
Corporate Banking

Strategy& offering in the light of COVID-19

April, 2020



Strategy& perspective on the corporate banking market



Pre-COVID-19 Situation

- **Stable Corporate Banking** market with **EUR 21.4 bn** total market size/ revenue pool in 2019
- Increasingly **saturated corporate banking market** with little growth (*Pre-crisis growth estimate already at 0.1%*)
- **Cross-sell ratios** are increasingly under pressure
- High dependency on **lending margin** among majority of players



COVID-19 Complications

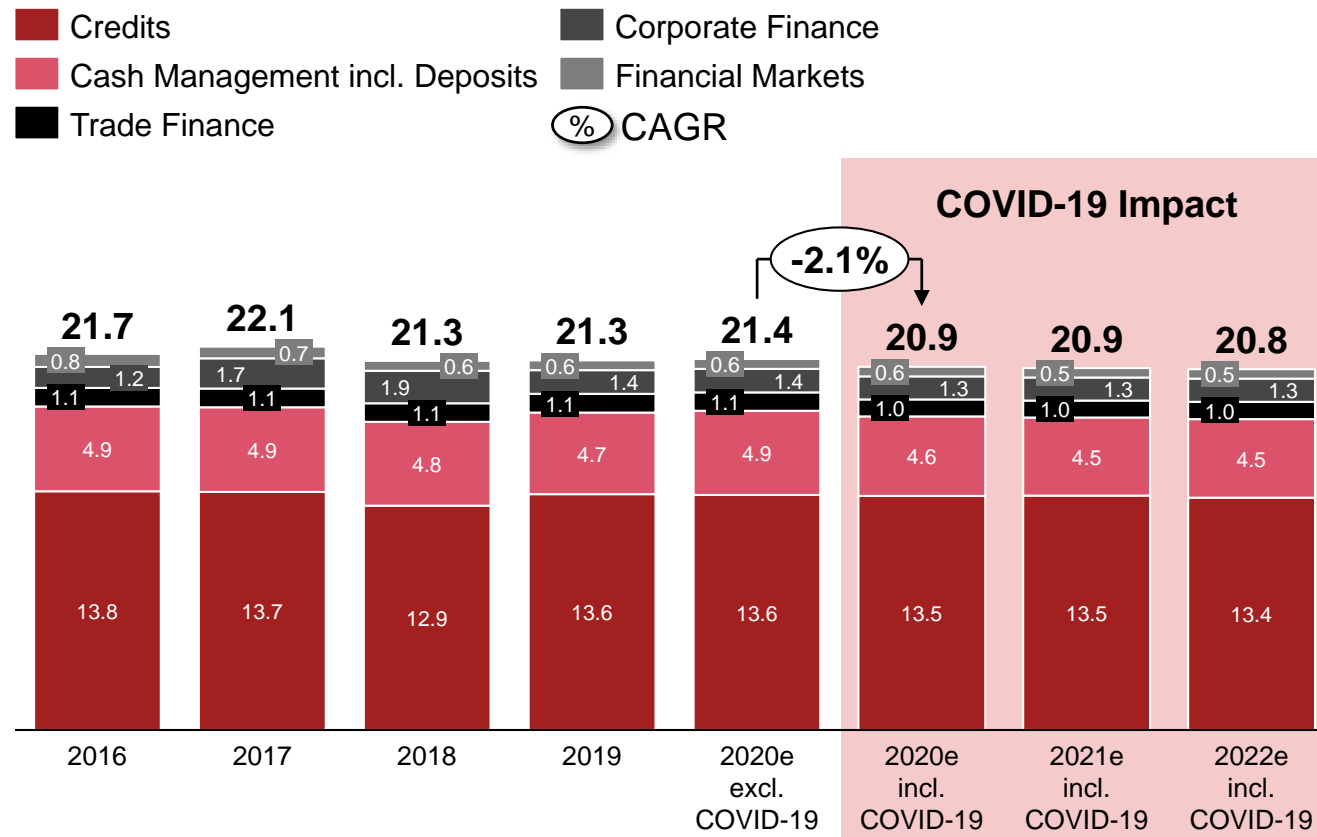
- **Pre-crisis pain points** are being **fortified** in particular: Declining profit margins, ongoing regulatory constraints, increasing competitive pressure
- In addition, **new challenges** come into play....
 - **Clients** - Differentiation in core/ non-core clients and appropriate re-segmentation will be more vital (in core vs. non-core industries)
 - **People** - Transition of front office units will be further fuelled
 - **Risk** - Significant constraints in accessing capital markets, thus funding will become a relevant concern, risk impact on portfolio will increase
 - **Liquidity** - Abundance becomes a shortage: Liquidity will be a limited resource

Key questions and challenges

- How can you appropriately baseline the immediate **P&L impact** to derive a short-term action plan?
- Is your **existing business model** robust enough?
- How should your **portfolio** shift in terms of **sustainability, clients, industries**?
- How do your **digital efforts** need to be recalibrated to support overarching goals?
- Is your current **product offering** supporting the future?
- Which **strategic pathways** open up to you in light of the crisis?
- Where do you see your **funding basis** going forward?
- How do you support your **human capital** in this transition?

German corporate banking market declines by ~2.1% due to COVID-19 in 2020

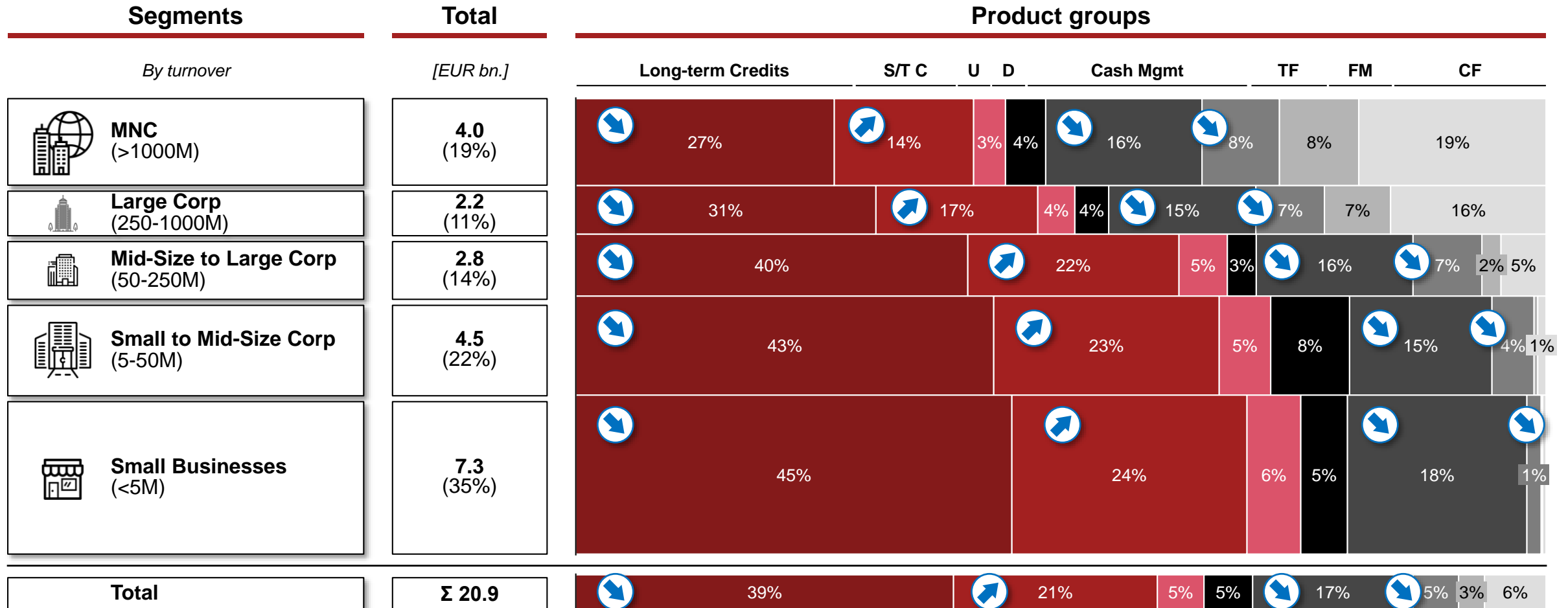
German corporate banking market (EUR bn.)




COVID-19 Impact


- **Economic impact of COVID-19** (expected GDP growth of -7.2% in Germany) causes the **German corporate banking market to decline by approx. EUR 500 m.** in 2020 compared to a scenario without COVID-19
- The decline is primarily driven by:
 - **Cash Management: decreasing domestic and cross-border transactions** (number and volumes) due to the lockdown
 - **Credits: shift to shorter maturities** (avg. of 3.9 years vs. 4.2 years pre-COVID-19) due to banks refusing to prolongate long-term financing; furthermore, continued margin squeeze due to risk-driven increase of banks' refinancing costs
 - **Trade Finance: global lockdowns and hampered international trade decrease the demand, esp. for Export Finance**
- Looking at 2022, we expect a **slight recovery of the German economy** (+0.2% in 2021; +1.1% in 2022) – however, we assume the **margin squeeze across products to continue the general long-term trend** prior to COVID-19

COVID-19 impact hits specific product groups – however, split by segments essentially unchanged

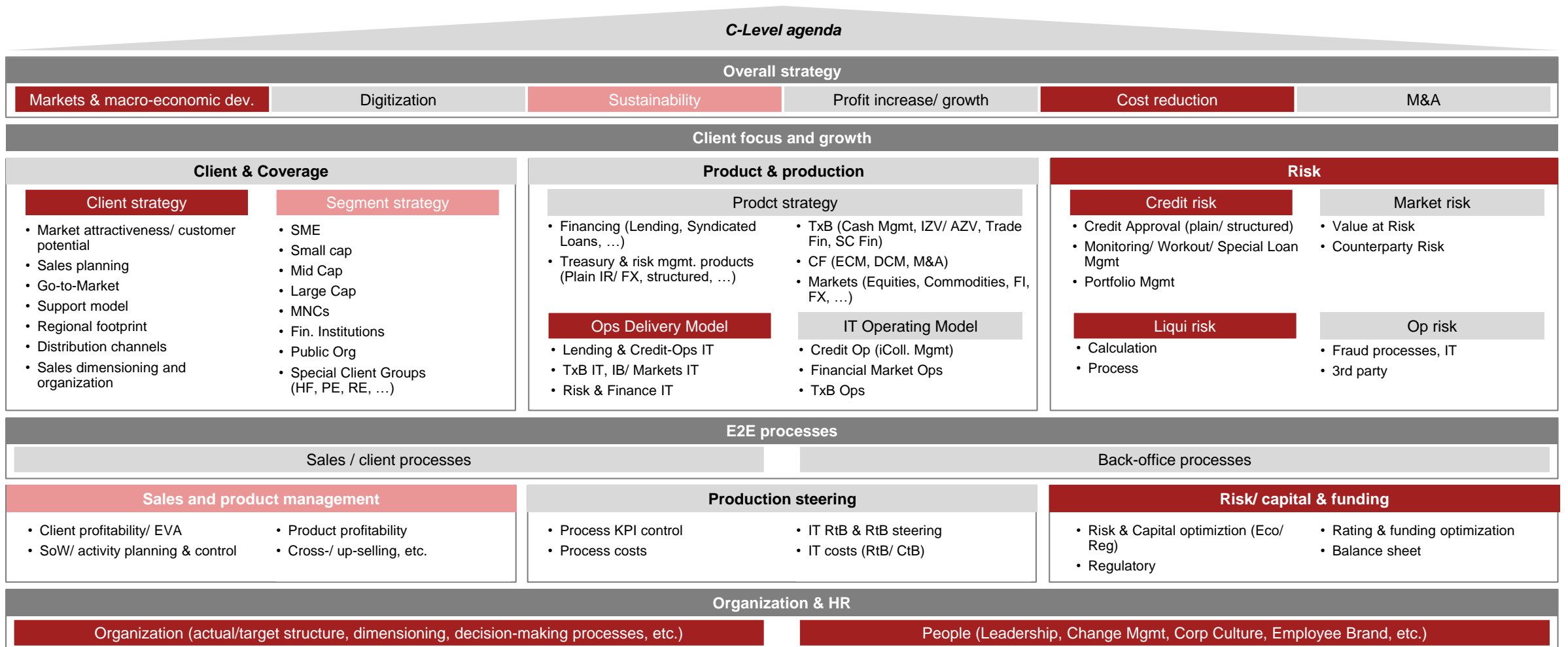


■ Long-Term Credits ■ Underwriting ■ Cash Management ■ Financial Markets
■ Short-Term Credits ■ Deposits ■ Trade Finance ■ Corporate Finance

 Positive COVID-19 impact

 Negative COVID-19 impact

Overview of main action points in light of market developments



Winning through the crisis requires achievements in key areas early on



Strategy

- Macro-economic scenarios** assessed and applied to different business segments
- Scenario-based **action plan** developed
- No-regret moves** regarding efficiency identified and kicked-off
- Strategic **CIR analysis** conducted and long-term levers scoped
- ESG plan** made consistent with business model



Clients & portfolio

- Client base** segmented in core vs. non-core
- Consistent strategy** and loyalty communication to clients conducted together with related measures
- Industry-based scenarios calculated and reflected in business strategy
- Sustainability established as key segmentation criteria
- ...



Liquidity

- Full **transparency** on current liquidity position established (cash and collateral)
- Overview of funding mix generated
- New funding sources identified
- Consistent strategy and communication towards institutional investors conducted
- ...



HR & organization

- Immediate **operational measures** up and running incl. fully functioning remote workspaces
- Initial hypothesis on **future workforce** and **operating model** developed
- Clear **communication plan** in terms of transparency and frequency established
- HC continuity plan** created considering contract terms, compliance with labor law, fix vs. contractual staff
- ...



Bank steering & regulatory

- Task force results** bank-internally accepted
- Capital ratio** robust in terms of scenarios and **RWA expectations** aligned
- Central approach to be **regulatory compliant** installed
- Sufficient **alignment** between bank steering and business established
- ...



Risk

- Portfolio screening** rigorously conducted
- Joint understanding on **key parameters** created and aligned between client and risk
- Monitoring/ work-out/ restructuring capabilities and capacities available at hand
- ...

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