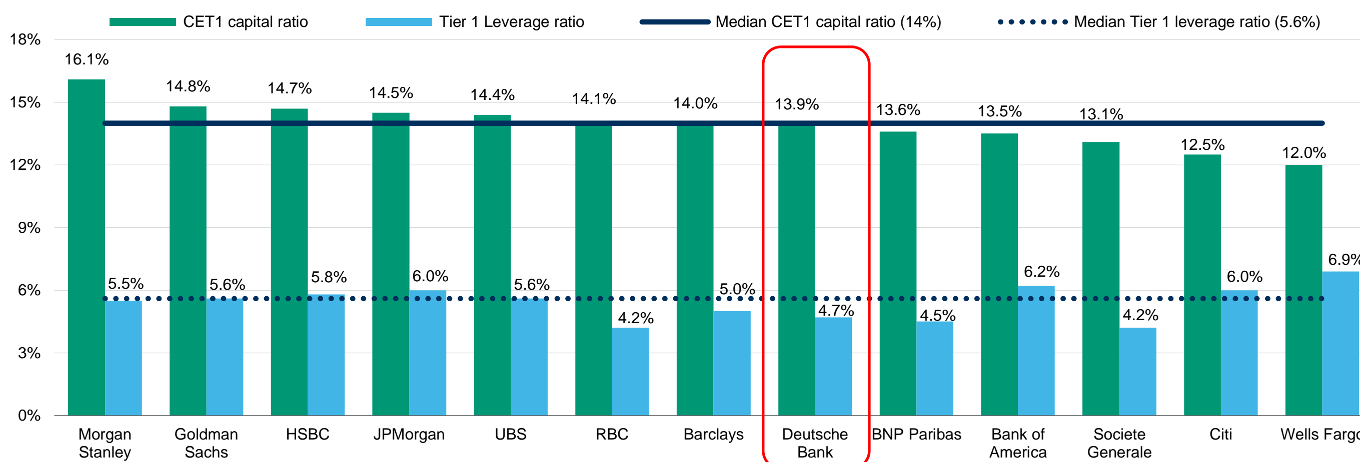


Sources: Company reports and Moody's Investors Service

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

Exhibit 2

Common Equity Tier 1 (CET1) ratio and Tier 1 Leverage Ratio for global investment banks, as of end-September 2023



Notes: 1) Q3 2023 for Deutsche Bank, Barclays, Bank of America, Citi, Goldman Sachs, JPMorgan, Morgan Stanley, RBC and Wells Fargo; Q2 2023 for all others 2) The Tier 1 leverage ratios of UK and European banks are calculated as per the Capital Requirement Regulations, and they exclude certain central bank balances as temporarily allowed; for US banks we show the supplemental leverage ratio (SLR). 3) The CET1 ratio for US banks is calculated under the advanced approach.
Sources: Company reports and Moody's Investors Service

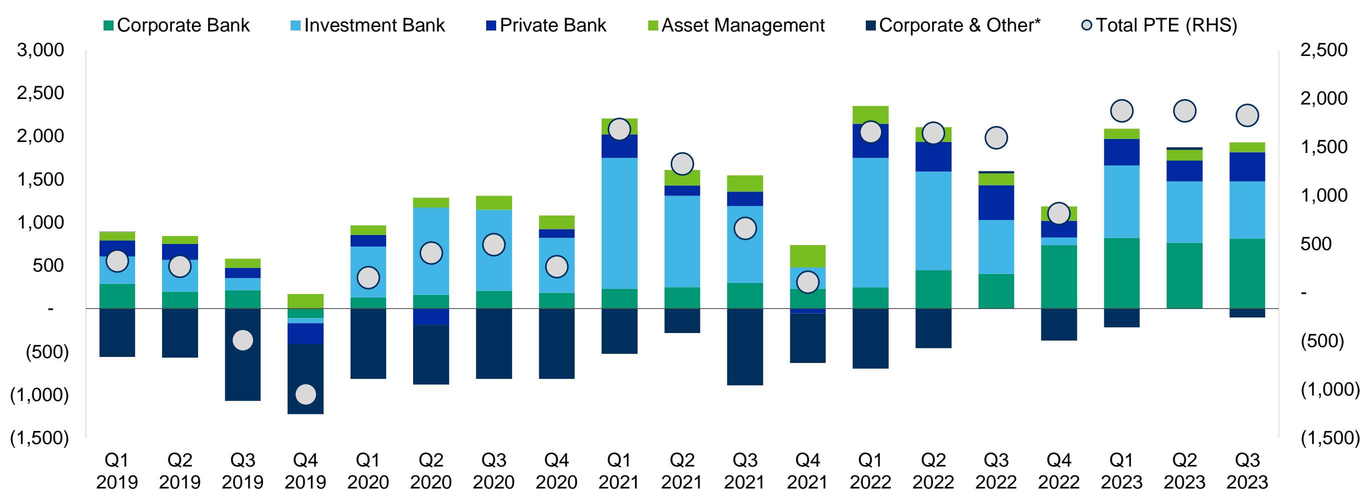
Segmental results commentary

Unless indicated otherwise, figures displayed below are on a DB reported basis and comparisons are made versus Q3 2022.

Exhibit 3

DB's profitability benefits from solid revenue performance in PB and CB, despite slowdown in IB primary revenue and weak asset management performance fees

Adjusted quarterly pretax profit by business line (excluding litigation, impairments, DVA and one-offs), € millions



* Capital Release Unit (CRU) discontinued from 2023 and restated in 2022 (moved to C&O). Quarterly 2019-2021 figure for C&O reflects combined CRU and C&O.
Sources: Company reports and Moody's Investors Service

The **Investment Bank** reported pretax income of €667 million, 7% lower than last year, but 17% higher sequentially. Adjusted revenue decreased by 1% to €2.3 billion, driven by a 12% decline in Fixed Income and Currencies (FIC), which reported a lower income from Rates, Foreign Exchange and Emerging markets. The decline in FIC revenue was partially offset by a recovery in Origination and Advisory (O&A) services' performance, whose revenue was more than three times higher than last year and accounted for around 14% of the Investment Bank revenue in Q3. DB outperformed its US peers in Origination and Advisory (up 268% in dollar terms for DB compared with an aggregate stable performance of US peers), mainly because of the comparison with the low O&A revenue reported

last year. Instead, DB's performance in FIC compares negatively with its US peers (down 5% in dollar terms versus US peers' aggregate of up 2%). Adjusted costs increased 1% from last year, but decreased 1% sequentially. Provisions for credit losses more than halved to €63 million, mainly because of provision releases due to model changes and improved forecasts for the US, which more than offset new provisions on deteriorated exposures in commercial real estate.

The **Corporate Bank** reported a pretax income of €805 million compared with €395 million during the same period last year, benefitting from a better performance across all business lines. Revenue increased by 21% from last year driven by higher interest rates, with net interest income (NII) up 35%. Revenue in Corporate Treasury Services increased by 11%, Institutional Client Services revenues rose 18% and Business Banking revenue was up 71%. However, Corporate Bank revenue decreased by 3% sequentially, driven by an 8% decrease in NII, albeit loan volumes were stable quarter-on-quarter. Adjusted costs were down 3%. Loan loss provisions in the segment decreased by around 90% to €11 million mainly related to a lower amount of impairments and benefits from model changes.

The **Private Bank** reported a pretax profit of €337 million down by 15% compared with last year, but 89% higher sequentially. Adjusted revenue was up 9%, supported by growth in Private Bank Germany (up 16%), partially offset by a contraction in the International Private Bank (down 3%). Private Bank Germany revenue benefitted from higher net interest income, only partially offset by lower fee income. Assets under management increased by €5 billion during the quarter driven by net inflows and positive foreign exchange movements. Adjusted costs were up 5% year-on-year, mainly because of higher investment in control functions. Provisions for credit losses increased 9% from previous year, resulting in a 3 bps increase in cost of risk, including a temporary operational backlog.

Asset Management reported a pretax profit of €109 million, down 18% year-on-year. Revenues decreased by 10% to €594 million (down 4% quarter-on-quarter), reflecting a 6% decline in management fees and a 50% decline in performance and transaction fees. Assets under management increased 3% year-over-year to €860 billion, but remained fairly stable sequentially, as net inflows and positive exchange rate movements were offset by the negative market impact. Adjusted costs decreased by 8%, as both HR-related costs and general and administrative expenses decreased significantly.

Rating Considerations

Deutsche Bank has a BCA of baa2 and is rated A1 for deposits, A1 for senior unsecured debt, Baa1 for junior senior unsecured debt and is assigned a Counterparty Risk Assessment of A1(cr)/P-1(cr) and Counterparty Risk Ratings of A1/P-1. The long-term senior debt and deposit ratings carry a stable outlook.

Moody's Related Research

Credit Opinion

- Deutsche Bank AG, May 2023

In-Depth Reports

- Deutsche Bank AG: Higher profitability and diverse, highly collateralised loan book drive credit positive improvement in bank's solvency, October 2022
- Biggest banks retain competitive advantage, but stiff obstacles loom post pandemic, October 2021
- Deutsche Bank AG: Strides in profitability show bank's credit positive restructuring is solidly on track, August 2021
- BNP Paribas, Deutsche Bank, HSBC Holdings and UniCredit: Tech investment and expansion outside core euro area markets will drive increased returns from corporate banking, April 2021
- Rapid restructuring progress and clean balance sheet set bank on stable course to complete strategic overhaul, November 2020
- Sweeping revamp of business model will be credit positive when and if achieved, July 2019

Issuer Comments

- Alleged greenwashing at Deutsche Bank's asset management arm shows rising regulatory scrutiny of ESG disclosures, June 2022
- Deutsche Bank AG: Strategic evolution moves revenue growth to the forefront as cost inflation bites, March 2022
- DB's accelerated adoption of environmental, social and governance criteria is credit positive, May 2021
- Franchise stability and continued cost control will help support DB's credit profile, December 2020
- Restructuring progress supports DB's asset performance, June 2020
- Continued strong execution and client retention will help support DB's credit profile, December 2019
- Discontinuation of merger talks with Commerzbank resets the focus to standalone execution and strategic options, April 2019

Latest Rating Action

- Moody's upgrades Deutsche Bank AG's long-term ratings, outlook stable, October 2022

Rating Methodology

- Banks Methodology, July 2021

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Endnotes

1 The ratings shown in this report are the bank's deposit rating, senior unsecured debt rating and Baseline Credit Assessment (BCA).

2 Adjusted for specific items that mostly included non-recurring revenue from the workout of Sal. Oppenheim and the impact of debit valuation adjustments (DVA) in Q3 2022.

3 Stated revenue increased 3%, but was up 6% when adjusted for specific items as disclosed by DB

4 Adjustment reflects mainly litigation, restructuring and severance charges that were €124 million higher than in Q3 2022

5 We assume an average tax rate net of deferred tax asset effects of 35%

© 2023 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S 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 OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, 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.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

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, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the credit rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), 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 Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from $1,000 to approximately $5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Charter Documents - Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER 1384846

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Moody's
INVESTORS SERVICE