COMMERZBANK

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CC

The bank at your side

Transcript

Michael Kotzbauer, Board Member Corporate Clients (CC)

A very warm welcome to you all from my side.
Let me start with a key statement on our positioning:
We are the Bank for German corporates with a clear No1 position in the SME segment.
We are regionally and firmly anchored in Germany as the leading bank of German foreign trade.
We also have an international presence precisely where our clients need us to be.
We are a highly innovative, strategic partner for our clients and we will provide them with advisory services into the future – we are absolutely committed to this.
This is the strategy which we have been implementing disciplined and successfully over the last year.
I'd like to highlight one topic right at the start that I believe is key from my perspective. And this is somethi ng I'm continually experiencing when talking to clients:
Our clients truly welcome the strategy with its clear defined focus – and they want to have a strong Commerzbank with its in-depth understanding of the German Mittelstand as a partner at their side.

Our strategy addresses 4 essential **areas for action**:

- Strengthening the strong brand of the Mittelstandsbank in Germany – with a differentiated advisory service model and with expansion of direct services.
- International focus – a clear YES for providing advisory services for our clients, the export-oriented German Mittelstand, in all important trade corridors as well as our international clients operating in the German market. We are the bridge between Germany and the world.
- Products – we are bringing products with more efficiency and excellence in line with client requirements.
- Profitability – robust portfolio management of our RWA and on the revenue side. We want to grow and we will grow – but growth will make efficient use of capital employed.

Our achievements of key milestones mark the start of our transformation in 2021 and can be seen in our financials as well.
"Promised & delivered" is what we can state following 12 months of strategy roll-out in the Corporate Clients segment.

Let's now take a look at the **Mittelstandsbank** in Germany.
The three key elements for our domestic market are straightforward.

- Firstly: the establishment of a direct bank for clients who want digital, fast and simple solutions and require a less manual spectrum of services.
- Two: The implementation of a differentiated coverage model in the advisory bank.
- Three: A more efficient use of specialists, but most importantly, intensifying advisory services for high-value clients.

In 2021, we already made significant progress in implementation.
We achieved 51% of our FTE reduction target in Germany.
We also succeeded in substantially increasing the digitalisation rate of our clients, with 24% digital banking users up to now.
Despite all the changes, we are seeing a high level of client satisfaction. This is evidenced by the 1,000 clients with whom we have been piloting our new direct banking advisory service.
The alignment abroad has also been confirmed by our clients in Germany, given that we have not seen any churn to date.
As part of our high-quality advisory services, we are striving to keep potential churn as low as possible.
In other words: The implementation in Germany has been gathering pace.
This will continue to be driven forward in 2022 with the full rollout of the advisory services models for our 19,000 core clients.

By the end of 2024, we will generate additional revenues amounting to 60 million euros with core clients.

Let's now look at our **direct bank** in further detail.
It's obvious why we're introducing this: we're cutting cost-to-serve by 70%.
At the same time, we're meeting the requirements of our clients; a direct bank model matching their aspirations.
We are providing access to simplified services and standardised products through our digital channels.
This offers our clients digitized services, products and support by sales analytics. These will enable us to deliver better, more efficient, and more digital advice.
One message here: We know that the model is working, given that we have already transferred more than 1,000 clients to our direct bank.
In 2022, we are starting with the transfer of a further 6,000 clients in parallel with more expansion of digital products and services.
By 2024, the direct bank will be providing direct services to a total of 7,000 clients. This comes with an efficient setup of central advisory services and with significantly higher load ratios of one to five hundred.
Ultimately, we will develop digital products and services for all corporate clients and will make these accessible also to our clients in the advisory bank.

Let's now turn to our **international** setup – the aim here is to streamline our international presence and focus on connectivity with Germany.
We have already completed the closure of six locations. And we have signed a sales purchase agreement for the unit in Hungary.
In 2022, by closing 4 more locations we will have reached 2/3 of our target.
Furthermore, we have already been able to significantly reduce the credit RWA by EUR 1.3 billion.
We will consistently drive this initiative forward in 2022 with the reduction of a further EUR 300 million credit RWA.
Focusing means closure of locations in the non-core markets.
And also – as is evident from Hungary – growing cooperations with partner banks will ensure ongoing easy access for our clients to selected markets.
Thanks to a new cooperation agreement with Erste Bank Group in future, we will offer our clients access to other markets in Central and Eastern Europe alongside Hungary. So, we will in fact be expanding the range of services for our clients to eight countries, including Slovakia, Croatia, Serbia and Romania.
We have also started to establish an advisory sales model. This includes two approaches, the Lean Branch concept and the sector approach.
The Lean Branch concept stands for the improved delivery and efficiency at the European locations. We will achieve cost benefits by bundling and standardising certain middle and back-office activities, centralizing those in German service hubs.
The same applies here: developed, tested and rolled out further. We started in Austria and Benelux, and will gradually expand the concept by 2024.
The same holds true for the sector approach into which we have already transferred 200 or 50% of the target clients.
In 2022, we will continue firmly on this path.
This will include a further four location closures;
a further 100 clients in the sector approach;
two additional countries, France and Spain, with a Lean Branch concept in Western Europe and,
optimisation of our established correspondent bank network.
We have already reduced this network to 1,433. This means we have significantly exceeded the target of 1,550 for 2021 and are well on the way to achieving the target of 1,300 by 2024.
We believe that we are in a good position for our clients here as well.

As a full-service bank we will improve our **product offering** strictly along our clients' needs.
We have four core levers to achieve the best possible deal for our clients:

- Automation – to name one example, we will provide automated support for processes relating to trade transactions and achieve simplification for all steps involved;

- Simplification – we have already reduced complexity by switching off 45 applications;
- Digitization – we have established a Digital FX Tool – online and mobile – to make foreign-exchange transactions simpler for our clients. In 2021 we onboarded an additional 400 clients and there is a further high potential of scalability;
- Innovations – such as Instant Payments and Supply Chain solutions based on blockchain. One example is th e facilitating of foreign trade with Marco Polo.

To remain state of the art, we continue to invest in our products under strategy 2024. Besides that, high excellence on the product side can also be achieved with cooperations.
ODDO is an ideal example. We have concluded cooperation in the area of equity brokerage and equity research with ODDO BHF for the benefit of our clients. As a result, our clients are given access to a more broadly based geographical platform than was previously the case.
Further focus is on the establishment and expansion of blockchain-based services and applications, and IoT-based Automated Finance.
This allows us to be integrated directly in the value-add or payment-transaction chains of our clients.

"Most efficient" naturally also applies to the use of our resources and here in particular on **RWA**.
12 months ago, we were confronted with a huge task relating to active RWA management – in a situation where potential effects from the pandemic were still not very clearly defined.
Today, we have already achieved more than we set out to do.
Regarding our KPI we are making good progress. We have already succeeded in significantly reducing the proportion of credit RWA below <3% efficiency to 29% of the portfolio.
We are clearly within the target corridor that we defined for the RWA portfolio with minimum efficiency.
We also achieved an overall higher RWA efficiency from 3.2% in 2020 to 3.8% in 2021.
This has been achieved through the implementation of a disciplined RWA management and tackling our portfolio name by name.
Successful measures here include rightsizing of undrawn credit lines, increasing margins and cross-sell.
In 2021 we also exited inefficient non-core clients and freed up RWA and capital.
In addition to that, we will once again review securitisation as a potential option in 2022.
Our outlook on 2022: we will encounter adverse effects from regulatory and model impact and post-covid ratings, therefore we expect our KPI of credit RWA at 31% of the portfolio at year end, but just to be clear we are fully on course for our 2024 goals.

Let's take a more detailed look at the individual impacts on RWA.
The above-mentioned proactive management of the RWA led to an effect of EUR 9 billion in 2021 and this corresponds to a reduction to EUR 81 billion.
As I've already stated, we will encounter a RWA increase of roughly EUR 6 billion in 2022. This includes regulatory and model effects of EUR 7 billion and a deduction of EUR 1 billion on OpRisk, resulting in around EUR 87 billion of allocated RWA.
This should be regarded as the new starting point of our active management measures.
Up to 2024, we will essentially see two effects within the framework of our ongoing profitability drive:

- First: Robust management of less efficiently invested RWA and conclusion of the closure of locations internationally.
- Second: We will support growth and reinvest up to EUR 4 billion.

Based on that, we are targeting RWA of EUR 82 billion in 2024, compared with an earlier target of EUR 84 billion.

Let me start with the righthand side of this slide on **costs**.
In 2021, we already succeeded in reducing costs by around EUR 150 million.
And, as of now, we have logged in 50% of our planned reduction in full-time equivalents.
By overachieving our FTE targets in 2021, we created a tailwind for 2022.
Streamlining of our advisory services and the efficiency measures on the product side, will generate addition al cost savings of around EUR 600 million by 2024.

Moving to the left side and revenues. Despite the outlined reduction in costs and RWA we expect almost stable revenues in 2024, with no effects of rising interest rates included. Lower revenues from our closure of foreign locations and the off-boarding of non-core, low-RWA-efficient clients will almost be offset by growth. Looking at 2021 results we can say that we had a first good step and we are confident of reaching our 2024 goals.

So on the next slide - What have we planned for further implementation of the **strategy** up to 2024?
In Germany, we will transfer all clients to the new advisory services models direct and advisory bank.
All our clients will also have access to digital channels.
Outside Germany, we will conclude the streamlining of our international presence with the closure of a total of 15 locations by 2024. By the end of 2022, we are already planning to have completed 2/3 of this.
We will further accelerate the consolidation of our trading systems and thereby target a 40% reduction of system applications.
We will be completing the headcount reduction.
Clearly, we will remain in our target corridor of efficient deployment of capital. And we aim to achieve our target of 22% of the portfolio with an RWA efficiency below 3%.

So, let me conclude with the **key financials** of corporate clients:
Looking at 2021 we have lowered the cost base and reduced RWA by a total of EUR 9 billion. And at the same time kept our revenues stable.
We reduced the headcount by 450 full-time equivalents and we are therefore ahead of the planned reduction.
Overall, this leads to a reduction of our Cost-Income-Ratio by 5 percentage points to 75%.
As a result our RoCET increased from -4% in 2020 to 7% in 2021.

On the basis of the improved Cost-Income-Ratio and reduced RWA, we are targeting a RoCET of approximately 10% by the end of 2024 – compared to 2020 figures an increase of 14 percentage points.
This is a very clear signal for our turnaround.

With this I would like to conclude my presentation.
Many thanks for your attention and over to you Bettina.

Disclaimer

This transcript contains forward-looking statements. Forward-looking statements are statements that are not historical facts. In this release, these statements concern inter alia the expected future business of Commerzbank, efficiency gains and expected synergies, expected growth prospects and other opportunities for an increase in value of Commerzbank as well as expected future financial results, restructuring costs and other financial developments and information. These forward-looking statements are based on the management's current plans, expectations, estimates and projections. They are subject to a number of assumptions and involve known and unknown risks, uncertainties and other factors that may cause actual results and developments to differ materially from any future results and developments expressed or implied by such forward-looking statements. Such factors include the conditions in the financial markets in Germany, in Europe, in the USA and other regions from which Commerzbank derives a substantial portion of its revenues and in which Commerzbank holds a substantial portion of its assets, the development of asset prices and market volatility, especially due to the ongoing European debt crisis, potential defaults of borrowers or trading counterparties, the implementation of its strategic initiatives to improve its business model, the reliability of its risk management policies, procedures and methods, risks arising as a result of regulatory change and other risks. Forward-looking statements therefore speak only as of the date they are made. Commerzbank has no obligation to update or release any revisions to the forward-looking statements contained in this release to reflect events or circumstances after the date of this release.

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