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ISSUER COMMENT
27 April 2022

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Deutsche Bank AG

Q1 2022: Solid revenue performance supports strong start for DB's measurement year 2022

All comparisons in this report are made to Q1 2021 unless otherwise indicated.

In Q1 2022, Deutsche Bank AG (DB, A2 positive/A2 positive, baa3[1]) reported a net profit of €1.23 billion, up 18% from €1.04 billion one year ago. Benefitting from favorable revenue developments in all of DB's core segments, the bank's 'Core Bank' revenues grew 3% year-over-year, outpacing a well-contained 1% cost growth[2]. As a result, DB's 'Core Bank' reported an adjusted net return on tangible equity of 10.7%, matching the strong prior-year 10.9% and staying well above the bank's 8% target set for 2022.

These credit-positive results were achieved despite higher banking levies of €730 million (up from €571 million a year ago) while restructuring, transformation and litigation charges of €31 million were negligible. Excluding all extraordinary items, DB reported an adjusted pretax profit of €1.7 billion, down 8% year-over-year[3]. Loan loss charges stood at €292 million (Q1 2021: €69 million) or 24 basis points (bps) of gross loans, including additional management overlays. At group level, DB reported an adjusted net return on shareholders' equity of 7.6%, a net return on total assets of 0.33% and a net return on risk-weighted assets (RWAs) of 1.21%.

Revenue growth helps offset cost headwinds. DB reported total group revenues of €7.3 billion[4], up 1% year-over-year and 24% sequentially. The stronger-than-anticipated performance was largely driven by revenue strength in the bank's Corporate Bank (CB) and Investment Bank (IB) segments, displaying revenue growth of 11% and 7%, respectively. This was accompanied by solid Asset Management (AM; +7%) and Private Bank (PB; +2%) performance. Group adjusted costs[5] declined 1%, mainly owing to lower IT expenses offsetting higher performance-related compensation and investment in strategic hires. Excluding transformation charges and banking levies, adjusted costs retreated 7%, demonstrating another quarter of sound cost control. However, it will become more difficult to control costs in coming quarters considering the inflationary environment and compensation pressures in the increasingly competitive market.

DB's capital ratio retreats but liquidity remains strong. DB's Common Equity Tier 1 (CET1) capital ratio declined by 41 bps sequentially to 12.8% in the first quarter, driven by ECB-mandated model adjustments and higher risk weights on Russia-related exposures. The bank's strong €246 billion liquidity reserve continued to stand well above regulatory requirements with a liquidity coverage ratio (LCR) of 135% in Q1.

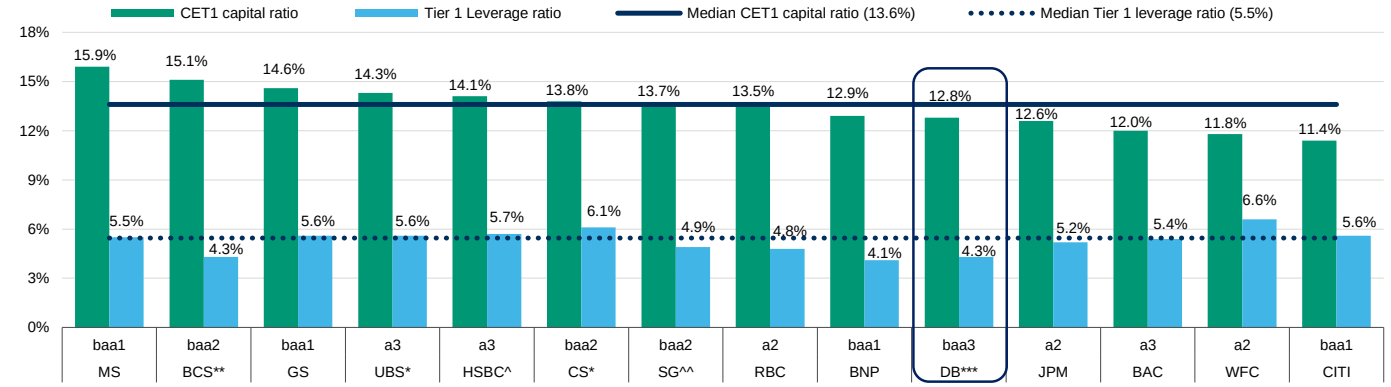
Detailed considerations

DB's leverage ratio has dropped towards the lowest in the industry

DB reported a deterioration in its Tier 1 leverage ratio to 4.3%[6], mainly owing to the reduction in Additional Tier 1 (AT1) capital following the call of a €1.75 billion instrument (which in part was replaced effective 4 April). Leverage exposures increased to €1,247 billion, mainly owing to business growth[7] (Q1 2021: €1,207 billion). We expect the bank to manage towards a leverage ratio of 4.5% or higher going forward in an effort to close a slightly widened gap to its peer group.

Exhibit 1

Common Equity Tier 1 (CET1) ratio and Tier 1 Leverage Ratio for Global Investment Banks, as of 31 March 2022



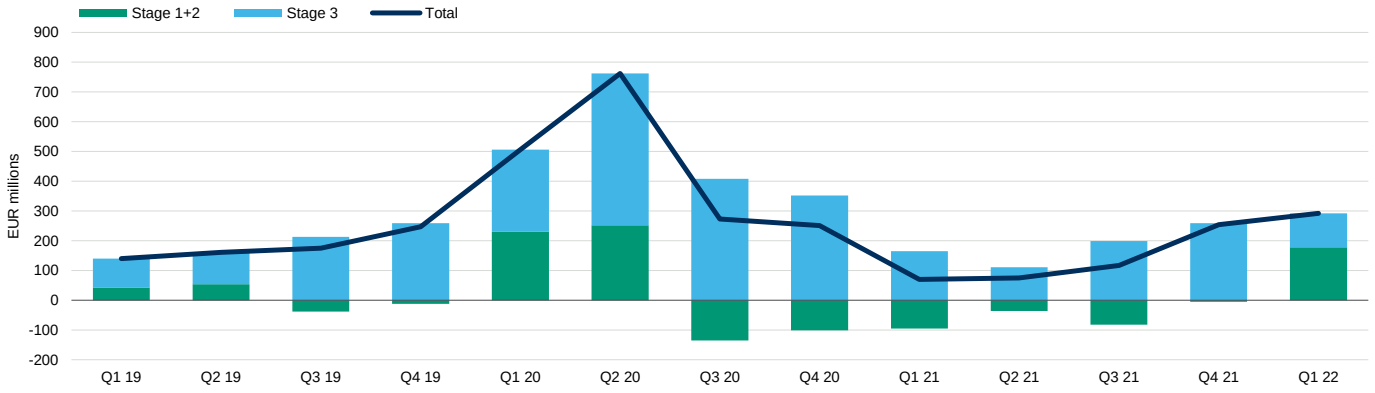
As of Q4 2021 for Barclays, BNP Paribas, HSBC Holdings, Société Générale and UBS; Q1 2022 for all others; Tier 1 leverage ratio for US banks is the supplemental leverage ratio (SLR); Basel III fully phased-in advanced approach for MS, JPM, GS and BAC. Citi reported advanced RWA but its binding criteria for reported CET1 capital ratio is under standardized approach.
*UBS and CS leverage ratio reflect Common Equity Tier plus low-trigger Additional Tier 1 and high-trigger Additional Tier 1 securities.
**BCS leverage is the CRR leverage ratio excluding the IFRS9 transitional arrangements.
***DB's Q1 2022 leverage exposure includes certain central bank balances ("Euro-based exposures facing Eurosystem central banks") that could normally be excluded following the European Central Bank's decision. Excluding these items, DB's leverage ratio would have been 4.6%.
^HSBC's leverage exposures are calculated using the end point definition of capital and the IFRS 9 regulatory transitional arrangements.
^^For SG the reported CET1 ratio was 13.6% at the end of December on a fully-loaded basis.
Source: Company reports, Moody's Investors Service

Macroeconomic setback only had a limited impact on DB's asset performance to date

As an IFRS reporter, DB's Q1 2022 loan loss charges totaled €292 million, up meaningfully from €69 million provided for in the first quarter of 2021 and up from €254 million in Q4 2021. Sequentially higher provisions mainly in the CB segment contributed to the cost of risk coming in at 24 bps for the quarter (Q4 2021: 22 bps; Q1 2021: 6 bps). In light of the Russia-Ukraine military conflict, management is now guiding for loan loss charges of around 25 bps of gross loans for 2022, slightly above its medium-term guidance of around 20 bps. We believe this revised target is realistic in light of the bank's diversified, highly collateralised and Germany-focused loan book despite the highly uncertain and likely volatile macroeconomic environment.

Exhibit 2

Loan loss charges (LLC) are likely to gradually increase (€ million)



Source: Company reports, Moody's Investors Service

Segmental results commentary

Unless indicated otherwise, figures displayed below are on a DB reported basis and comparisons are made versus Q1 2021.

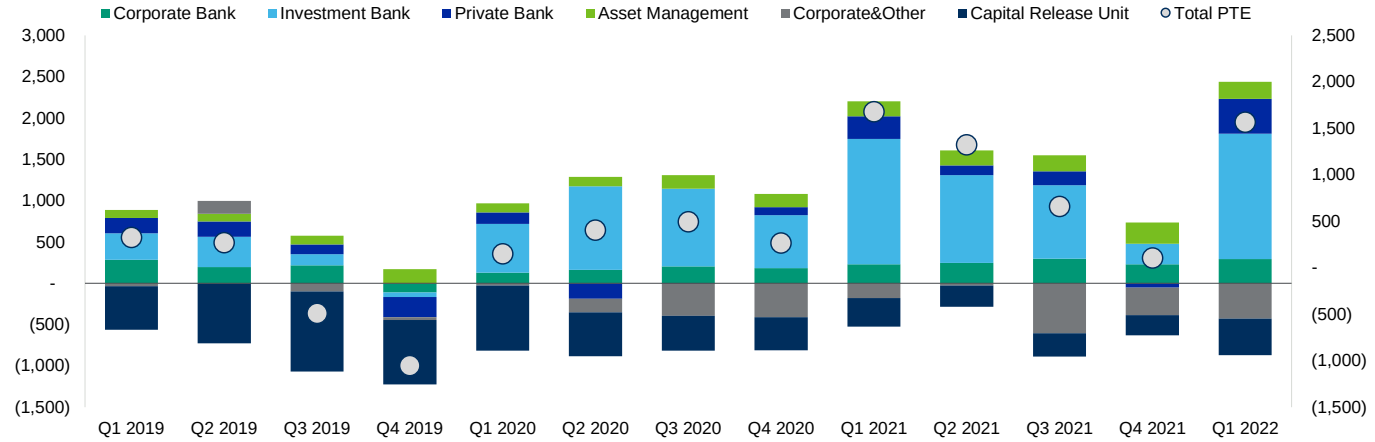
The **Investment Bank** reported a pretax income of €1.5 billion, up 1% year-over-year. Revenues increased 7% to €3.3 billion, reflecting a 15% increase in fixed income (FIC) sales and trading revenue that more than offset a revenue decline in Credit Trading and Origination and Advisory (-28%). Lower revenues in Origination and Advisory reflected a significant decline in equity origination driven by the ongoing geopolitical uncertainties. Adjusted costs increased 12%, mainly owing to increased variable compensation costs and higher banking levies.

DB slightly outperformed its US peers in fixed income sales and trading (+7% in USD terms versus US peers' average of -1%) while it performed in line with its US peers on Origination and Advisory (-32% in USD terms for DB compared with US peer's average of -35%). The overall stable revenue development (flat in USD terms) was stronger than US peers (-11%) owing to DB's different business mix.

Exhibit 3

DB's profitability benefits from solid revenue performance in all core segments

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



Source: Company reports, Moody's Investors Service

The **Corporate Bank** reported a pretax income of €291 million compared with €233 million during the same period last year, benefitting from higher revenues and lower costs. Revenues were up 11% driven by a continued positive impact of deposit repricing, business growth and improvements in the underlying interest-rate environment. Loan loss provisions increased to €148 million compared with write backs of €21 million in Q1 2021, mainly driven by the impact of the war in Ukraine. Adjusted costs declined 5% mainly supported by non-compensation initiatives and lower non-operating costs.

The **Private Bank** reported a pretax profit of €419 million compared with a €271 million pretax income in Q1 2021. Revenues were up 3% when excluding specific items, supported by continued business growth in Private Bank Germany (+1%) and International Private Bank (+4%). Adjusted costs were down 3% benefitting from cost saving measures, albeit partially offset by higher banking levy charges. Provisions for credit losses were virtually stable.

Asset Management reported a pretax profit of €206 million compared to €184 million for the same period last year. Revenues were up 7% to €682 million supported by 13% growth in management fees offsetting a 34% decline in performance and transaction fees. Assets under management increased 10% year-over-year to €902 billion driven by net inflows in the last quarters (Q1 2022 saw a small €1 billion net outflow largely owing to low margin cash). Adjusted costs were up 5% reflecting increased compensation expenses and higher asset servicing costs.

The **Capital Release Unit (CRU)**, DB's non-core wind-down segment, reported a pretax loss of €339 million compared to a €410 million loss last year. Leverage exposures declined to €35 billion during Q1, largely reflecting lower Prime Finance balances and continued de-risking. Risk-weighted assets were down to €25 billion, including €19 billion of operational risk-weighted assets.

Rating Considerations

Deutsche Bank has a BCA of baa3 and is rated A2 for deposits, A2 for senior unsecured debt, Baa2 for junior senior unsecured debt and is assigned a Counterparty Risk Assessment of A2(cr)/P-1(cr) and Counterparty Risk Ratings of A2/P-1. The long-term senior debt and deposit ratings carry a positive outlook.

Moody's Related Research

Credit Opinion

» Deutsche Bank AG, January 2022

Issuer In-Depth Reports

» 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

» 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 ratings, outlook positive, August 2021

Sector In-Depth Reports (Global Investment Banks Peer Group)

» Global Investment Banks - US: Q1 2022 - Amid uncertain and volatile markets, US GIBs first-quarter investment banking fees likely fell as trading revenue rose, April 2022

» Banks - Global: 2022 Outlook is stable, December 2021

» Biggest banks retain competitive advantage, but stiff obstacles loom post pandemic, October 2021

» Global Investment Banks' strong liquidity helps insulate creditors, May 2020

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 DB's deposit rating/senior unsecured debt rating, outlook(s), and Baseline Credit Assessment (BCA).

2 All figures excluding specific revenue and cost items as disclosed by DB.

3 Adjusted figures are excluding specific revenue and cost items as disclosed by DB. We further adjust for one-time items such as goodwill impairments and DVAs.

4 Excluding specific items as defined by DB.

5 As defined by DB.

6 As displayed here, DB's leverage exposure includes certain central bank balances ("Euro-based exposures facing Eurosystem central banks") that could normally be (temporarily) excluded following the European Central Bank's decision (EU) 2021/1074. Excluding these balances, the Q1 2022 leverage ratio would have been 4.6%.

7 Excluding central bank cash balances, leverage exposures would have been €1,164 billion.

REPORT NUMBER 1327058

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