COMMERZBANK

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Transcript

Bettina Orlopp
CFO

The bank at your side

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Bettina Orlopp, CFO

Good afternoon Ladies and Gentlemen.

Let me now provide you with the financial framework of our strategy. The targets for 2024 are based on prudent assumptions. We have planned for an unchanged Euro interest rate environment. With this assumption, we're somewhat more conservative than the market, as Futures show about 35 bp higher levels for 2024. We've also not assumed any competitive easing in the German banking market. We clearly expect an accelerated adoption of the digital banking due to the pandemic and have included this in the plan.

It is also important to note, that we have based our plan on an economic recovery for 2021. Our economists expect a GDP growth of 4.5%. Overall, I'd say our target of 7% Return on Tangible Equity is realistic and not impacted by overly optimistic assumptions. And it has not factored in the potential for capital return of up to €3 billion, which is of course subject to receiving the prior permission of the ECB.

Cost savings are the main driver towards this target and disciplined RWA management keeps capital consumption under control. Revenues follow the clear prioritization of profitability over growth and stem from our core clients in PSBC and CC. By and large, this is a robust approach with cost savings of net €1.4 billion at the centre.

My colleagues have already elaborated on €1.6 billion cost savings. Please note, that the savings from head office and operations will be allocated to the segments and are reflected in their numbers. All savings are net of cost inflation. In other words: our assumed average cost inflation of 1.6% is already reflected in the numbers. As mBank will pursue its successful growth path, we have assigned €200 million additional costs to support its growth strategy.

The overall cost savings of €1.4 billion are equally divided between staff costs and admin costs. As I'll go into the staff cost reduction in a moment, let me spend a few minutes on the drivers for the reduction of admin expenses.

- First, a major driver stems from the optimisation of our IT platforms and the reduction of external IT staff.
- Second, we benefit from reduced occupancy costs due to branch closures and streamlining of international locations.
- Third, we gain synergies from the comdirect integration and increased efficiency in Head Office and operations.

On top of these, we expect some relief on compulsory contributions stemming from the European Bank Levy in 2024. Our cost reduction path until 2024 is characterized by lower costs every year. By 2022 more than one third of the savings will be realized.

All the cost figures in the plan already include the necessary IT investments of €1.7 billion. This €1.7 billion reflects our change-the-bank projects until 2024. As this is a cash spend number, not all of it directly shows up in P&L. Our average capitalization ratio stands at roughly 50%. One of the key cornerstones of our strategy is to become much more digital and efficient. This is what large parts of our IT-investments are assigned to.

As a result of the more digital and efficient set up, we'll have fewer jobs in the bank and this leads to lower staff costs. In numbers, we talk about a reduction of 10,000 FTEs. This is a lot and represents 30% of the workforce excluding mBank. It makes very clear how immense the transformation is.

The baseline for the reduction of 10,000 FTEs is the actual number of FTEs at the end of 2020. Please note, that we have planned for more than 80% of execution by the end of 2023. This ensures the full cost saving effect for 2024.

On the other hand, we will hire 2,300 FTEs in nearshoring locations and to replace expensive external support. On a net basis and including the slight increase in mBank, we will reduce internal FTEs by 7,500 in the group and reduce externals by 1,300.

Now let's look at the respective restructuring charges for our transformation programme. In 2021 we expect to book the remainder of the restructuring charges which, in total, amount to €1.8 billion. The vast majority of the charges are necessary to finance the FTE reduction. The average cost per redundancy has been calculated at around €160,000. This number reflects the increasing age and long tenures of affected staff, which drive the severance costs.

The remaining €200 million restructuring charges reflect, in particular, our branch closures and the streamlining of the international network. To summarize on costs and efficiency: We have looked into all areas of the bank to make sure that we identify as many cost savings as possible within the new set up. I believe we have a bold, but feasible plan!

But we won't stop here. We'll continuously look for further cost improvements and add them to the plan. Furthermore, we've set up a disciplined control process to make sure that we meet the numbers each and every year. Let me share with you two group-wide instruments, that are under my control in the CFO area.

- The first instrument is called SAVE and stands for the quantitative steering of all efficiency initiatives. On a monthly basis, we will track achievements in terms of savings and also evaluate the pipeline going forward in terms of reliability of the measures.
- The second instrument is our quarterly performance dialogue. With attendance of the managing board, the performance and outlook for every business line will be evaluated. Based on the discussion of revenues and costs, concrete measures will be decided if a business is not completely on track.

On the revenue side, we have planned for only moderate growth. Negative effects from rates and churn will be balanced out by additional business with attractive core clients and profitable products. The overall increase in revenues stems completely from mBank's growth path. On NII, we clearly expect a further drag from the negative rates environment. It's visible especially in PSBC with a €300 million impact until 2024. And again, we haven't factored in any positive impact from our strong gearing towards rising rates.

Churn is the second drag on NII and also on NCI. I'm convinced that we can limit the impact due to our respective measures in PSBC and Corporate Clients. With the targeted loan growth in PSBC and strict margin management, we will almost compensate the NII drag. Margin management includes all RWA inefficient business, but also further measures to charge deposits. The overall NII-increase of €400 million is offset by a €400 million decrease in the fair value result within other revenues. This reflects the structure of our balance sheet management and the respective hedges.

On NCI, we plan for an increase of €500 million. Profitable growth with core clients in PSBC and CC is at the top of the agenda. Regarding securities, I would like to point out that we've not extrapolated the strong securities business of 2020 to its full extent.

Regarding the risk result, Marcus has already elaborated on our view going forward. We still expect an elevated level for 2021 of 30 to 45 bp. From 2022 onwards, we expect a normalisation back to the level we had until 2019. This is reflected in our plan figure of around €700 million for the years 2022 to 2024.

With our plan for costs, revenues and risk result, the turnaround program is visible in the targets for 2024. We are aiming for an operating result of €2.7 billion. With cost savings as main driver, we'll improve our Cost-Income-Ratio by 20 ppt to 61% in 2024.

As you've seen in our cost reduction path, this plan is not back end loaded. Every year will show significantly lower costs.

Revenues are expected to be slightly lower in 2021 but to pick up thereafter. With the expected normalised risk result from 2022 onwards, our operating result should exceed the €1 billion mark again. This significant improvement in Cost-Income-Ratio positions us well in the banking landscape, which is reflected in our target of 7% Return on Tangible
Equity. The targeted return is based on overall stable RWAs, but a significantly different allocation. While lower market risk covers regulatory inflation, lower RWAs in Corporate Clients basically fund capital efficient growth in PSBC.

As CFO, I'd like to point out that this approach clearly follows our principle to prioritize profitability over growth. We will make sure that we tackle and reduce all businesses with unsatisfactory RWA efficiency.

In Corporate Clients we will re-invest €7 billion of RWA in higher margin business especially with smaller SMEs in Germany. As result we still account for a €12 billion reduction of credit RWA in Corporate Clients. These freed up RWAs will be re-invested in PSBC Germany and mBank. In PSBC Germany the focus is on capital efficient growth in mortgages, consumer finance and loans to small business customers. RWAs in Others and Consolidation benefit from regulatory treatment. To remind you, around half of the current €33 billion credit RWA results from long-term legacy positions. The remainder is mainly due to the liquidity portfolio and RWA for DTA. Overall, we expect Risk Weighted Assets of €183 billion by 2024.

The overall flattish RWAs are also reflected in the resulting CET1 ratio, which is far above MDA. We start with a CET1 ratio of 13.2% in 2020 and a buffer of 370 bp above MDA, which is currently at 9.5%. This clearly gives us the capacity to execute our transformation with existing capital resources.

As RWAs in the plan largely level out, retained earnings are the key driver for a 14.6% CET1 ratio in 2024. This ratio of 14.6% does not include any capital distribution. But it's clear that it reflects a significant amount of excess capital on top of a 200 to 250 bp buffer above MDA. We are convinced that based on an appropriate requirement of maximum 9.5%, these 200 to 250 bp are the right buffer for our substantially simplified business model.

So, let me close with our thoughts on capital distribution. Without any capital distribution, our strategy delivers a return of 7% at a CET1 ratio of 14.6%. As we're convinced that we should run a buffer of not more than 200-250 bp above MDA, we are considering respective capital returns to our shareholders. The instruments can be dividends but also share buy backs, which are subject to receiving the prior permission of the ECB. We know that the latter is an attractive instrument given the valuation we currently face.

We have run the maths to provide you with a sense for the capital that could be eligible for capital distribution, if our plan works out. The capital return of €2 billion would still translate into a CET1 ratio of 13.5% and a return on tangible equity of 7.3%.

The distribution of €3 billion lifts the return to 7.8% and still reflects a CET1 ratio of 12.5%, which is even more than the 250 bp buffer to our current MDA. The potential for capital return becomes visible by 2023. Any return, obviously, still depends on many future factors. Furthermore, it requires concrete resolutions of the relevant bodies.

But our aim is clear: We want to provide attractive returns for our shareholders and this includes the distribution of capital!

Thank you!

Disclaimer

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