



## Deutsche Bank Italy

Governance and risk management: boards of directors in the global banking industry  
*The experience of a multinational company*

September 21<sup>st</sup> 2020



# Agenda



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Deutsche Bank Italy overview

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DB SpA Corporate Governance

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Boards of directors in the global banking industry

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# Deutsche Bank Italy at a glance



Almost 50  
years of  
history in the  
country

- ✓ First representative office opened in 1977, two regional banks acquired in 1986 (Banca d'America e d'Italia) and 1996 (Banca Popolare di Lecco)
- ✓ Organic growth since mid 1990's

Business  
structure

- ✓ “**Universal banking**” model: all DB's business divisions represented, all client segments served
- ✓ Largest and most diversified Private Banking proposition outside Germany, mostly tilted towards mass and affluent clients, with **fast-growing proposition for Entrepreneurs** (Wealth Management and Business Banking)

~ 3.500  
Employees

1.100  
Financial Advisors

~ 310  
Branches

Client  
base



~ 2.2m Private Clients

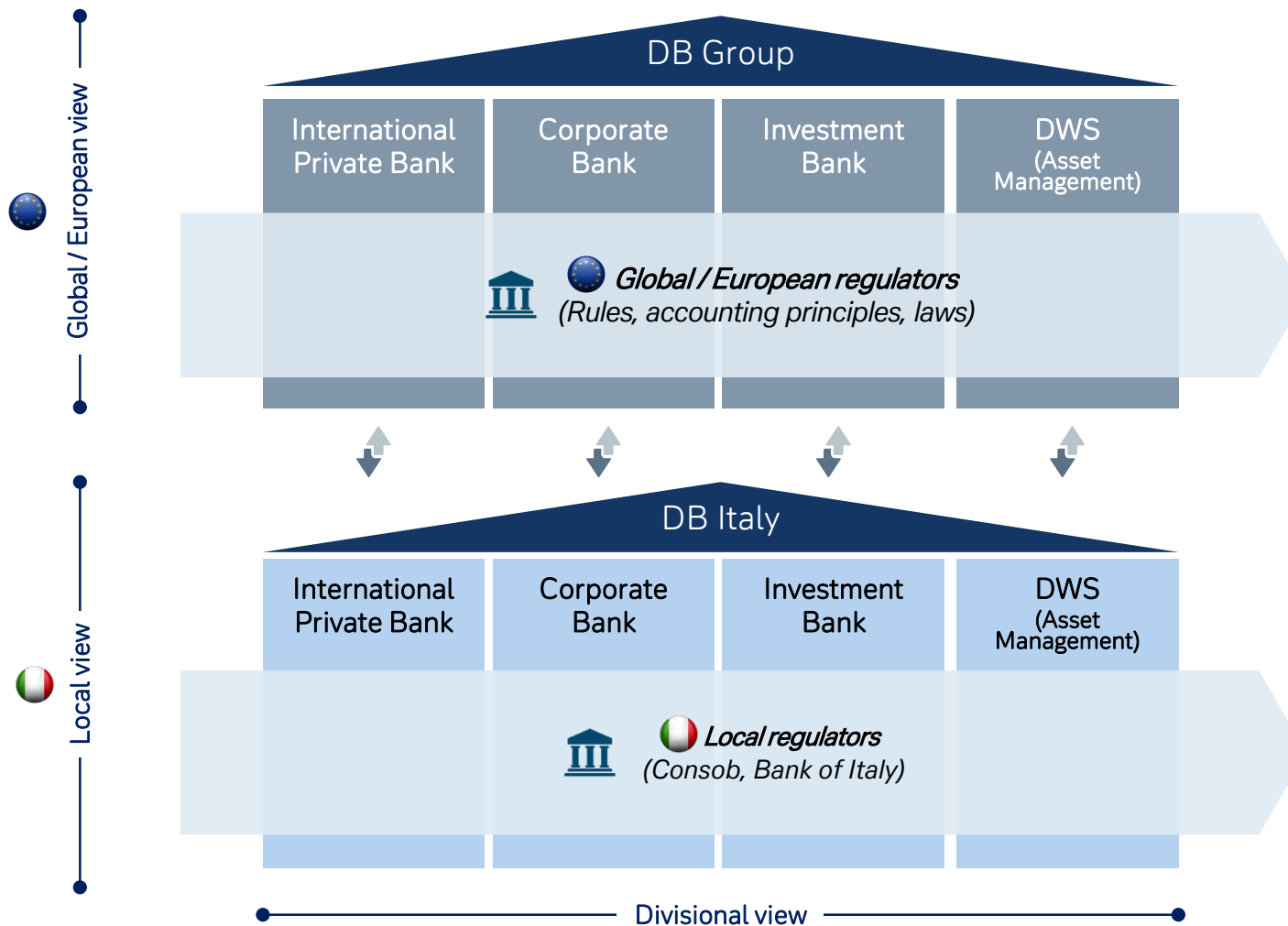


~ 60k Corporate Clients



~ 330 Institutional Clients

# DB Italy operates in a fast-evolving and increasingly complex environment



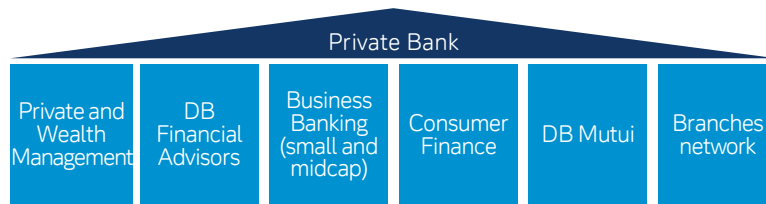
# Business overview

*Four client-centric businesses positioned to grow*



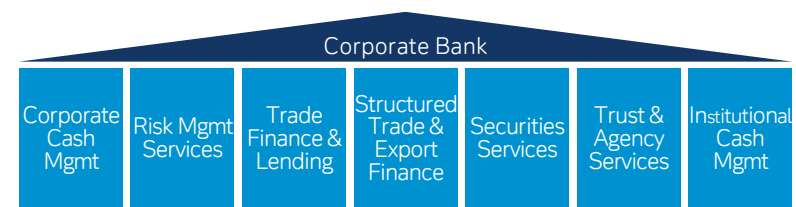
## Private Bank

Leading retail bank in Germany and focused in Europe. Global wealth manager



## Corporate Bank

One of the leading corporate banks globally



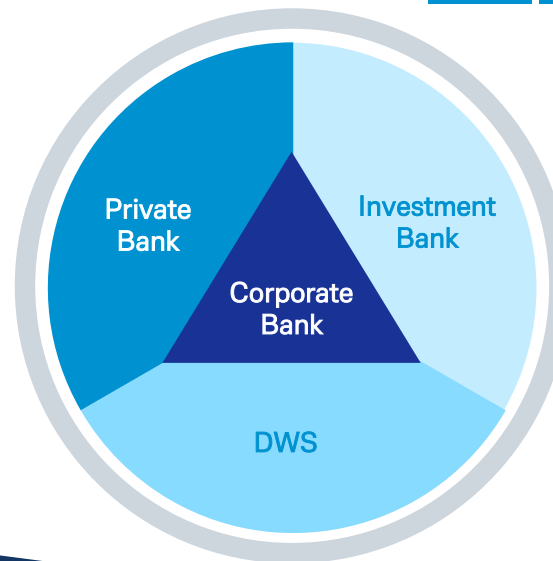
## DWS

Market leader in Germany with a global presence and a broad product offering



## Investment Bank

A focused financing, advisory and capital markets bank



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# DB SpA Corporate Governance

## *A dual governance system*



Since 2008 Deutsche Bank has been the first international banking group to adopt the dual governance system in Italy bringing the Italian structure closer to the administration and control system implemented by the Parent Company in Frankfurt

In a dual governance system, the **Shareholders' Meeting** appoints **Supervisory Board** members

### Shareholders' Meeting



The **Supervisory Board** appoints, supervises and advises the **Management Board** and is directly involved in decisions of fundamental importance to the bank

### Supervisory Board

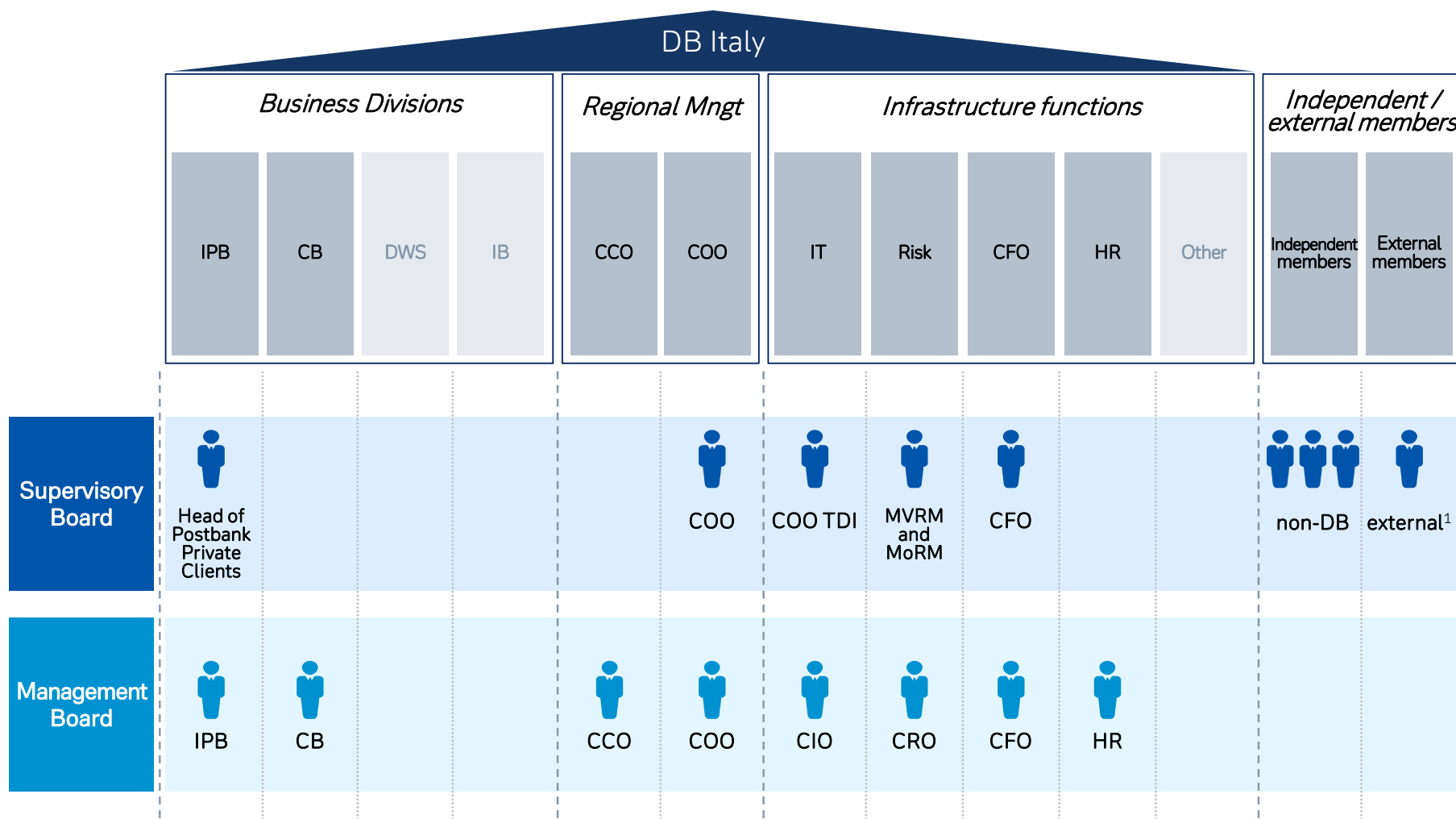
W. Steinmueller (Chairman)  
G. M. Garegnani (Vice-Chairman, non-DB)  
B. Cowie (Global Head of MVRM and MoRM<sup>(1)</sup>)  
B. Lehfeldt (COO of TDI<sup>(2)</sup>)  
J. R. Mathews (CFO Infrastructure)  
F. Rueckbrodt (COO EMEA)  
L. Stoy (Head of Postbank Private Clients)  
A. Solidoro (non-DB)  
R. Cera (non-DB)  
Secretary: M. Mengoni (Head of Legal)

The **Management Board** is responsible for **managing the Group** in accordance with the strategic guidelines established by the Supervisory Board

### Management Board

R. Parazzini (Chairman & CEO)  
R. Cabiati (CIO)  
M. Cincotto (Head of International Private Bank)  
C. Gonzaga (HR)  
P. Maestri (Head of Corporate Bank)  
S. Marulli (COO)  
S. Oezkan (CFO)  
G. Villa (CRO)  
Secretary: M. Mengoni (Head of Legal)

# DB SpA organizational structure



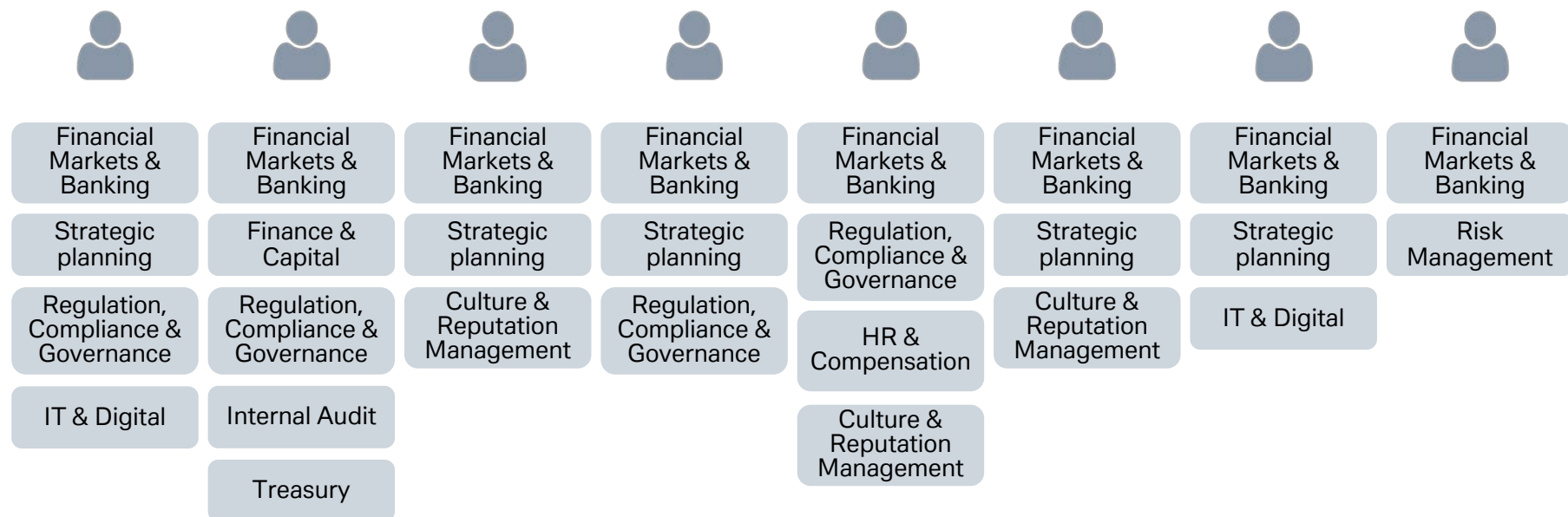


# DB SpA Management Board

*Boards of directors skills, expertise and diversity*



Through the composition of the boards, it is to be ensured that its members **have, at all times, the required knowledge, skills and experience** necessary to properly perform their tasks. Accordingly, when selecting board members, care is to be taken that they **collectively have sufficient expertise and diversity**





# Board of directors competence self-assessment

Both Supervisory and Management Board members conduct a **self-assessment exercise on an annual basis**, in order to ensure the proper functioning of the Board in terms of size, diversity, competences and professional skills

Areas of experience	Member 1	Member 2	Member 3	Member 4	Member 5	Member 6	Member 7	Member 8	Average
Financial Markets & Banking	Deep	Deep	Deep	Deep	Deep	Deep	Deep	Deep	✓
Strategic planning	Deep	Good	Deep	Deep	Good	Good	Deep	Good	✓
Risk Management	Good	Good	Good	Good	Good	Good	Good	Deep	✓
Finance & Capital	Good	Deep	Good	Good	Limited	Good	Limited	Good	✓
Regulation, Compliance & Governance	Deep	Deep	Good	Deep	Deep	Good	Good	Good	✓
Internal Audit	Good	Deep	Good	Good	Good	Limited	Good	Good	✓
Treasury	Limited	Deep	Good	Limited	Good	Good	Good	Good	✓
IT & Digital	Deep	Limited	Good	Good	Limited	Limited	Deep	Limited	✓
HR & Compensation	Good	Deep	Good	Good	Deep	Good	Good	Good	✓
Culture & Reputation Management	Good	Deep	Deep	Good	Deep	Good	Good	Good	✓

Deutsche Bank Note: Collective suitability – Two members with “deep” skill level OR one member with “deep” skill level and two members with a “good” skill level

Deep Good Limited None

# Management Board and Supervisory Board Agenda



## Supervisory Board

1.	Presentation of minutes of the previous meeting and open issues discussion
2.	Update on P&L and balance sheet related activities
3.	Update on Company Projects
4.	Update on Monthly Management Report
5.	Resolutions on items falling within the competence of the Supervisory Board: <ul style="list-style-type: none"><li>• Risk strategies</li><li>• Business continuity</li><li>• IT strategy</li><li>• ...</li></ul>
6.	Internal Control Committee report (quarterly)
7.	Risk Committee report (quarterly )
8.	Functional updates <ul style="list-style-type: none"><li>• COVID-19 – Health &amp; Safety</li><li>• Regulatory Updates</li><li>• Information system update</li><li>• Credit monthly report</li><li>• Investment Committee</li><li>• Group Audit report</li><li>• ...</li></ul>
9.	Miscellaneous

## Management Board

1.	Presentation of minutes of the previous meeting and open issues discussion
2.	Business Update
3.	Credit
4.	Relations with Regulators
5.	Infrastructure & Organizational structure <ul style="list-style-type: none"><li>• COVID-19 – Heath &amp; Safety</li><li>• NFR Committee update</li><li>• A&amp;L Committee update</li><li>• AFC periodic report</li><li>• CRO periodic report</li><li>• Data Privacy update</li><li>• HR topics</li><li>• Legal topics</li><li>• Group Audit topics</li><li>• Company participations</li><li>• Report on the activities performed with related parties</li><li>• Process of intercompany costs certification report</li><li>• ...</li></ul>
6.	Specific resolutions
7.	Miscellaneous

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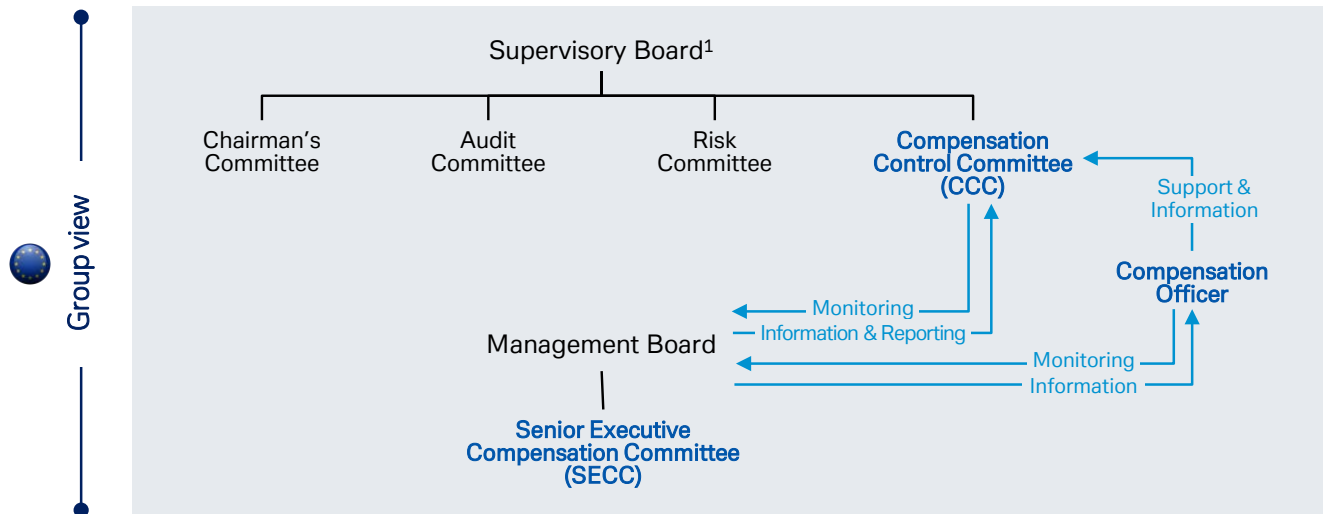
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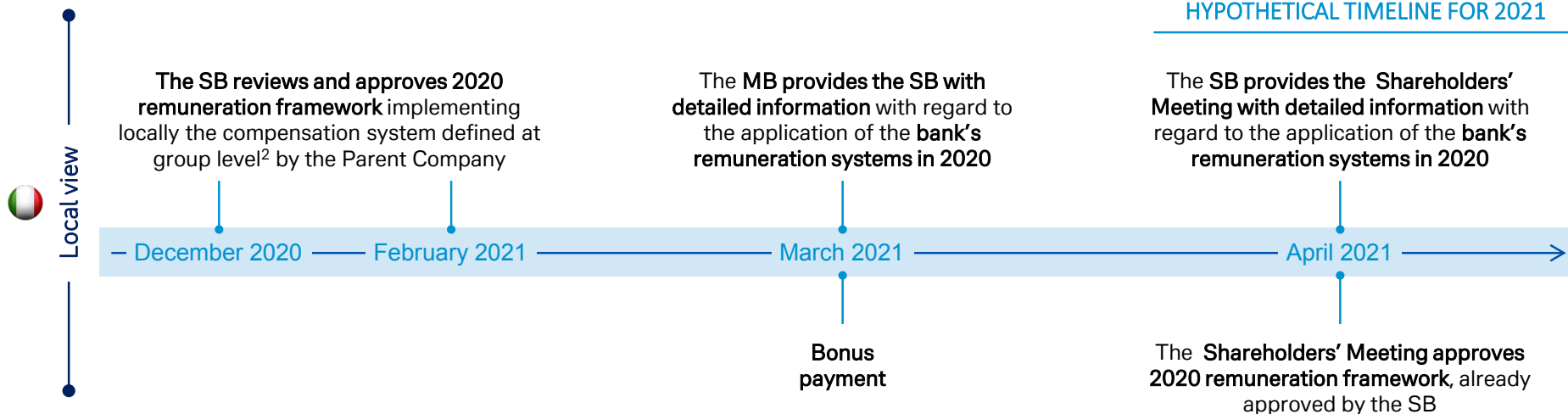
Boards of directors in the global banking industry

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# Compensation Governance in a multinational company



- In accordance with the German two-tier board structure, the **SB governs the compensation of the MB members** while the **MB oversees compensation matters for all other employees** in the Group
- Both the SB and the MB are **supported by specific committees and functions**, in particular the CCC and the SECC, respectively



# Compensation Strategy in a multinational company



## Key objectives

- To support the **delivery of the bank's client-focused, global strategy** by attracting and retaining talent across its full range of diverse business models and country locations
- To **support the long-term, sustainable performance** and development of the bank and a corresponding risk strategy
- To promote and support long-term performance based on **cost discipline and efficiency**
- To ensure that the bank's **compensation practices are safe**, by way of risk-adjusting performance outcomes, preventing inappropriate risk taking, ensuring sustained compatibility with capital and liquidity planning, and complying with regulation
- To apply and promote the **bank's corporate values** of integrity, sustainable performance, client centricity, innovation, discipline and partnership

## Core remuneration principles

- **Align compensation to shareholder interests and sustained bank-wide profitability**, taking account of risk
- **Maximize sustainable performance**, both at the employee and the bank-wide level
- **Attract and retain the best talent**
- **Calibrate compensation** to reflect different divisions and levels of responsibility
- Apply a simple and **transparent compensation design**
- Ensure **compliance with regulatory requirements**

## Local application of remuneration principles and key levers



Ensure the **transparency** of compensation decisions and their impact on shareholders and employees



**Apply** the **remuneration principles** to all employees **equally**, irrespective of differences in seniority, tenure or gender



Reward employee's individual performance through **Variable Compensation** in light of a clear link between compensation and previously agreed objectives



Reward employee's individual performance through both Corporate Title and local contractual **promotions**



Grant **Recognition Awards** to reward outstanding contributions made by the employees of lower seniority levels



Grant **Retention Awards** to retain select employees critical to the bank's future



Identify **Material Risk Takers**, who are subject to deferral of part of variable compensation aligning incentives with DB's sustainable performance and the interests of shareholders<sup>1</sup>



Establish an appropriate **balance** between **Fixed Pay** and **Variable Compensation** for **MRTs**<sup>2</sup>

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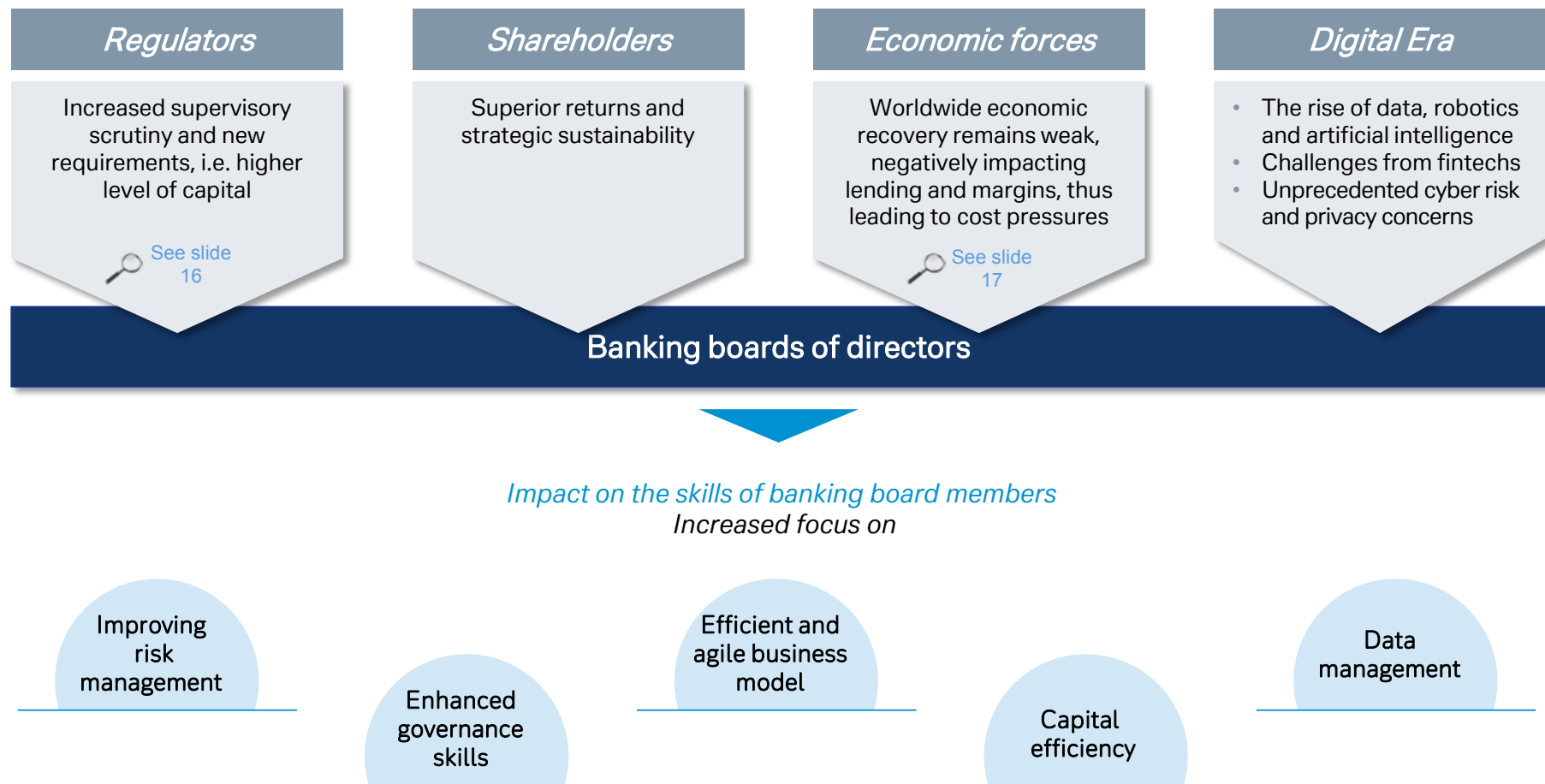
Boards of directors in the global banking industry

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# Forces exerting pressures on banking boards of directors



*Transformative shifts in the financial services industry demand transformative responses*



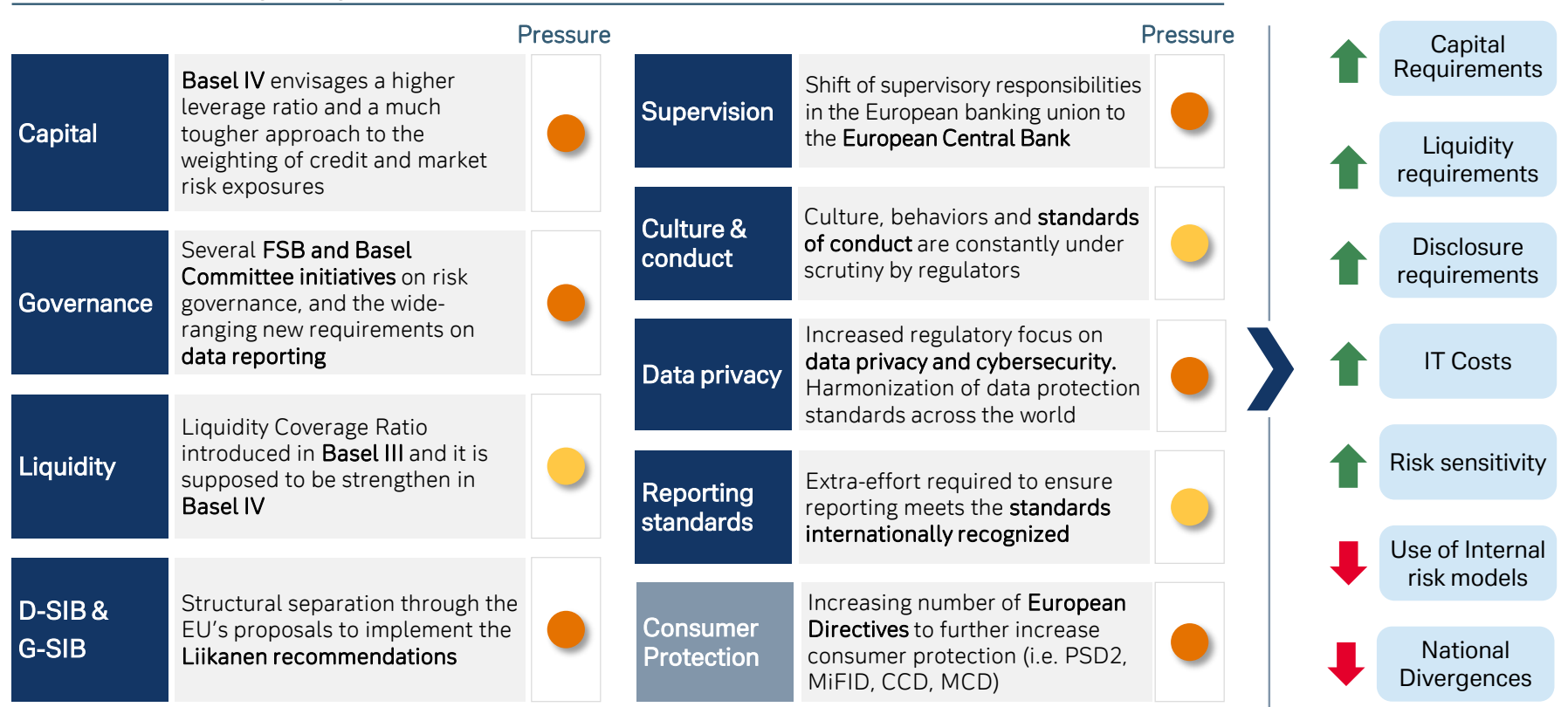


# Regulatory pressure on European banking had a tremendous increase over the last decade



- Financial institutions are bound to an **ever-growing sets of regulation** which puts immense pressure (i.e. “**consequence of non-compliance**”) to the them to comply with each regulatory requirement
- Even if the pace of new regulatory initiatives began to diminish in the last years, the full impact of earlier reforms is only just becoming material and concrete

## Factors contributing to regulatory pressure increase

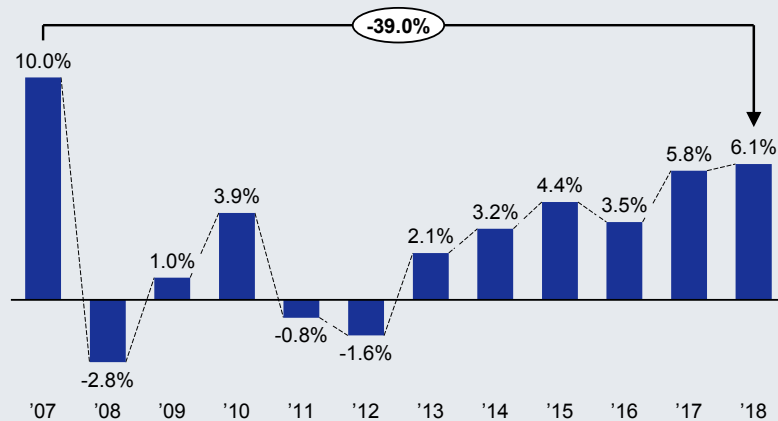


# EU-28 banks profitability continues to be weak

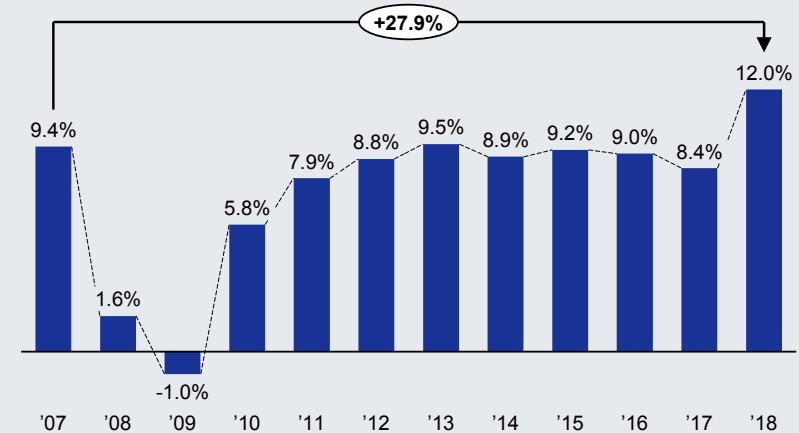
*ROE at ~6% is still below banks' cost of capital at 8-10%<sup>1</sup>*



EU-28 banks Return on Equity (ROE)<sup>2</sup>



US banks Return on Equity (ROE)<sup>3</sup>











- **EU-28 banks' ROE**, at around 6% is **still below their cost of capital**, which is estimated at around 8-10% for most banks
- European banks' ROEs remain **below that of some of their international peers** (i.e. US and Nordic banks)
- Many banks continue to have **depressed market valuations**, with price-to-book ratios well below one, mirroring their **weak current and expected profitability**
- According to McKinsey, in the muted-recovery scenario **ROE could fall by up to 11 percentage points on average in 2020–21** before starting a slow recovery to the 5 to 7 percent range by 2024–25<sup>4</sup>

# Preparing boards of directors for change

## *Boards of directors to evolve in the global banking industry*



	Enhance <b>board diversity</b> as it relates to gender but also to age, ethnic background, skill set and digital acumen (i.e. cybersecurity and IT)
	Focus on <b>non-financial risks and issues</b> that transcend financial spectrum
	Address <b>forward-looking risks</b> , including cybersecurity, automation, data privacy, integrity and reputation, etc
	Address strategy and related risks arising from the <b>interconnected ecosystem of new partnerships and alliances</b> today's banks are forming to deliver innovative services to customers
	Include <b>board members with non-industry experience</b> who can bring new insights, knowledge, competencies and experience in a changing operating environment
	Sustain <b>modern cultures and values</b> . promoting a healthy 'discussion culture' within the organization promoting diverse perspectives
	Make a change in case <b>new skills are needed in boardroom</b>
	Plan <b>board succession</b> with an eye on evolving priorities and new expertise needed in the boardroom