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Transcript

Speakers:
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Benjamin Goy, Head of European Financials Research

Benjamin Goy	Good morning. Thank you for joining us. My name is Benjamin Goy. I'm the Head of European Financials Research at Deutsche Bank. In that, it's my pleasure to welcome you to our 26th German, Swiss and Austrian corporate conference. We have, over the next two days, 130 investors attending, with more than 1,000 meeting requests. But before we discuss many operating trends across many different sectors over the next two days, we thought it would make sense to start with the financing side of the business of the economy, and with that, our very own Corporate Bank. And the Corporate Bank is not only interesting for read-across for the corporates, but in particular also, it's very important to Deutsche Bank. It's now expected by analysts to be the most significant contributor to pre-tax profit at group level this year. And to discuss all that, I think we have the perfect guest. We have David Lynne, Head of Corporate Bank. Thank you very much for joining us, David.
David Lynne	Thank you. Good morning.
Benjamin Goy	Perfect. Just a bit of background. So, I would almost say David is a DB lifer, but I think there was a couple of years early in your career at another leading investment bank. But he held basically senior leadership positions across the Investment Bank and Corporate Bank for the last 25 to 30 years. For the last 12 months, you became Head of Corporate Bank, so it will be interesting to hear your thoughts on how these 12 months went. Obviously, lots was going on. We started, worrying about gas shortage, we had the banking turmoil in March, and all the time, rates were going up. So really interested to hear your perspective on the last 12 months.
David Lynne	Yes, thank you, and good morning. Let me give a little bit more color on my career path. So, I joined Deutsche Bank 28 years ago in London. I moved to Singapore 25 years ago, so spent the vast majority of my career in Singapore. So the weather the last few days feels like I'm at home. I spent most of my time in the fixed income and

currency business. I joined running the Corporate Bank for Asia-Pacific in 2018, so I've been part of the leadership team of the Corporate Bank since we started it and very involved in that. The regional job gives you an excellent view across your coverage but also all of your product lines, so you have a very strong view. And I've been part of that leadership group. So a continuity process, taking over a year ago. It's certainly a big job, a lot of travel and a lot of clients but also a lot of opportunity, so quite interesting, yes.

So if I move on to the Corporate Bank, let me start by describing the Corporate Bank, because the name is a little bit of a misnomer. We report our results in three areas, first of all, what we call Corporate Treasury Services. So that's the classic Corporate Cash Management, the whole range of our Trade Finance & Lending business, all the way from vanilla trade into infrastructure, account receivables, project finance, etc. So that's called our CTS business.

The piece that's a bit less understood is our second segment, which we call Institutional Client Services. So that's covering financial institutions, investors, issuers across three areas.

We have our Institutional Cash Management business, so classic correspondent banking. We are by far the largest Euro clearer in the world for the globe in terms of cash management for banks. Secondly, we have a security custody business. We're a sub-custodian in multiple countries. For example, we're the largest sub-custodian in India, and we're a local fund custody house across the world.

And lastly, probably the least understood business is what we call our Trust and Agency Services business. That's predominantly a US revenue-based business, so it diversifies excellently versus our business in Europe. And that has three components.

We're a trustee for bond and loan origination, and particularly in structured products, so CLOs, ABS, etc. That's a greatly expanding business in the US. As people issue more structured debt, that continues to grow. For example, in the last year, we've won over 80 mandates for CLO origination. And particularly, that big growth comes in the private equity sector. As you can see, they're growing really their debt issuance and their structured credit businesses.

We also do escrow services. That may be around M&A or particular situations. I'll give you an example. We just won a large escrow for Africa. So as oil companies go out of the drilling in Africa, they need to supply an escrow for 30 years that secures their clean-up of the oil field and process for the country. So that's holding cash in escrow for up to 30 years.

And then secondly, we have an ADR business, so a big ADR business, predominantly out of Europe and Asia, of companies issuing ADRs into the US. And lastly, we have a particular business where we're a doc custodian. We keep, in two very large warehouses in California, physical documents, for the US mortgage industry.

We have an over 40% share of that business. A very stable business. We're paid to keep the documents, and we're paid to process the documents when people refinance or move house, etc. So that part of our business is a little bit less well known in terms of Institutional Client Services.

And the last component we present in our results is called Business Banking. We serve small and medium-sized enterprises in Germany only, so people with their own business. That may be somebody with a bakery shop or a dentist, etc. We have over 800,000 clients in this business. It's a fantastic business in providing a very big and stable liability base for the bank in Europe.

We have a rapidly growing digital part of that. We have an offering called Fyrst, increasingly making an extremely digital front-to-back business for those clients. So, there's three segments to the Corporate Bank.

On a global basis, we have an excellent business. We have some really outstanding people. We continue to invest heavily in people and infrastructure for the future. The base of our business is really being the *Global Hausbank*. We think of ourselves as one of the leading solution providers for our clients on a global basis.

We have an excellent brand. We have leading product capabilities in all those areas I just spoke to. We have what we believe is best-in-class advisory, and we'll come to that, why that's increasingly important in winning business, and deep market knowledge. We cover 150 countries across the world, and we have physical presence in 43 of those. As I come to some of the themes, that geographical capability, but particularly deep in-country knowledge is incredibly important.

We have very historical, deep multi-products and multi-geography relationship with clients, whether they're on the corporate side or the institutional side. Traditionally, you would've thought of the *Hausbank* as taking German corporates into the US or into Asia-Pacific, or European corporates.

But increasingly, that's a very global process, bringing Chinese companies into ASEAN or Chinese companies into Europe. As supply chain shifts, and I'll come to that in a minute, that's increasingly important, Japanese companies building supply chains in Europe, Koreans building supply chains in Europe.

So, the *Hausbank* really is a *Hausbank*, bringing Asia-Pacific large corporates and financial institutions into Europe and the US, and similarly from the US to Europe and Europe outbound. So that network of what we call corridor banking is an increasing source of capability.

We see three or four megatrends around the world that are driving the need for client solutions and that *Hausbank* and geographical shift. The first is clearly geopolitical tensions and trade shifts, supply chain shifts. So with barriers, with tariffs, but particularly also with COVID, we see this localization of supply chain. So, people building a supply chain for Europe, building a supply chain for the Americas and building a supply chain for Asia.

We're definitely seeing the supply chain shift out of China particularly. So that goes into India, that goes into ASEAN, into Vietnam, into Thailand, into Indonesia. So again, with that deep knowledge on the ground, we're able to provide capabilities, solutions and advisory to those clients as they shift outside of their home country.

Much easier for us to compete for a Chinese company's business outside of China than in China, where there's a good banking system, people have large balance sheets, etc. Much more competitive for us to compete and much higher margin as those manufacturing shifts go into other countries, where people have less presence fundamentally.

The second shift we're seeing, I would call broadly digitalization. So, clients really using technology to change their business models, whether they sell more and more online, not just retail. But the biggest growth of e-commerce has really been B2B over the last few years, so a huge expansion on distribution.

If you're a content provider, you used to sell your content, if you were Disney or a sports channel, into cable providers in the country. Today, you just stream it cross-border. So, then you need somebody to collect and pay on your behalf in the country. You don't necessarily need a treasury and operations in the country. You just stream across.

A big growth of online travel agency, e-commerce, social media. We've focused a lot over the last few years on what we call the new economy sector, winning a lot of mandates across the world that relate to online travel, social media spending, advertising, etc. All those are e-commerce and distributed products, where you need the capability in a country from your core corporate bank to do your cash payment or FX.

The second piece of the digitalization is how companies run themselves downstream. Treasuries are increasingly trying to use data, digitalization, automation to run their treasury in a very automated fashion and reduce their operating costs. We have market-leading capabilities in data provision, in integrating our payment and FX capabilities together and making that a very rules-based process in workflow solutions.

The third big theme we see is the need for financing. With that shift in supply chains, people need financing across the value chain in terms of procurement, production, the move to just-in-case in terms of just-in-time, so naturally means bigger inventories. People need to finance those inventories. The whole range of account receivable financing, inventory financing is increasing as people shift those supply chains.

And clearly, the requirement to be super efficient in doing that has gone up. With zero percent interest rates, it doesn't matter if you have more inventory or you're not financing, etc. But as rates have gone up, clearly doing that super efficiently is increasingly important.

That leads to an increasing part of our trade finance and financing business and financial supply chain that goes online, goes more on platform and more digital as well. And we're investing heavily in those capabilities.

Big growth in infrastructure and financing need and export credit agency (ECA) financing need across the world, largely driven by two things, energy transformation, which we're heavily involved in, and the increasing process where governments are using export credit agencies, what you used to be to sponsor exports, to actually procure imports.

We're very heavily involved in that, so if people want to procure, clearly in Europe and in Germany, energy supplies, but through into areas that involve new economies, chip manufacturing, electric batteries, procurement of raw materials. We're definitely seeing this theme where governments across the world, but particularly in Europe, are using the ECA process to actually offer cheaper financing and procure supply of vital goods.

We have a very deep and longstanding relationship with ECAs around the world, so not just in Europe and with Euler Hermes in Germany, but through to Sinosure in China or K-Sure in Korea or NEXI in Japan. And increasingly, those infrastructure changes and supply chain shifts use all of those components.

People are building factories. Maybe the import of equipment comes from China for specialized capabilities. That involves Sinosure. Maybe the green or ECA financing working capital comes out of another country. So that ability to put together infrastructure and supply chain shift financing, using a large global network of ECAs and government connections to procure those capabilities, is an increasing theme.

The last piece is ESG. Every company is clearly looking at their ESG footprint, whether that's through energy transformation. We're working heavily with energyintensive industries, like the auto manufacturers, steel in terms of green production. Again, Europe, but particularly Germany, is really leading the transformation in industrial processing that relates to ESG, but that takes quite a bit of capex.

And lastly, we're building the capability, as I spoke to at our Sustainability Deep Dive, for our large Mittelstand and business banking clients. Those are clearly clients that won't have dedicated finance capabilities around ESG. But can we build a capability for carbon measurement for them, which will come in 2024? So, people will need to have very strict and capable areas around carbon measurement, can we supply that as a service, access to voluntary carbon markets.

We're looking, for that sector of our clients, to be a one-stop shop for ESG change, both across the financing, across supply chain, but particularly into the ancillary services or requirements they will need.

So certainly, an exciting time. That capability to be a solution provider, have a global network of capability but a very deep in-country knowledge as people shift their capabilities around the world, every day is bringing enormous enquiry into us and enormous business growth.

There's probably times where the world is pretty the same. And maybe from 2000 to 2015, the world became probably a lot more open. Payment rails were consistent across the world, technology hadn't changed, where broadly what clients wanted in terms of solutions or capabilities didn't particularly change.

But in the last five to six years, clearly that's become a significant change in geopolitics, a significant change in where people do their manufacturing, supply, distribution, but a significant change in the way they operate their companies and their businesses.

So that's really disrupting our industry in terms of capability to win mandates and business which would not have moved as fast in the previous 15 years. We see that occurring for this decade. I think this decade will be a big change, and it'll be interesting with your clients later in the day to see how they're changing their business models and how they run them and where they run them.

Benjamin Goy

Yes, perfect. Thank you very much. I think it was a really good introduction on the Corporate Bank and the many opportunities, and how they are tied to megatrends we see globally. Maybe sticking with that, and strategically, where do you prioritize? Because there seem to be lots of opportunities. From product but also geographic footprint, where do you see your greatest growth areas, essentially?

David Lynne

Our job as the *Hausbank* is to provide the solutions and follow our clients. That sounds like a simple statement. But broadly, our strategy should be driven by what our clients want and where they are driving. If I look at that across the product capability, if we talk about the digitalization, we're spending a lot of time developing in our cash management business our merchant solutions capability, so the ability to offer payment collection and processing as people sell online.

The interesting piece there, you can see the eco-structures developing, so different online eco-structures are then connecting to each other. So, we can connect our clients across eco-structures. We're investing heavily in that. We've invested in Europe in people. In Asia-Pacific, we've partnered, and we took an investment in a company out of Australia called DataMesh that cover the Asia-Pacific region.

The Asia-Pacific region, in different countries, there's different regulations and different needs. So, what we need to produce in India is different to Korea, is different to Indonesia, rather than Europe being fairly homogeneous. They have an excellent technology and excellent capability to do that, and we're already rolling that in various countries through this year. Asia is a big growing market for online/e-commerce.

In our security services business, we're building our digital asset and custody business. We've just put our application into the BaFin for the digital asset license. So, we do see the world moving more to tokenization. That cuts across both our custody business and our TAS business, so where people store their digital tokenized assets.

That may be Bitcoin, but increasingly, that may be

NFTs. We're seeing a lot of corporate clients use the NFT market as a branding exercise and a connection to the real world. If you think about a large number of what our global corporate clients have, they own the main brands in the world, and they might well link those through the NFT market.

And then you go into our Trust and Agency Services business. Clearly, as a big provider of debt, trust and agency services, we do see a move where bonds, loans and different financial instruments will become more tokenized. That gives much greater operational efficiency effectively in tokenization. It allows fractionalization, which is an important part. If you're securitizing buildings or art, the capability to fractionalize the ownership is really important. So that's another investment.

In our Trust and Agency Services business, as I said, we're investing heavily in the CLO business. We've won an enormous amount of mandates. That piece continues to grow. So that's an investment in client user interfaces and technology.

One part of that process that we offer to clients is just not the payment, but people need to sit within the fund rules, and we're the checker and provider of those fund rules if you're issuing a CLO. So, the asset manager will call us and say, well, can I do this or this, moving within the fund rules. Providing a much more frontline client user interface, that people can do that more online, is another big investment.

In our Trade Finance & Lending, we are really investing quite heavily into some of the things I spoke about around infrastructure financing, ECA financing, natural resource financing. We're increasingly looking at some of the supply chains around new industries.

If you really look at the electric vehicle supply chain, you go from the procurement of raw materials in Australia through to the building of cathodes through to the building of electric batteries through to electric vehicles.

A number of those components sit, at the moment, really in Asia-Pacific, so the raw materials in China or in Australia through to the main two or three providers of the leading cathode capability coming out of China or

South Korea through to the battery manufacturers.

So, you can think about how you finance particular supply chains, so investing in people, but also investing in the technology as more of that stuff goes to an online process around financial supply chain.

And lastly, in ESG, we have invested quite heavily in people and capability. That includes particularly a big growth in the requirement for supply chain ESG processes with the German Supply Chain Act, which Deutsche Bank themselves needs to hit, building the capability to measure KPIs of suppliers around the world that go into a corporate supply chain.

A number of our clients would have 300 to 400 suppliers in China potentially. So how do we measure the KPIs of those suppliers, how do we set up financial supply chain pricing, where the cost of funds for the supplier is dependent on the degree of ESG conversion they're doing, is another investment.

We continue to follow our clients on a geographical basis. We continue to see a big upside for our German Mittelstand and Business Banking platform in terms of capability. We are present in those 43 countries across the world that I spoke about earlier, but definitely looking at areas where people were shifting, particularly around the Middle East.

What shall we do in Saudi Arabia, as it attracts investment? What shall we do in South Africa, which is becoming increasingly a manufacturing center for Japanese companies particularly as a start, but more and more Western companies moving manufacturing into South Africa?

And similarly, in LatAm, we have a good presence in Brazil, but what shall we do in other countries? Mexico is definitely growing in terms of that localization of supply chain. And it goes back to the late 80s, where the Japanese and car manufacturers pushed all their manufacturing into Mexico as part of the North America free trade agreement.

But the basic premise is we need to follow, where our clients need our requirements, where they need it from a product or a change in their operating model, and particularly where they need that increasingly in a geographical model.

Benjamin Goy

And Asia-Pacific? Any market you would single out, or markets that are in particular interesting, where you see corporates shifting?

David Lynne

We are seeing the shift into ASEAN. Our ASEAN business year to date is up about 60%. And that's a part of that shift in supply chain. It is occurring. And that's just not Western companies moving supply chain out of China. That's Chinese companies moving.

Vietnam has definitely become the center for electronic assembly, so broadly produce the parts and then assemble them in Vietnam. Thailand has traditionally been a very strong center for motor vehicle assembly, so the Japanese have always brought parts in and then assembled them. The Chinese companies are definitely doing that as well, Chinese vehicle manufacturers.

So that shift of supply chain out of China is just not a Western-company phenomena but is also a Chinese-company phenomena, driven by the tariff and barrier, but also driven by costs. The cost of labor in Vietnam is probably about one third the cost of China these days. It's very significantly different.

The last piece that grows is a consumer market. I was in Vietnam about nine months ago. And it's a country of 100 million people, with an average age of about 40, whose disposable income is going up. Then they become larger consumers. They may be larger consumers of products, but they're also larger consumers of financial services.

Across our range of businesses, you can see that change in disposable income driving through to consumption across real goods and across services and across financial services. So those countries are growing very fast in terms of that supply chain shift. It's been talked about a lot, but it is definitely happening quickly now.

Benjamin Goy

Okay, that's good to hear. Thanks a lot. And after this strategic perspective, moving more to the cyclical impact on your business. You already mentioned there the net interest income component to it, which probably was a big driver also to getting to an 18% return on tangible equity in the first quarter. So maybe you can speak a bit more about the dynamics you see here. And then on the flipside, the fee-income-generating business. Is that now the bigger focus going forward?

David Lynne

The industry and our business has definitely benefited from the interest rate rises, which have been clearly much larger and faster than I think a year and a half ago, people would have thought about, fundamentally. So that clearly has given a big uplift on our net interest income.

I would think we're reasonably close to the peak of interest rates. We may have one or two more hikes in the Eurozone and the US. But I think the key thing, if you listened to the central banks last week, is how long rates stay at these levels for, which I think will be longer than the market has generally perceived, unless we see a really strong downturn. But we will see certain declines in interest rates.

I think the good thing for our business, we don't see, and I don't think most people see that going back to where we were before at zero in the US and negative rates in the Eurozone. I think we'll have a new normal that probably is 1-2% lower maybe from today's elevated levels, but the new normal is definitely in the 2% or 3% range.

So how do we counter that? Fundamentally, one is business growth. So clearly, what I spoke about in terms of scaling clients' geography products gives us bigger business growth in terms of volumes and liabilities.

Secondly, we are able to model our liabilities. The more stable the liabilities are, the more we can model the term of those and the more we can hedge those. We have been very proactive in hedging our interest rate risk management, particularly over the last six months as rates have reached that level. That goes back to the stability of your business.

I go back to what I said about our Business Banking business in Germany. It is very stable, so that allows us to hedge that liability stream out quite a long term, out into ten years. Locking in the elevated rate levels of today is definitely part of that.

Lastly, for this business, as we come into the second half of last year, we have quite a large roll-off of previous hedges from multiple years ago that clearly then allows us to restrike those hedges at better levels. That has quite a big pick-up post the middle of next year.

But the counter also to building greater overall revenue is clearly building the fee capability. If you go back to a number of things I spoke about, our merchant solution business is a fee-generating, transactional business. Our payment volumes in some of the new economy areas continue to go up. The FX on the back of that is a fee business in terms of transactional processing.

Areas that I spoke about around the carbon measurement or around carbon exchange allows us to charge a fee. We're increasingly in the data space, working with our clients on what we call data-driven treasury. Cash flow forecasting and areas where you can charge a fee for predicting the capability of hedging, that's another fee area.

Increasing focus on security for clients, so in terms of data and fraud. One fundamental thing, as you go to sell more and more online, you fundamentally will see more fraud, so our capability to do data analytics and service, where we provide fraud services to people. So, there are multiple areas of fee generation.

As our Trade Finance & Lending business moves more to larger-ticket structured financing, infrastructure changes, that is a business then where we have a greater underwriting fee and we have a greater structuring fee, rather than an accrual business.

There are multiple areas where the change in business process allows us to think about more fee areas, and the change in technology and client requirement, above and below our core operating process, to add more value-add services that we can charge fees for. So that's definitely a big focus, how we grow the fee income over and above the NII process.

Benjamin Goy

That sounds good. You mentioned a couple of times the mandate wins. Maybe you can illustrate it a bit more, because they're very specific markets, I would say. They're not obvious to the generalist portfolio manager.

How is the process from the request for proposal until you get to revenues? And then how is the stickiness of those revenues? Can you maybe talk about that?

David Lynne

It varies quite a bit by geography but also by industry sector. If you look at the traditional manufacturing process companies, we have largely a three/six-month pitch process. Then it probably takes somewhere between six months to 18 months to actually implement, and it depends a bit on the mandate. If we get an overall Asia mandate, that's potentially 14 countries where you're plugging in, opening new accounts, setting up.

I talked a little about what we call the new economy sector, so payment service providers, online, e-commerce, social media. These are clearly very technology-driven companies. So, the speed of setting them up and the speed of them growing the business is very fast. So significantly different in terms of volumes.

Then, over time, it takes volumes to go up, but broadly, this is still in an industry where, when we win something, that's a sticky piece of business for several years. That traditional process where we win a cash management mandate or a custody mandate, you have that for three to five years for the minimum.

That may change a bit, because I think the world is becoming more of an open banking platform, but we'd also be able to win on that, putting some of our FX and workflow solutions above other banks' cash management capabilities. So, the technology will change the process, but it is inherently a stable business. That's the fundamental, when we win mandates, where we have clients.

The multi-solution, multi-product, multi-geography client relationships, on a geographical global basis, as the *Hausbank*, are generally very sticky relationships of multiple years. And as we add more Asia-Pacific companies coming into Europe, those will be long-term, stable relationships as well.

It is a business where people have inherent primary banks, fundamentally, whether that's in cash management, whether that's in financing. And our job is to increase the depth of that relationship, the multi-product. So, we're doing multi-product and multi-geography. And definitely, with that change in requirement and solution requirement, that's definitely occurring across the world.

Benjamin Goy

Okay, great. Sounds more to come as the mandates are being rolled out and implemented. We're in 2023, and I'm afraid I can't let you go without asking about liquidity, in particular, deposits. So maybe you can share a bit what you have seen in the first quarter.

Clearly, there is strong competition from money markets, and corporate treasurers know what yields you can get in the market. If you could speak a bit about the Corporate Bank on the funding side.

David Lynne

The first piece is, if you think about everything I spoke to, we have a very diverse liability base. So that goes from a Europe liability base with our small-business Business Banking area, maybe to large multinationals, where we have a liability base from them in Dollars or in Indian Rupee or a South Korean Won, and then the financial institution liability base. So, the variability of the sets of clients, the currency and the geography is very dichotomous.

So broadly, having a big portfolio effect is really important. That gives you a greater stability of your liability base, which is in very strong contrast to some of the US banking liquidations, where clearly the concentration of their liability base into one specific sector or region or industry, like Silicon Valley Bank or etc, was extreme. Ours is incredibly diverse across the world.

We did see, in the first quarter, our liability base fall around 7% to € 270 billion. It has been stable or growing since then. There's probably three or four drivers of that. First of all is some of the banking instability. So, people then not necessarily leaving one particular bank, but particularly diversifying. If you have too much cash concentration in one bank, then maybe you move that around.

To a large extent, in core Germany, we saw a bit the opposite. We are probably seen as the central bank a little bit in terms of stability. In some of the areas particularly around the smaller clients or Mittelstand clients, we actually saw liabilities go up, and we probably benefit from the inflow of people taking that diversity out of others.

There's definitely a shift at a certain point of the interest rate cycle, where people start to move their liabilities out of operating accounts. And if you think about it, interest rates have gone up very, very fast, and a broad corporate or smaller business will generally keep their money whilst interest rates are going up. But at a certain point, maybe you put that into money market funds, maybe you put that into longer-term securities, maybe diversify that into more term deposits and out of sight deposits. So that's a natural phenomenon.

The last piece is also an opportunity. We have a platform we call ASL, that's within our cash management business. It allows our clients to access into secure financing, so into reverse repo with a variety of counterparties, backed by government securities, so you have very secure placement.

It also allows them to access a series of money market funds. We have a series of global asset manager money market funds on that business. So that allows the clients to diversify away from their bank risk on an overall sector, put that into different risk but also keep their liquidity at their core cash management bank.

If you think about making payments all over the world all day, the problem of diversifying your liquidity away from your core cash management bank into other banks is, every morning, you need to send it back to your core cash management for processing, and every night, send it back.

We've definitely seen increasing uptake from clients, and a lot of corporate clients are using this as a way of particularly terming out or diversifying away from banks. So that business has seen a significant upshift. It also allows you then to keep that liquidity at Deutsche Bank, who processes your business every day. So, the mixture between diversification and efficiency is really good. We'll continue to develop that platform, yes.

Benjamin Goy: Good. After speaking about deposits, now let's move on to your asset side and loans.

So just wondering, what are you seeing in terms of loan demand from clients? What type of lending products is demanded and also your willingness to supply it? Because I guess there is no shortage in the world of reasons why to be cautious. So where do you sit here, and the trends you see?

David Lynne

Definitely a little bit of a softening in overall loan growth, but reasonably deliberately. Part of that is economic demand. I wouldn't say, across the world, we've seen that drop dramatically, but you would have to feel it softened a little bit. The demand side on more vanilla lending, more vanilla trade finance as the economies in the world potentially slow.

We're definitely going into a more difficult time, potentially, with the level of interest rate rises, predictions for economic slowdown next year. We've definitely, as we should always be, been a little bit more conservative on credit risk. We certainly want to be conservative in terms of credit risk.

We're also working strongly with our trade finance and lending on how do we upshift the return on equity? We're definitely repricing or dropping out of certain areas of our lending where we think those are sub-return. So again, that has a reduction.

On the flipside, the growth of demand for more of what I spoke about earlier in terms of infrastructure financing, ECA financing, is going up very significantly. Every month, we have a few more deals and a lot more enquiry around the whole space of supply chain shift, factory build, energy transformation, ESG, ECA. So that part of our lending business, away from what I'll call the more vanilla, documentary trade finance or the more vanilla lending, is definitely increasing.

That fits well with our business model change. So those transactions, particularly when we have the ECA cover, have a very high return on equity process. They're transactions where we earn an underwriting and structuring fee. And they're transactions where we tend to syndicate more.

So rather than keeping all of those transactions on our balance sheet, we earn fees and then we syndicate quite a bit. And there's clearly a large demand for high-quality, low-capital-consumption assets across the world in not just asset management but in the banking sector particularly.

So that shift in our lending portfolio will definitely occur between the slices of it. So, we would predict largely, over the rest of this year and next year, our overall lending balance sheet probably remains relatively flat or maybe 1% or 2% lower. But definitely a shift in what we're doing and why and where, and the shift of requirement.

Benjamin Goy

Are there any questions from the audience maybe?

Question 1

Just going into a bit more detail on this last topic around lending, are you seeing any evidence, whether it's in the portfolio that Deutsche has or elsewhere in the market, for any requirement to increase credit provisions at this stage? You talked about propensity to lend, but in terms of the actual markets, whether it be sector wise or geographically, where there is any deterioration of credit quality. Thank you.

David Lynne

Not overall. We clearly budget at the beginning of the year, along with our credit risk management department, on what we expect our CLPs for the year to be. We do expect, at this point in the year, for our CLPs in this division to be actually slightly less than what we budgeted. We can see certain pockets where company distress is going up. So clearly, in the Mittelstand sector in Germany, we see a couple of pockets where that's occurring in terms of industry sectors. But it's not widespread.

We do run this business as a general view of having, through the cycle, roughly a credit loss provision of about 15 to 20 basis points on our overall portfolio. And through the cycle, we will see that. We're not seeing a large increase in distress situations. There are a few more idiosyncratic processes going on. But at this current point, our view for the full year is reasonably below what we budgeted at the beginning of the year.

The last piece is we actively hedge our credit portfolio a lot. We have a number of active CLO programs that cover both for the mid-cap clients through to larger clients and across the world that we really actively issue and use. We've done two or three very big CLOs over the last two or three months that increases our immunization. So that's incredibly important.

And broadly, we would see that our net loss is usually around 50% to 60% of the gross CLPs. So clearly, banks show the gross CLPs, but our actual hedging provision covers a reasonably good amount of that. And we'll continue to use those programs.

So going back to the credit conservativeness, we have two sides of that. How we're conservative a bit at this point of the cycle in terms of lending, but also how actively we hedge the current portfolio. At this point, we're not seeing any large increase in credit concerns. We are seeing certain industry sectors or idiosyncratic situations, and we have, over the last few months, increased our credit cover through the very well-established CLO programs we have.

Deutsche Bank is a conservative credit institution, and I like to think we have multiple years where our credit risk management department is really excellent and is really seen as excellent outside of the bank. One reason we're able to issue CLOs and get very good pricing on them is the investor community's view of our internal credit risk management processes as being very tight and very stringent gives us a great brand in that process.

So that's a great help in not just being able to create the size of the CLO issuance but particularly also the pricing. We get very competitive pricing. And that's the fundamental investor view of Deutsche Bank's overall credit process and also the geographies we operate in.

Question 2

Thanks, David. Just on the merchant processing in the payment business, can you please give us some updates on the transactions and the revenues? And if we look a tad broader, this is a very crowded space. Can you tell us where Deutsche stands out versus the competition? Is it mainly on the back of cross-selling of other products, or you see also the tech side standing out? Thank you.

David Lynne

From a corporate point of view, definitely building your capability on the tech side, and into different payment processes, is incredibly important. A large number of countries have built instant payment rails. Today, those are largely domestic. So that's the last leg of a process.

But definitely, our large multinational corporate clients want an integrated thought process. So that's just not payments. That includes liquidity management. That includes particularly the conversion, foreign exchange, workflow, process, data.

The vast majority of large corporate clients aren't going to some fintech provider who has maybe a cheaper or faster payment rail, because they understand they need a holistic treasury offering that goes across the liquidity, liability, payment, conversion side but also goes across the working capital, trade finance side as well. So that capability to provide integrated, holistic solutions is really important.

But we continue to invest in this. Definitely, one broad subject that we're spending a lot of time on is what you would call the tokenization of money. What will that look like in the future? We think of that from central bank digital currencies through to private digital currencies that are related to central bank money through to what you could call the tokenization of them too.

Vastly, the majority of the world's financial system runs on commercial bank liabilities. So, there's a lot of schemes and processes going on, and we're involved in a lot of them to see what that would look like in terms of the tokenization of money. There's definitely huge value in that for the industry.

So atomic settlement, if you use the term, means that we can instantaneously and irrevocably settle a payment. That has a great need in terms of capital requirement, in terms of knowing your liquidity at all points. It's not a two or three-day settlement process, fundamentally, and that the smart contract capability of that clearly reduces significantly your operations department and your operations need, if you can have things that really settle automatically, settle instantaneously.

That world will lead more and more, and you think about the digitalization, e-commerce process, to a 24/7 banking system and payment, which is quite complicated to think about in terms of your liquidity or in terms of different countries or in terms of central bank rules, etc. But we are seeing that 24/7. So, the guy who drives the Uber in India, who gets paid on the AQR code, he wants to be able to use that to pay for his dinner on a Sunday night at 11 o'clock. So that's 24/7 process.

What we saw in markets, if you look at the foreign exchange market, the more and more electronified they become, the smaller the transaction size becomes, and the exponential growth of transactions occurs. Today's payments generally people collate, and then it's a batch process of a large amount that goes across. And as that becomes more digital, you pay on your AQR card, the singular payment of the $ 6 at the coffee shop will flow through the payment system.

So that was a theme we saw a lot in the markets, and we'll see that in the payments business, where then your ability to process smaller transaction size on a 24/7 continuous basis and the number of transactions clearly just exponentially increases. From your technology, your processing stack and the way you're set up in your liquidity management through to your operations needs to increasingly be designed for a future where you'll see that phenomenon.

Benjamin Goy: Perfect. Right on time. Thank you again for joining us, David.

David Lynne: Yes, thank you.

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