

# Commerzbank: digital and personal

Workshop – Private and Small Business Customers (PSBC)

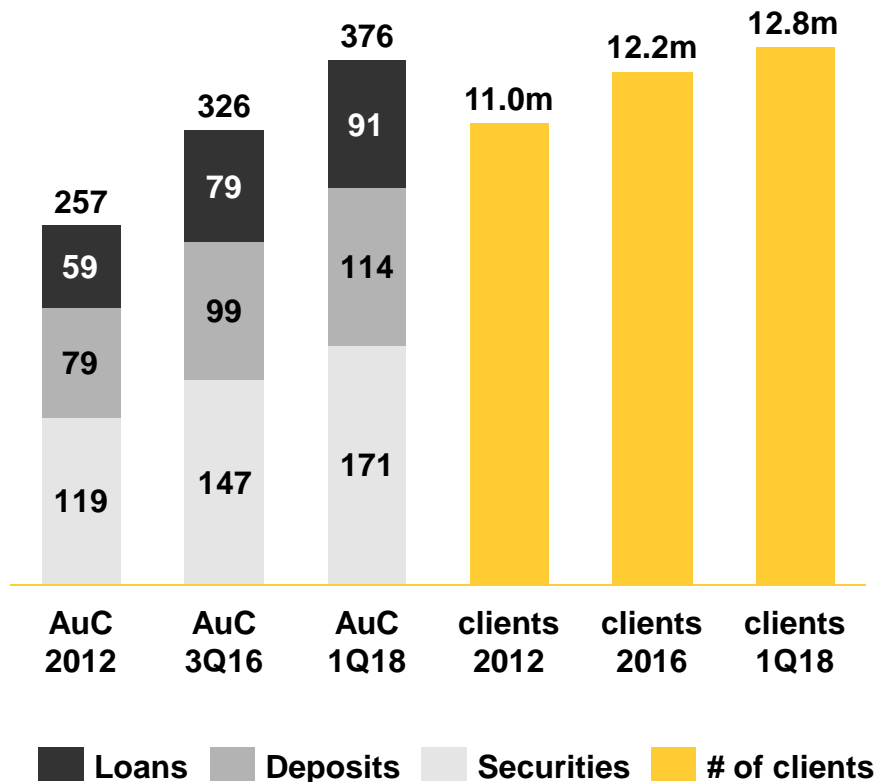
## Since 2014 we have pursued a consistent retail banking strategy

- › The future of retail banking is **digital and personal** – multi-channel banking will replace branch-based banking faster than we think
- › **Digital data management and digital CRM** will revolutionise our customer advisory and sales processes and are the new core capabilities
- › Retail banking is a scalable business – in an environment with rising regulatory costs and falling margins the only way to increase profitability is to **grow faster than our competitors**
- › Many banks have not yet realised how serious the situation is – that allows us to **scale growth massively** with the help of digital channels, new technology, partnerships, and also to defend against digital disruptors
- › In the future, product sales and customer acquisition will be mainly managed via digital channels – to grow in a digital world, **core processes** must be **fast and easy, be digital, be paperless, be channel-identical**
- › Lending, private pension plans and wealth management will remain advisory business – **if digitally linked that need for advice will not disappear** even if it is only relevant mainly for ~20% of clients
- › Our branch network is not viable in its historic purpose – we need **differentiated branch formats** with different functionalities while maintaining a sufficiently dense, nationwide presence
- › Our organizational structure is too complex, support functions too big, steering and incentive systems are outdated and implementation is too slow for a digital world – we **need to be leaner** in many areas!
- › A **digital multi-channel banking strategy opens multiple avenues for profitable growth** – to further extend our competitive lead position we have to move ahead quickly, resolutely and with focus!

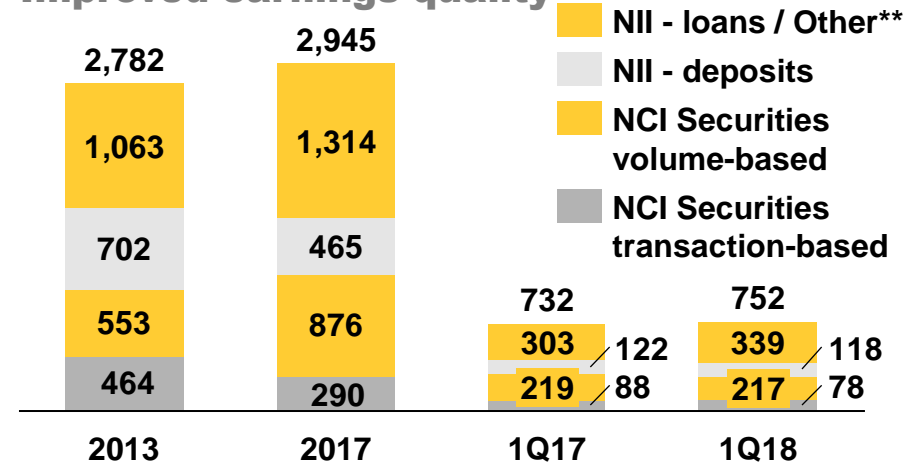
# Update PSBC (Germany) – we made further progress in multiple areas

## More Assets under Control and customers

(AuC: €m eop)

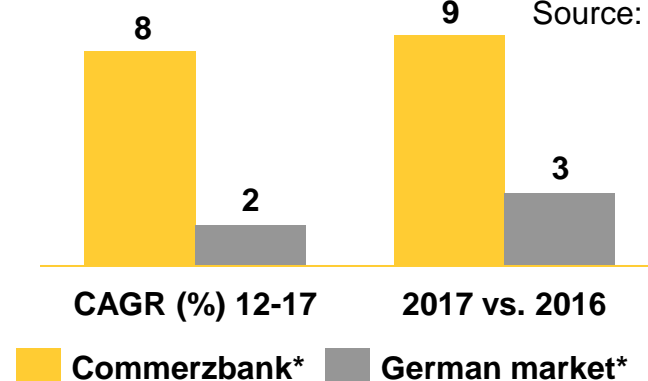


## Improved earnings quality



## Lending growth continues above market

Source: Bundesbank



# New customers remain on track to yield above-average income (~€300)

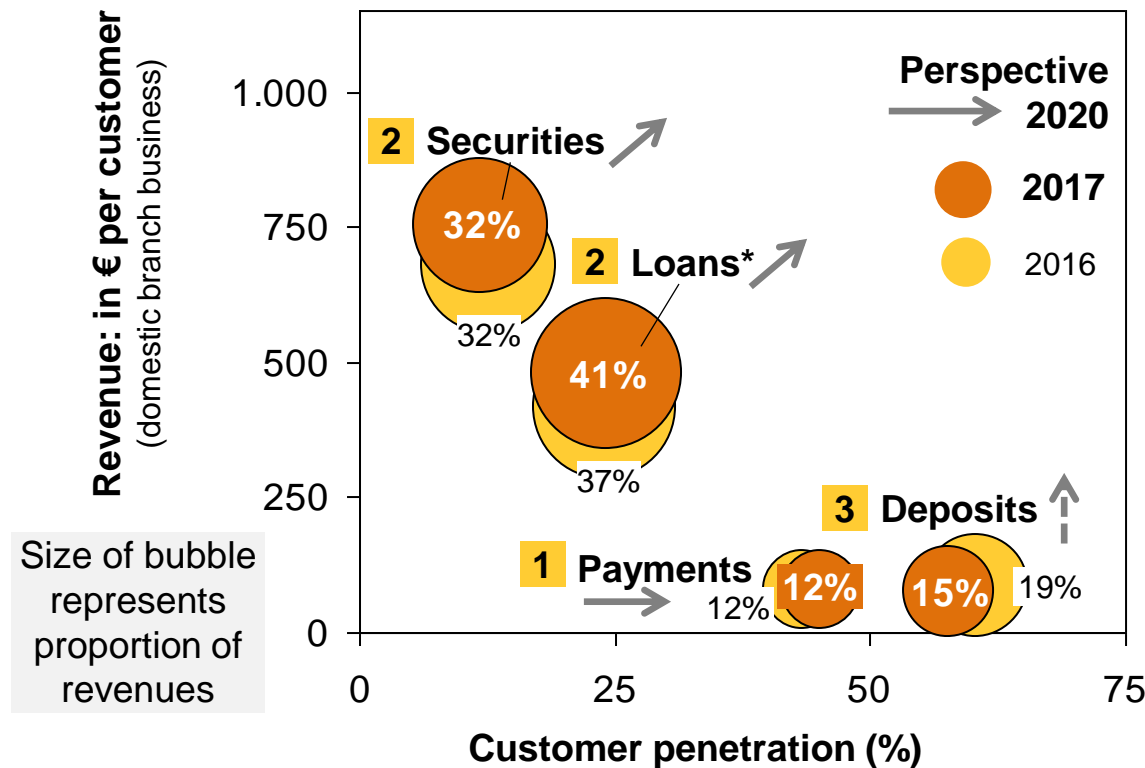
## Ø Revenue per new customer per year\*

Domestic branch business (in €)

	2013	2014	2015	2016	2017
<b>New customers 2013</b>	Year 1 94	Year 2 243	Year 3 268	Year 4 280	Year 5 305
<b>New customers 2014</b>		Year 1 94	Year 2 294	Year 3 319	Year 4 352
<b>New customers 2015</b>			Year 1 96	Year 2 280	Year 3 334
<b>New customers 2016</b>				Year 1 83	Year 2 249
<b>New customers 2017</b>					Year 1 66

 **New clients continue to earn their acquisition costs of €150 - 250 swiftly**

# Growth potential from both new as well as existing customers



- 1** Largely cost free current account as anchor product offers sizable cross-selling potential in lending and securities
- 2** Rising loan volumes almost fully offset declining deposit margin – commission income from securities drives revenues
- 3** Deposit base offers sizable revenue potential if interest rates normalise – no change expected until 2020, however


 **Current account opens full potential of primary banking relationship**

# New customers account for more than half of AuC growth in 2017

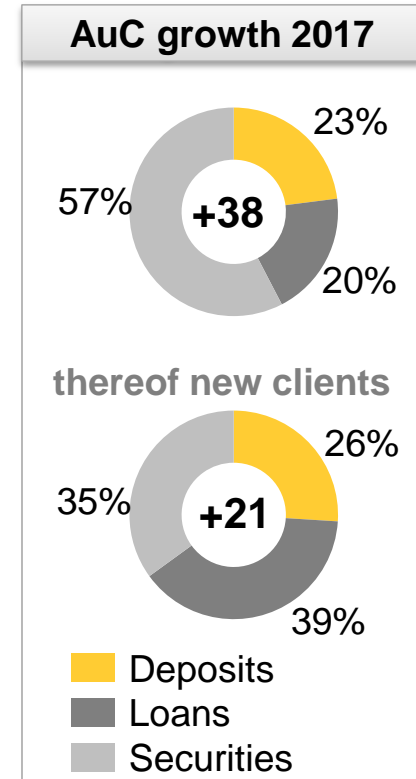
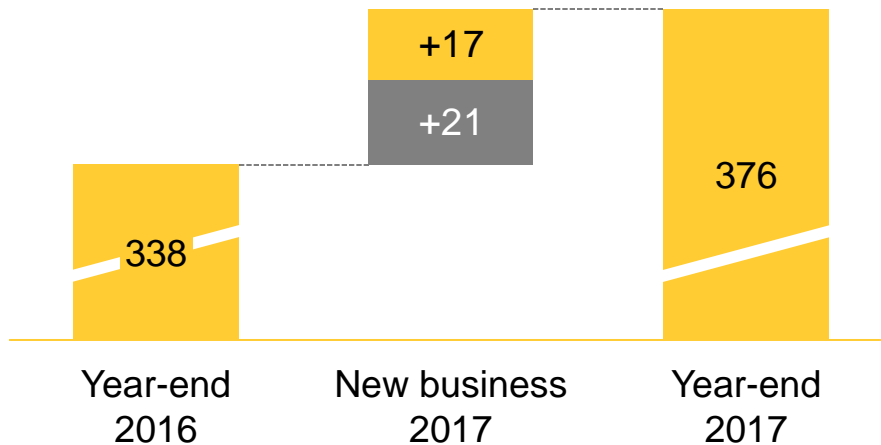
## Assets under Control\* (AuC)

EoP in €bn

AuC growth from

 Existing client base

 New customers

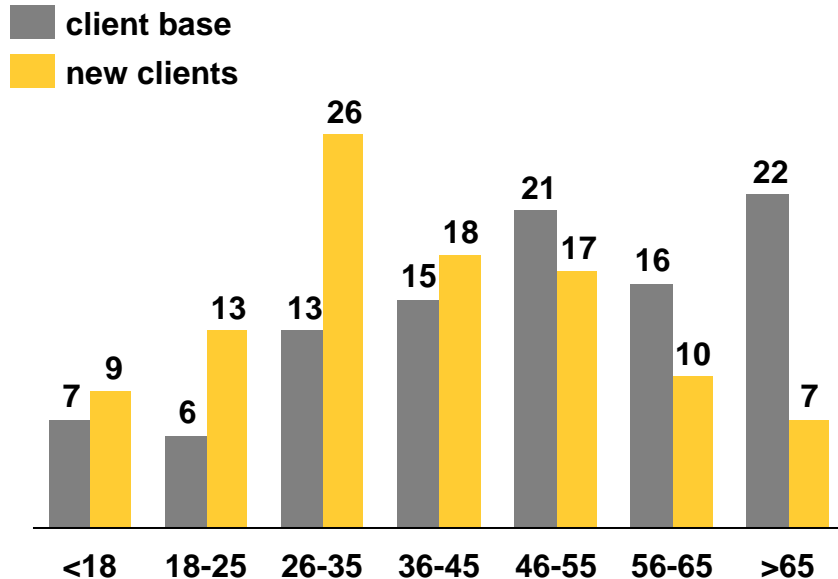


 **In line with life cycle new clients show an above average share of loans**

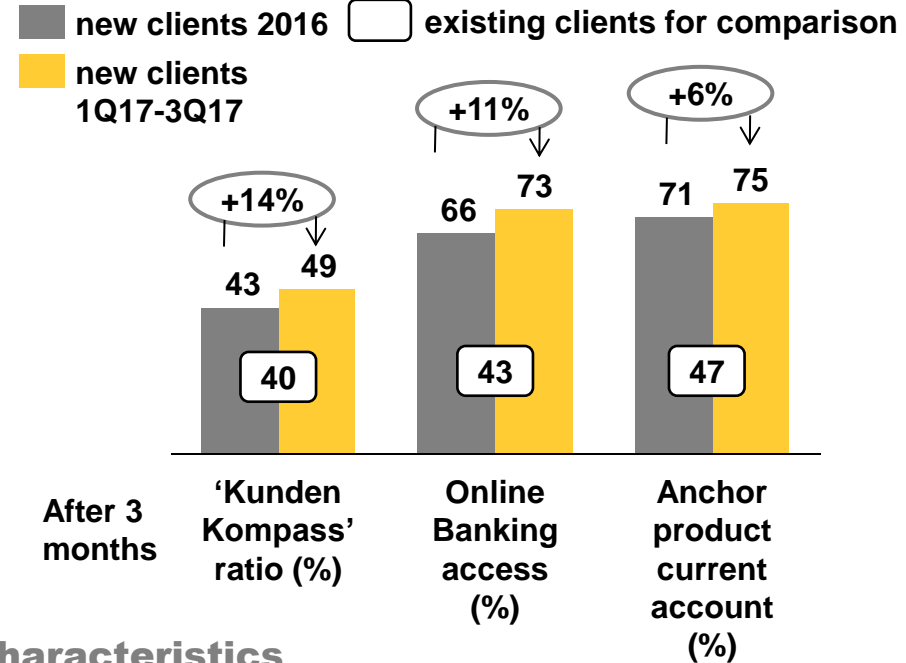


# Attractive new customer mix because of favorable channel mix

## Age of new vs. age of existing clients\* (%)



## Quality characteristics of new clients\*

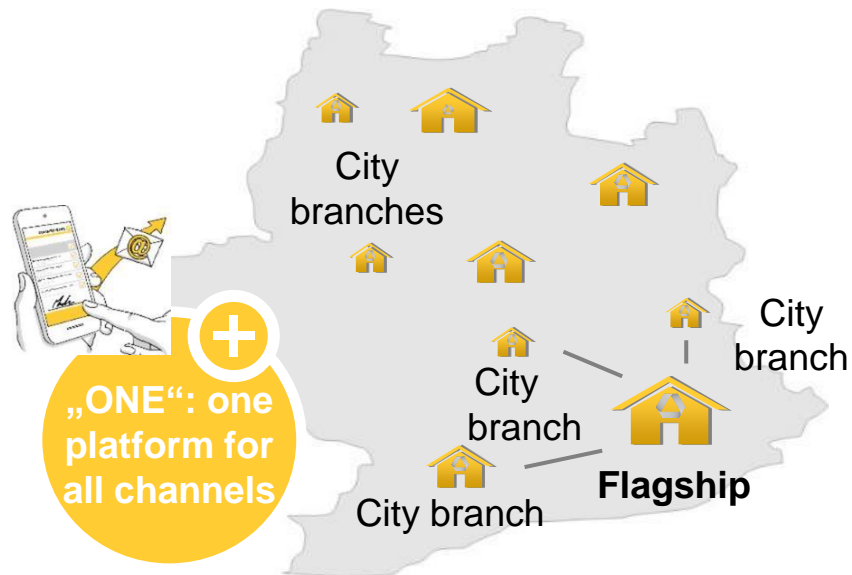


## New customers show above average quality characteristics

- › New clients are more affluent: 22% share vs. 12% market average
- › New customers gained via branches show a high product penetration over a short period of time
- › Younger new clients with higher online banking affinity and increasing revenue potential over time

# Where competitors close branches our growth is particularly strong

## The future is digital and personal



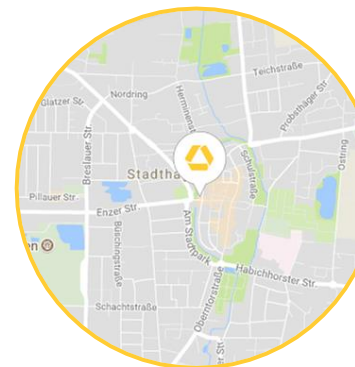
- › By 2022 about half of branches are either offering comprehensive service or in cost-efficient format
- › Up to 40 City branches operating at end of 2018 – in addition, comprehensive refurbishment measures at ~200 locations

### Kaltenkirchen

ca. 21,000 inhabitants

- › **80%** more net new customers
- › **14%** more new business
- › **14%** more total revenues

Dense branch network maintained\* – in contrast to many rivals



### Stadthagen

ca. 20,000 inhabitants

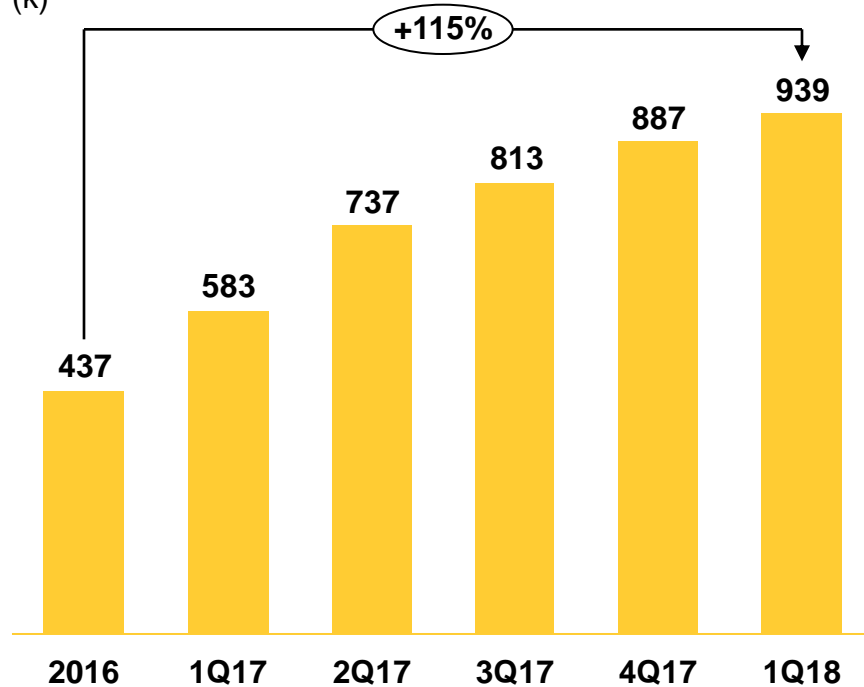
- › **30%** more net new clients
- › **35%** more new business
- › **11%** more total revenues



# Rapid growth in mobile banking offers revenue and cost opportunities

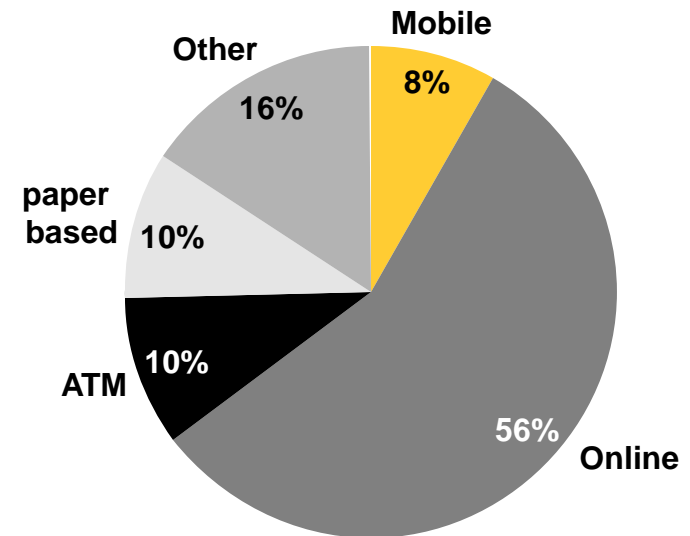
**Active Mobile Banking User\***

(k)



**Money transfer per channel**

(March 2018)



**Numerous new mobile banking features to be rolled-out**

## Commerzbank 4.0 strategy is increasingly bearing fruits



### Digital

State-of-the-art, award winning product range

### Personal

Close to our clients with ~ 1.000 branches in efficient formats

### Competent

Covering all client needs in highly competitive German market

### Growth

On track to achieve our customer and AuC targets by 2020

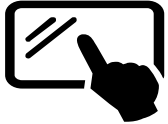
### Profitable

Revenue growth and cost management will drive higher profitability

# Segment Small Business Customers (SBC)

Ulrich Coenen, Divisional Board Member

# Market segment for German Small Business Customers is on the move



40% are **dissatisfied** with digital banking offerings, while 70% of customers **use digital offerings**

4 out of 10 companies are looking for a **successor** in the next 5 years



Every 10<sup>th</sup> bank branch closed in the last 5 years – disregarding that **proximity** to branch is **essential for 60%** of entrepreneurs

Entrepreneurs are looking for partners at eye level: “I expect my **bank** to be a **real business partner**”



Foreign trade becoming more and more important for SBCs: 20% of **German exports** driven by business customers

**Strong credit demand** by SBC exceeds overall GDP growth



→ Great potential for digital financial solutions: >80% of firms with <5 employees

# SBC's strategy is based on the key strengths of Commerzbank

## Wide product range ...

- › Commerzbank offers sophisticated product expertise from both the retail as well as the corporate banking sphere
- › As the leading Mittelstandsbank we serve corporates and entrepreneurs with comprehensive solutions and broad international services



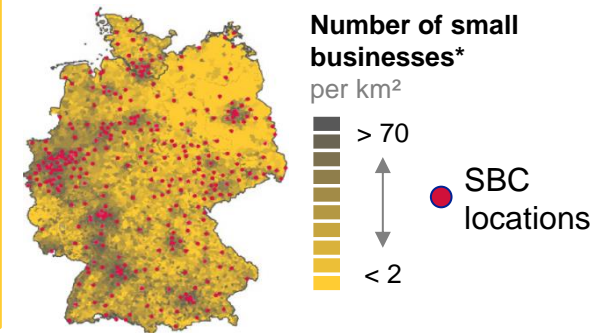
## ... digital ...

- › Our Commerzbank 4.0 strategy transforms the bank into a digital enterprise – clients benefit from full digital client services
- › Numerous new digital functionalities aim to help entrepreneurs to better manage their business



## ... and personal

- › With 330 SBC and >100 Wealth Management locations Commerzbank maintains close proximity to its clients
- › Almost half of small businesses are located in cities with an SBC branch



The **Small Business Customers** segment combines the strengths from **Private Customers** and **Corporate Clients**



# Our strategy: state-of-the-art solutions & client-centric business model

## Digital solutions

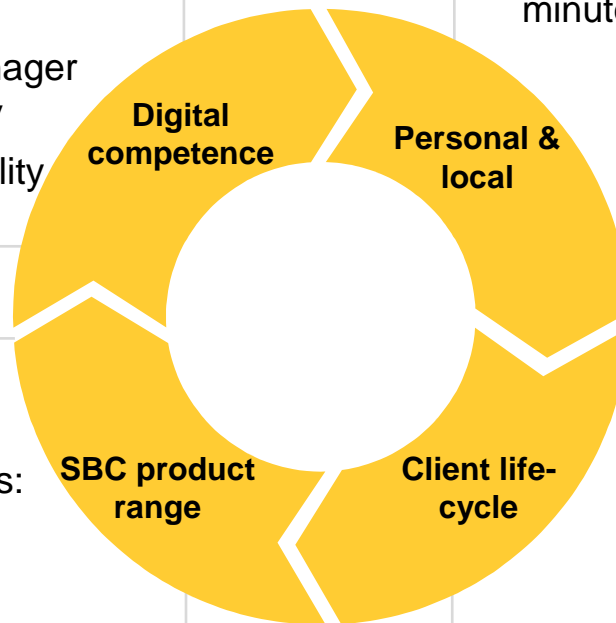
- › Digital proposition to help the entrepreneur manage his business rather than just offering transaction banking
- › CashRadar – digital liquidity manager including multi-banking capability
- › New digital onboarding functionality

## Relationship model based on personal advisory and regional reach

- › 82% of small businesses within 30 minutes reach of a relationship manager
- › 330 SBC locations nationwide
- › 1,600 FTE workforce dedicated to SBC clientele

## Standardised solutions for small businesses

- › Broadened international business: FX and documentary solutions
- › New leasing offer and expanded subsidies
- › Comprehensive current account, payment and credit solutions

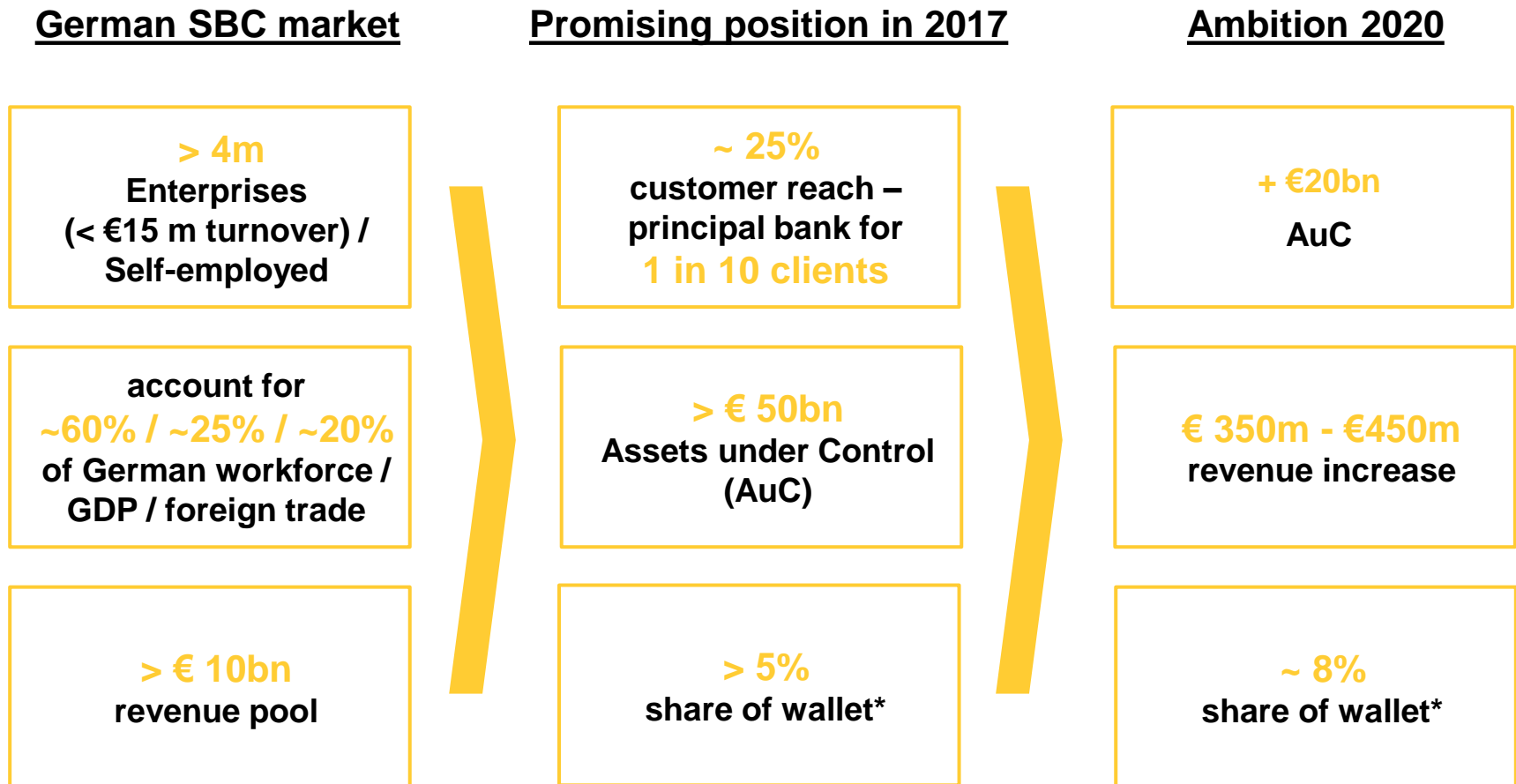


## Covering full life-cycle of an enterprise

- › Starter package covers all basic needs of small businesses incl. loan facility
- › Succession portal
- › Business & private needs combined: SBC goes Wealth Management

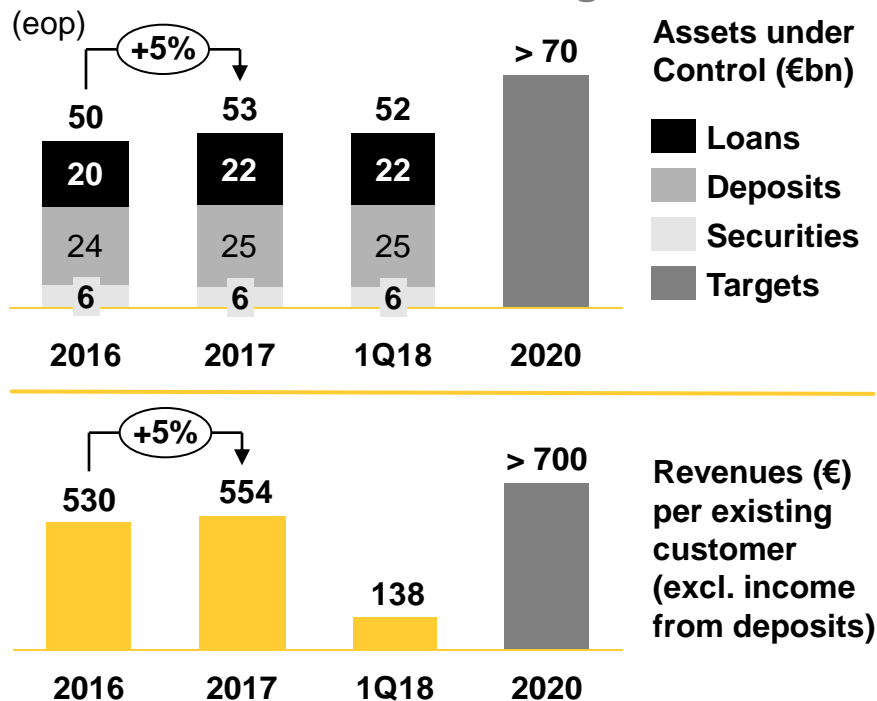


# German Small Business Customers represent an attractive client group



# Growth in AuC and revenues per customer drive future profitability

## Ambitious medium-term targets (eop)



## Common strategic ground with PC\* Germany

### Growth

SBC ambition +€350-450m higher revenue by 2020

- › through AuC growth ahead of the German market benefiting from the proximity to our clients together with our proven corporate customer know-how

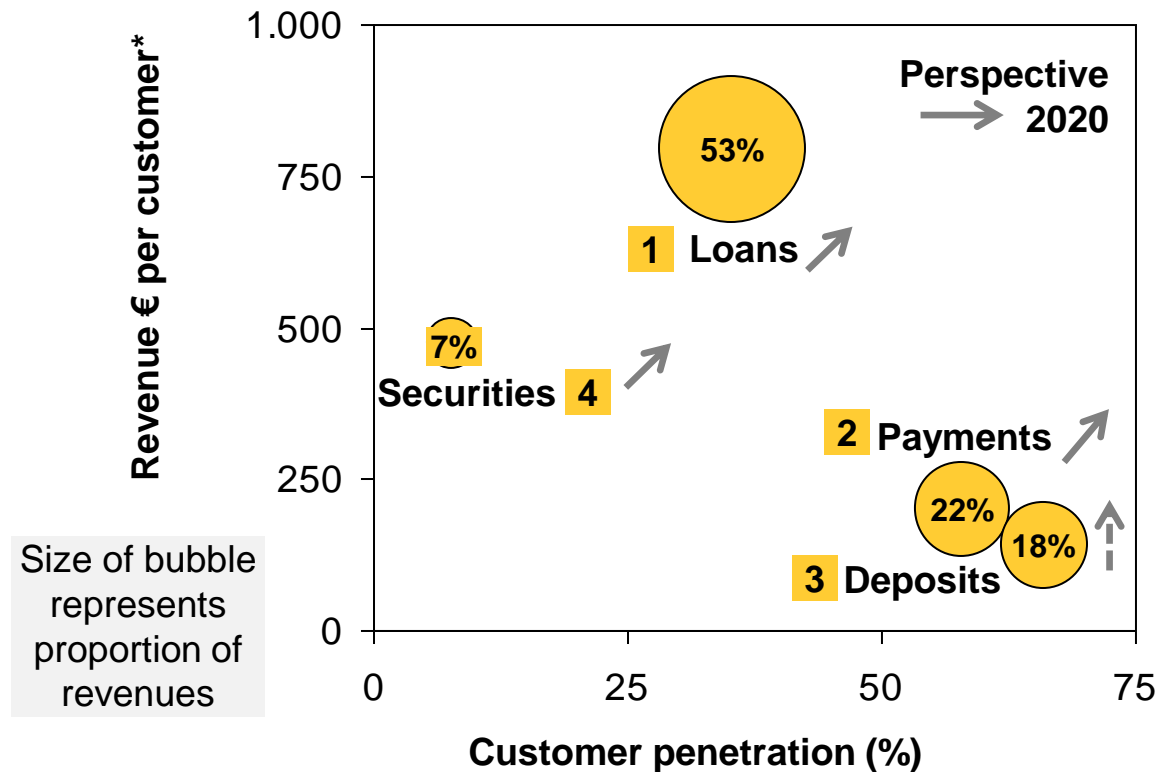
## Strategies are different in one main aspect

### Priorities

- › 1<sup>st</sup> pillar: raising revenues per client by improving customer penetration – volume growth plus higher margins due to a more favourable business mix
- › 2<sup>nd</sup> pillar: net new customer growth – SBC already has a relationship with 1 in 4 small business clients

 **Growth strategy will significantly raise our share of the SBC market wallet**

# Customer penetration in lending and payment business is already high



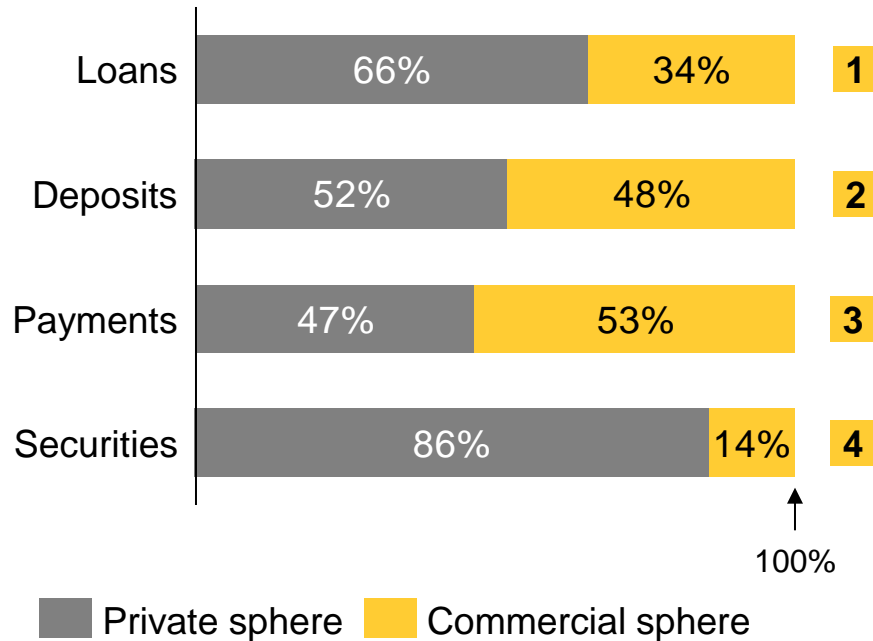
- 1** › Strongest growth expected due to digitalized processes, change in product mix and new credit product initiatives (leasing, founder credit, etc.)
- 2** › CashRadar and other digital offerings likely to significantly expand payment services
- 3** › Deposit base offers sizable revenue potential if interest rates normalize
- 4** › Securities business should significantly benefit from wealth management service for entrepreneurs

 **Lending in particular, as well as payment business, will largely drive income**

# Future focus on the entrepreneur's commercial sphere mainly drives NII

## Private sphere of the entrepreneur dominates

(# of products used; as of year-end 2017)



## Mid-term outlook: NII to outperform NCI

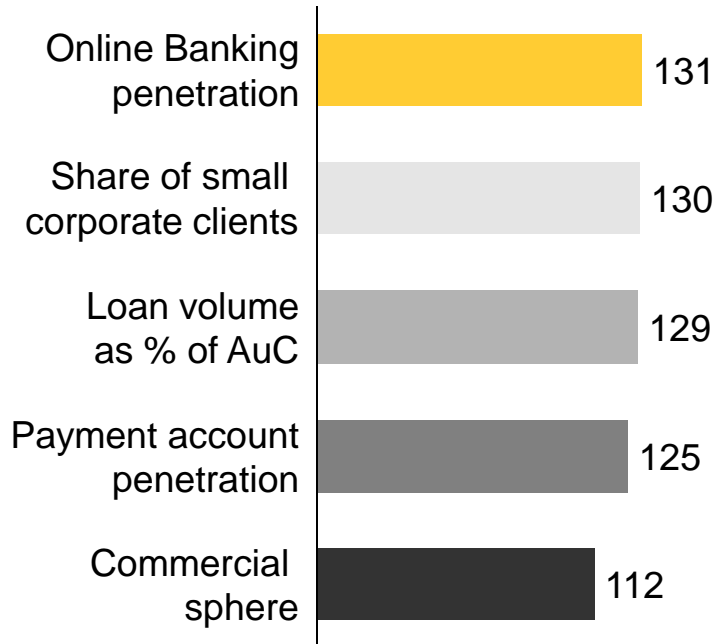
- 1 › Residential mortgages account for < 40% of credit NII in 2017; we aim to lower the share to < 30% by 2020 – up to 2/3 of credit NII should come from commercial loans
- 2 › As a result of targeted strong loan growth mainly on the commercial side, loan-to-deposit-ratio should approach 100% by 2020
- 3 › Steady stream of NCI from payments
- 4 › NCI in securities business benefitting from close collaboration with Private Customers in Wealth Management – PSBC has leading position with > 100 locations nationwide

 **NII as a percentage of total revenues should rise from ~2/3 to ~3/4 by 2020**

# Growing our customer base is additional priority – results are promising

## Characteristics of new vs. all clients

(indexed to 100%)



## Good quality of recent new client vintages

Analysis of our existing SBC client base shows that profitability of a customer is highly correlated with ...

- › ... its loan volume – the higher the share of loans for the entrepreneur's commercial side the better
- › ... its online banking use – the online channel has a positive effect on the number of products sold
- › ... the existence of a payment account which is the main anchor product of a client relationship
- › ... the share of small corporate customers which generate more revenues than self-employed

**New clients share promising characteristics – customers acquired in 2016 are already more profitable than an average client!**

 **New clients will contribute to higher profitability of customer base over time**

# Growth case SBC: strategy 4.0 bears fruits – strong pipeline of measures

## Premium private offer

Q1 / 2017

Attacker offering to develop private side of entrepreneurs



## Sector:Radar

Q4 / 2017

In-depths studies / industry-specific reports to support sales function



## Client migration from CC

Q3 / 2018

Migrating customers (> €2.5m < €15m turnover) & products



## Customer centre 2018

Digital & Personal: supplements branch and online (24/7) sales channels



## Founder offering

Q2 / 2017

Payments, credit as well as insurance solutions for enterprise founders



## Succession portal

Q4 / 2017

Search portal, value calculator for enterprises, sector reports "Sector:Radar"



## FX and investment products

2018

Extended currency hedging and investment business



## Digital offers 2.0 2018

Extended liquidity management and first partnership offers



## CashRadar

Q4 / 2017

Modern liquidity management with transactions forecast



## SBC report

Q4 / 2017

Annual SBC market survey to strengthen client interaction



## Documentary business

2018

Standardised documentary business



## Digital account / client / processes 2018 / 19

Industrialised processes e.g. for KYC, account opening



## Leasing

Q4 / 2017

Additional financing option: partnership with CommerzReal



## Extended ÖFP offering

Q1 / 2018

Digital access to public development funds



## DCRM / Analytics & Dynamics

2018

Visualised marketing tools to optimise sales support



## Comprehensive loan process

2019

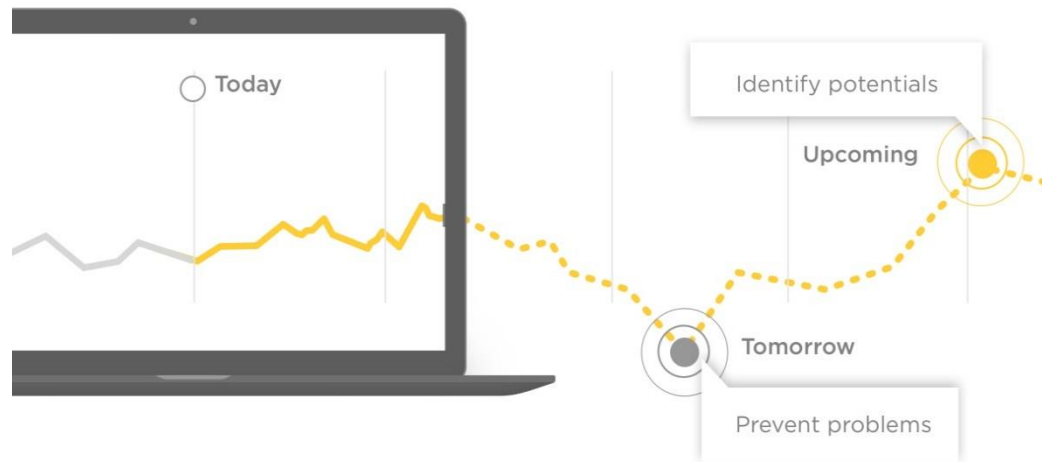
Industrialised loan processes via Master Journeys





## Example for SBC's digital excellence: liquidity manager 'CashRadar'

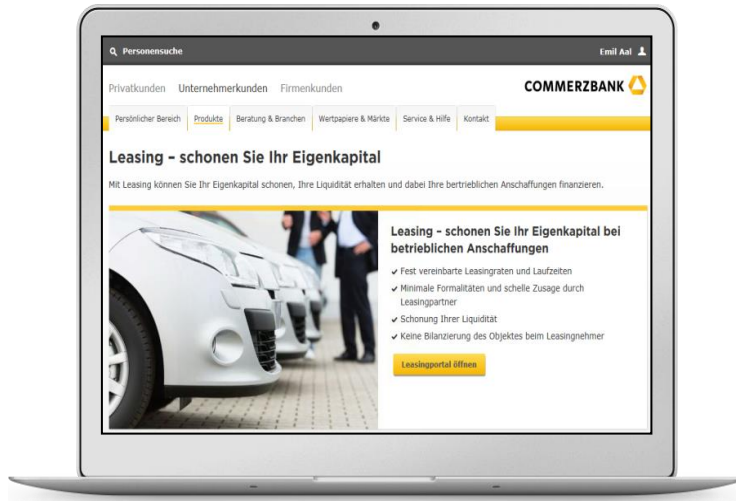
### CashRadar: digital liquidity management solution with multi-banking capability



- › Multi-banking solution gives full transparency over all of the entrepreneur's business accounts
- › Revenues & expenditures analysis with liquidity forecast for up to 120 days
- › Efficient planning of investments – early signalling of any needs for action
- › Modern liquidity management – simple, intuitive to use, transparent
- › Beta version with most features up and running since January 2018, full use since March 2018
- › Over 1,800 customers on-boarded

 **SBC's competence is to stay one step ahead of competition**

# Leasing as a core product with strong growth and earnings potential



## Perfect example how to leverage PSBC's strengths

- › Leasing platform in cooperation with Commerz Real as a strong and highly experienced partner
- › Digital & intuitive platform – fast leasing approval through direct contract creation process

## Strong market potential within SBC segment\*

- › Leasing new business on record high (2016: €64.2bn, +9%)
- › 90% of all leasing contracts are made with medium-sized companies
- › Leasing accounts for ~50% of all debt financed investments

→ **SBC estimates > 300k potential clients, average ticket size of up to €80k**

## Commerzbank 4.0 strategy is increasingly bearing fruits



### Digital

Numerous digital initiatives particularly on the corporate side

### Personal

Proximity to our clients with dense nationwide branch network

### Competent

Competitive strength due to strong Corporate Clients expertise

### Growth

Focus on growing AuC as well as revenues per customer

### Profitable

More favorable business mix will progressively raise profitability level

## For more information, please contact Commerzbank's IR team

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## Financial calendar

**2018**

07 Aug



Q2 2018 results

08 Nov



Q3 2018 results

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