Deutsche Bank AG

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Transcript

Speakers:
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Chris Hallam, Goldman Sachs

Chris Hallam

Thank you everybody for joining us for this session. It's my pleasure to welcome Fabrizio Campelli, Head of the Corporate Bank and Investment Bank at Deutsche Bank, to the European Financials Conference. Fabrizio has been responsible for the CB and the IB on the Management Board since 2021. Prior to his current role, he was Chief Transformation Officer for DB having joined Deutsche Bank 20 years ago, 2004. So today's focus areas for the discussion, we're going to begin by looking at Fabrizio's core area of responsibility, so that's the CB and the IB.

And then we'll broaden out to talk about Deutsche Bank more from a Group performance perspective and leaving some time at the end for Q&A. So first of all, Fabrizio, thank you so much for giving us your time.

Fabrizio Campelli

Pleasure.

Chris Hallam

So, let's start with that, the CB/IB nexus, call it that. When I talk to you or your fellow Management Board members about the Corporate Bank and Investment Bank, the word that keeps coming up is relationships. The idea that the depth of the relationships DB has across large corporates is a key competitive differentiator, enabling you to bring the breadth of the *Global Hausbank* strategy to clients. Is that really the secret sauce, and what opportunities does that create for you in the CB and the IB compared to competitors both in Germany and abroad?

Fabrizio Campelli

Thank you, Chris. Well, it does represent an important part of the narrative. If you think about it, DB went in 2019 from a restructuring, a transformation process, we call it *Compete to Win*, it was a focus on the areas in which we had the ability to compete effectively, to a strategy, which in 2022 we announced as the *Global Hausbank* strategy. Much more focused on delivering to clients a model that is resilient, that can be their first bank of call, and that can provide solutions to complex needs that they have across their needs, but also can continue to provide that global reach. So we reorganized the bank around four very client-centric businesses, each of which has a focus on contributing to a balanced, resilient business model, but within it, with a very high focus on client relationships.

And that became a strategy of how we set up the various businesses, what we focused on, the type of product focus, solution focus, but it became also the way we organize the bank itself. In the Investment Bank, we refocused around fewer products but much more deeply organized around client requirements. Our coverage teams now in the Investment Bank are one focused on corporate clients, one on institutional clients. We have embedded inside of the Corporate Bank, a team dedicated solely for corporate banking clients for their investment banking needs. We reorganized the entire Corporate Bank around three distinct client segments, the Institutional Client Services, Corporate Treasury Services, and the German smaller business, which we call Business Banking. So a business run by client segment. While historically it had been very much run by product. The Private Bank, to reach into my colleague's teams, has been more distinctively built around the German retail bank and the international private bank, which is more of a wealth management focus.

So the bank has really made a pivot, and this is starting to show deep results. We are able to get to a much higher level of focus with those clients. For each division, we're able to find the opportunities that cut across businesses, provide growth upside, and we're seeing the results of that in each of our businesses. We have operationalized this in particular through areas such as our focus on cross-divisional collaboration, creating new tools, providing better analytics to our client officers around their clients, focusing on product density, really enhancing our ability to provide multi-product relationships to clients that basically cement their relationship with us. It's becoming more important these days because with higher uncertainty, we also see clients tend to want to gravitate towards fewer banking relationships, and so it's benefiting us for having made those investments in the last few years.

Chris Hallam

Very clear. And then diving maybe a bit more in depth into the Corporate Bank. The business accounted for around 30% of group revenues and around 50% of pre-tax income in 2023. In 2022 and 2023, you actually grew revenues more than 20% in each year, versus the target of a compound annual growth rate of 6 to 7%. So can you talk about the business dynamics in the CB, aside from the tailwinds from higher interest rates, what are the biggest growth opportunities and how should we think about the revenue development going forward from here?

Fabrizio Campelli

Sure. Indeed, 2023 was a very, very strong year for the Corporate Bank, and partly the market environment was very benign. We had clearly an increase in net interest income that provided the big tailwind to our performance, which is why we exceeded that CAGR target we have out for the business. But when we think about what has actually happened under the hood, there was clearly support from NII, but there was also a lot of work that went into building out the Corporate Bank that we want, that we have indicated is going to be part of the future anchor for that *Global Hausbank* strategy. So a lot of focus went into pricing discipline, building out capabilities in the non-interest revenue space, as all that kind of lower interest rate sensitivity business requires a fair amount of investment on capabilities, on technology, and actually connectivity with the rest of the bank.

And this has paid off because as we look into 2024 with a normalized interest rate environment, we do expect as we’ve indicated, that the revenue level for 2024 would be slightly lower than 2023 as a result of all these dynamics for our Corporate Bank. But if you look at the drop in NII that we're observing across the Street and for DB, actually we are seeing that it is being well offset by a number of dynamics that speak to the efforts we've made to protect the franchise from the expected NII adjustment. Specifically, things such as investing in the payments infrastructure, investing in our merchant solutions space, on technology solutions that actually build on the connectivity between the Corporate Bank and Investment Bank to provide the fee and commission income to DB on a steady state.

An example of that is what we call workflow solutions for FX where we support corporate clients with automated solutions when they deal with high currency control environments. So instead of having to build their own capability and dealing with FX flows, when they import or export to certain jurisdictions in emerging markets, we take care of all of that for them through an automated workflow tool that then is remunerated through a fee payment and builds into the FX capabilities of the Investment Bank. Another important dynamic has been a focus on volumes. We've seen an increase in deposit volumes. In fact, from Q1 2023 to Q1 2024, we've had an 11% increase in deposits.

Partly it was a low point at the end of Q1 last year as there was uncertainty around banks, but partly has been a very systematic build out of deposits, which increasingly are term deposits, and so, have level of stickiness and predictability of income, which is helping us. All of this is therefore resulting in a pretty resilient revenue base in Q2. For the Corporate Bank, we expect revenues that will be approximately at the same level as Q1, which speaks to the fact that this continued NII drop is actually being offset by these non-interest sensitive revenues. In the outlook, the growth potential for the division remains very strong, partly because of everything I just said. There has been good discipline in preparing for this revenue substitution needed. There has been good investment being made by geography, but also by client segments.

We've been very systematic about investing in multinational corporate capabilities, particularly in Europe and in Asia. In the US, we've been very systematic about strengthening capabilities we have in areas that we are traditionally quite strong in our Trust and Agency Services. That's a business in which we offer trust services, depository receipt, documentation custody. And those are products that actually are very fee rich and with good growth prospects. In Asia, we've also built quite heavily on the new corridors that have opened up. As people post-COVID, post the Ukraine crisis have been looking to diversify their supply chains, new supply chain corridor, which means new trade finance corridors, new FX corridors for corporate treasurers have opened up, and we've been very good at actually leaning on the capabilities of the bank to respond to those needs.

Those are all showing strong improvements. We've also invested in technology. We continue to invest heavily in technology in the Corporate Bank, specifically on solutions that enable both our payment capabilities, our cash management capabilities more broadly for typically corporate treasurers, but also for merchant solutions and the ability to tap into a vastly changed payment environment around our bank. So we continue to be very confident around the prospects for the Corporate Bank, and it remains at the heart of our *Global Hausbank* strategy, one of the core businesses.

Chris Hallam

Very clear. So maybe now let's turn to the Investment Bank. You have a seriously big FIC franchise, the largest in Europe by some margin. Now intuitively the visibility on FIC revenues is low and momentum has been strong recently, suggesting that we would be due some kind of normalization. But at the last set of results, you gave some extra disclosure for FIC in terms of the revenue mix in particular, highlighting the share of the more predictable revenues in terms of the Financing business.

Can you run us through the FIC footprint, the product areas you think that are more predictable, we should focus on and how predictable those revenue streams are? And in that regard, can you talk about the scale you have in FIC, and how that enables you to grow and outperform some of your competition?

Fabrizio Campelli

Thank you. You're right, the focus on the more predictable income is a very central one for our Investment Bank, truly for DB as a whole. We've made a great point of showing how at the end of 2023, over three quarters of our Group revenues were coming from more predictable revenue streams, including the FIC Financing business.

FIC is indeed a larger champion for Europe, certainly a very important FIC player in the European banking landscape. And when we look at it, in 2023 we booked about € 8 billion of revenues in that business. If you disaggregate it, of the € 8 billion, a bit over a third were FIC

Financing related. What is FIC Financing? It's effectively a diversified portfolio of businesses, which book mainly in the banking book. It's lending, financing in the traditional sense, but also structuring, securitization and typically on a non-recourse basis.

It's a business that has very strong collateralized profiles. We have had the business managed by the same team for over 20 years. It's almost a quarter of a century, very stable underwriting practices, very strict and strong price and risk discipline, and we've seen the results of that over the last couple of cycles. It's a business that has provided stability of revenues over time. It has provided a big resilience. That's why we decided to actually provide more disclosure of it. Because when you see an € 8 billion FIC franchise, if more than a third of it is actually enjoying this level of stability, that is something that is worth highlighting. This is not to say that we are dissatisfied with the level of resilience of our more traditional sales and trading business within FIC, the remaining part.

Again, we provided some disclosure to indicate how it broadly splits. It's actually a much more evenly split business today than it used to be between its component parts, the macro businesses, Rates and FX in which we are a leading bank globally, but also the Emerging Markets business, in which we practice those macro activities across emerging markets regions. But also increasingly Credit Trading where DB was historically a smaller player, but we have been making systematic investments, including in recent times to actually build out that capability to make the Credit Trading product one that can contribute equally within that portfolio to the other three sales and trading activities.

Why does it matter? Because it answered the second part of your question. It's actually, by having been very systematic about having that balance, that complementarity of revenue flows inside of the sales and trading business, that we have been able to show the resilience of revenues and the steady performance of revenues in our FIC portfolio. That diversification has been a key theme of how we have invested. For example, in Credit Trading, we were quite light in 2021. We've invested in rebuilding the Asia Flow Credit business at the end of 2021, the European Flow Credit business in 2022 and early 2023. We've announced quite recently some important investments we are making in the US Flow Credit, and these are meant to be providing the stability of that franchise.

We're not intending to materially grow the business relative to the rest of the bank. We want to make sure that the resilience of the portfolio is maintained through that very strong diversification benefits we're enjoying. The diversification is also not done into new territories in which we cannot judge the risk, but only in adjacent areas where we already have the infrastructure, investment can be contained, and we don't expect materially significant RWA increases. Again, that's with the intent to make sure that this provides stability and not to completely venture into riskier investment strategies.

Lastly, a very large part of the strategy for FIC is coverage intensity. We have invested in coverage intensity. We want to continue to do so because the value it brings is the ability to actually extract much more predictable outcomes from the investments we make. The results I think are showing. I think if you go back to 2019 to the end of 2023, we've increased almost 170 basis points of market share in FIC, which is a remarkable build out. In Q1, our revenues were up 7% in FIC, while they were broadly down for rest of the Street, speaking of that portfolio being well diversified. This has happened, despite in Q1, we started to see some pressure building on Rates, in particular the macro business in general, but Rates was particularly affected across the Street.

That I think has to do with the clear uncertainty over the timing of interest rates. Although with clarity of direction, it means that volatility is low. The result is, I think we've made it clear, our Q2 FIC revenues are expected to be slightly down year on year, but with the strong performance of the rest of the Investment Bank, we expect IB in Q2 to be up year on year. For the full year, this also means that given the strong performance in Q1, it's a bit early to tell how exactly it will behave for FIC. But for the time being, we're still looking at FIC slightly up year on year in total revenues.

Chris Hallam

So pivoting, and you mentioned just now Origination & Advisory. So pivoting onto that business, which represents about 15 to 20% of your IB revenues. At Q1 results, your O&A revenues were up about 60% year over year. So can you talk about what you're seeing in terms of capital markets recovery? What investments you're putting into the franchise to try and gain competitive advantage, and what's your overall outlook maybe in terms of market share gains?

Fabrizio Campelli

Sure. So the Origination & Advisory business, the traditional corporate finance business has indeed enjoyed across the Street in the fee pool, a rebound in the last few months, which was long awaited. We have seen some important improvements, although we're not seeing the complete return to the expected levels of activity, particularly in some areas like the more traditional ECM business, and much of the M&A activity is still relatively muted relative to history. So it's on the road to recovery, but I think the market is expecting some clear signs on interest rates and the resulting potential growth outcomes for the global economy, before we see that level of commitment coming back.

Our franchise, as you say, has done quite well. In Q1, we're very pleased, we have seen revenues for Origination & Advisory, as you say, 55% up year on year, 65% up quarter on quarter. So a very good trajectory. We're pleased to see the better activity and that momentum is being carried to Q2. So we see a similar level of momentum going into the second quarter, which gives us strong comfort on the fact that the full year 2024 results for Origination & Advisory would be expected to be significantly higher than 2023 in revenues. What would it take for us to see this momentum really turning into the return to the full speed we saw before? Clearly a lot of corporates are waiting to have clarity on timing of interest rates adjustment, and the resulting impact on GDP outlook.

There is clearly a view that this will result in significant benefits. We also see that the level of activity, the pent-up energy, the pent-up capital demand for some of these products is very strong but will need some catalyst to be released. But it's definitely there. We keep talking about the M&A market will come back in full force once we see a bit more conviction in the outlook for some of these assets, in the asset pricing. We see that the ECM market is still a little bit hesitant on IPOs. We have seen some starting to be considering markets, and obviously the strong equity performance is giving more confidence, but the fear is to mistime those IPOs. But there is clearly a lot of appetite for those.

There is a lot of exit that is required by sponsors. There is also a lot of dry powder in the sponsors' pockets. I think last year we did mention an estimate of about $ 2 trillion of dry powder ready to be deployed. Obviously some capital released by sponsors is always a good premise to do more deployment. And so, all of that dynamic we're hoping to see play out more distinctively in the second half of the year. This is not to say that we haven't seen a pickup in activity, like I said, but for now it's been more marked in DCM, so high grade debt issuance, and to a certain extent, leverage debt issuance. Both areas in which actually we've seen a pretty good performance, a pretty good result and have been a very central part of the outperformance we've had.

So this is why we felt quite inspired to make the investments we've made last year. We've been quite public about a series of investments that we've made in our Origination & Advisory franchise. Again, very client centric. We focus on client sectors in which we believe we can have more distinctiveness, specifically industrials, FIG, pharma, technology, and the consumer sectors have been very important to us. But also geographically. In the UK, we see a clear opportunity for us to step up our position. We bought Numis as a corporate broking champion that opens up a material portion of the fee pool for us, which we have no access to or not sufficient access to before.

But we've also expanded in Latin America where we have rebuilt a franchise. We had significantly under-invested in in the past. And also on the continent, in the Nordic region, Benelux, Switzerland, we've made very targeted and specific investments. All of this is already leading to market share gains. Already as of the end of Q1, we spoke about a 70 basis points of market share gain to a 2.6% global market share, which for us is an important step towards where we want to get to, which is recover our position to the pre-2019 restructuring of around 3% market share in O&A globally. And we believe that there is strong momentum behind the investments we made, which were timed quite well.

We could not afford a think of making those investments in 2020 and 2021 because we were very busy with our restructuring, and the market was very hot at the time. So by circumstances, we ended up investing at the end of 2022 and 2023 when actually the market was a lot cooler, and we were able to attract a very strong talent pool, which is already showing the results of that investment, in some cases and in some areas, even earlier than expected. So we're very pleased with that dynamic and we intend to continue to focus very much on that strategy going forward.

Chris Hallam

Very clear. Now before we turn to audience Q&A, I wanted to ask a couple of broader Group questions. From your perspective, how has the DB performance been so far this year? You referenced earlier some of the comments that you've made recently regarding Q2 performance. So how do you think about Q2 and momentum so far this year, both across your own businesses, but also the non-CB/IB businesses?

Fabrizio Campelli

Yes. We’re very pleased with the performance so far. We have seen, like I indicated, obviously a strong Q1 and good momentum into Q2, which I think gives us confidence that we will stay close or committed to the € 30 billion of revenues we have out there as our goal for this year. We're also very pleased with the cost discipline we've applied. We've indicated a firm intention to stay at around € 5 billion of adjusted costs per quarter. We've done that in Q1. We're confident we'll hit that goal in Q2 as well, which means for the full year, we are confident we'll hit our goal of an adjusted cost base of around € 20 billion for the year.

We also have seen good momentum across businesses. Obviously, it's a diversified set of businesses. I indicated that Q2 will be a bit different for FIC than it was last year, O&A has good momentum, and as I indicated, CB call it flat to Q1. In PB, there is always a seasonal effect. We have some of the dynamic of the client activity is more marked in Q1, so there is always a slight drop in Q2 for the Private Bank, which we expect to play out exactly in line with our forecast. So everything I think is going in the direction we wanted, which gives us comfort. Also thinking about the future of staying actually on track for the goals we have out for 2025.

So our revenue CAGR as projected, which was 5.5 to 6.5% up from the 3.5 to 4.5% we had initially indicated in our Investor Day in March 22, is actually on track. That's why we have confidence on the € 32 billion revenue target for 2025. But also the other targets we have out there remain very much in full focus for us. We've been very clear about our intention to be above 10% for the return on tangible equity for next year, below 62.5% for cost/income ratio for 2025, and also the very specific capital return objectives that we remain committed to. I think what's important about our strategy, I would like to come back to this point, it's a performance that speaks to results against the strategy we laid out.

It's a strategy of diversifying our business model, not relying overly on fewer engines for both top line and bottom line. And it's a strategy that is reliant on a strong discipline across the board, including on expenses and capital use. And actually against all of those priorities and the objective of having a better balance in the revenue mix we present, we are feeling that things are running close to our plans, which speaks to the strategy delivering against what we would like.

Chris Hallam

Very clear. Okay. And lastly, I wanted to ask on the recent Postbank litigation case. You've obviously provided quite an extensive disclosure on this matter already. But perhaps just reiterate on what is the financial impact of this issue, are there any other large outstanding litigation cases pending? And does that change at all how you think about Deutsche Bank's ambition to return € 8 billion plus of capital to shareholders?

Fabrizio Campelli

Thank you. Yeah. So the litigation case you're referencing, I'm sure everybody knows, after Q1 results, there was a court hearing in relation to a case that was brought up by certain shareholders of Postbank in relation to the voluntary takeover offer that DB carried out 14 years ago when it purchased the Deutsche Postbank. The indication of the court, that basically stated that they foresaw the potential for finding some of the allegations of the plaintiffs, in potentially the favor of the plaintiffs in future rulings meant that we had to change the stance on our provisioning for that legal case. It was obviously a surprise because we had actually obtained the opposite views in previous court rulings.

This was a change in stance by the same court. And that resulted in us booking a € 1.3 billion provision in Q2, which will be booked in our accounts and be visible upon our upcoming disclosure. Of course, we continue to disagree fundamentally with the case, and we will keep fighting for the best outcome for DB shareholders, whether it's by verdict or agreement, but that's clearly the focus we have right now. That amount reflects the full amount of a potential loss as of the end of April. Interests are accruing because of the way interests are calculated in Germany, but as of the end of April, that number is the full amount. So that's where we stand today.

Does it change our commitment on capital return? The short answer is no. We remain committed to the capital return objectives that we had laid out, the 50% increase in cash dividends, the 50% of payout and € 8 billion 2021 to 2025, so deliverable in 2022 to 2026, total capital return between share buybacks and dividends that we want to lay out. That's speaking to the fact that, yes, we will obviously need to deal with this, but the business model of the bank has remained resilient and continues to generate enough capital for us to stay close to our commitments.

Chris Hallam

Very clear. I think at this point we can switch over to audience Q&A.

Audience

Can I ask two questions? The first is, can you talk about the opportunity set from the growth in private credit for Deutsche Bank from a FIC financing perspective? So how important do you think that could be for you as you think about the next two to three years?

And then secondly, a number of your peers in the US do seem to be more capital constrained. Are you seeing repricing of some of the more balance sheet intensive businesses as a result of some of the increase in the capital requirements in the US? Thanks a lot.

Fabrizio Campelli

Thank you. Private credit is an important asset class. And obviously we have been looking at ways to participate into it in multiple ways, contributing to providing support to those funds for accessing capital, but also looking at cases in which our origination can benefit private credit syndicates and funds. It remains an important area for the market. It provides an alternative to banks, particularly in this continent where corporate funding is still so heavily reliant on banks. And therefore, we look at it with an eye to continue to see it as in part competition, but in part an area that we can support as a client set. Obviously to the benefit of clients that are seeking funding at a time in which clearly the funding levels provided by banks are more constrained.

To your second part of the question, I think we have seen an effect on US banks partly due to the de-leveraging that has occurred after last year's regional bank crisis, but also in expectation of Basel III endgame change to the capital consumption of the current business models by US banks. We've seen some focus, not a dramatic change, in the pricing of assets that tend to be more capital intensive. In Europe in particular, I think banks have been preparing for the rollout of Basel IV or the Basel III FRTB, implementation of the CRR III already since a long time. And so, in a way, that was already broadly speaking, pressed in.

Notwithstanding the fact that there are still a number of technical regulatory guidance elements that the EBA needs to provide, in understanding how ultimately some of these rules will actually manifest themselves when they go live. We still expect those to happen in January 2025 in Europe and certainly we're hoping the timeline will be unchanged, and that the intensity of the rule applicability will provide a level playing field for US banks as well.

Chris Hallam

Very clear. Okay, Fabrizio, I think all that remains to be said, is thank you so much for providing some time today to engage with us and investors here at the conference. Thank you.

Fabrizio Campelli

Thank you very much. Really appreciate the time. Thank you.

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