



COMMERZBANK

Capital Markets Day February 11th, 2021

Transcript

Manfred Knof
CEO



The bank at your side

Transcript

Manfred Knof, CEO.

Good afternoon everyone and a warm welcome from my side to our capital markets day.

When I was appointed as CEO of Commerzbank, I took the time last year to prepare for the job. I did my analysis and was keen to learn whether what I was reading about Commerzbank would bear comparison to the reality in the office. And I'm pleased to say, there haven't been too many adjustments and my key perception has been more than confirmed:

Commerzbank is a great institution with a very strong franchise that has a lot of value to be unlocked.

Our core market in Germany is one of the strongest economies in the world. The country is doing well in the crisis and I am sure, this will also pay off for Commerzbank, once the crisis is over. Client relationships - especially in the German Mittelstand - are exceptional. This bank is the trusted partner for its customers. Commerzbank is the clear leader in banking for the German Mittelstand. Furthermore, Commerzbank has built up a high level of digital competence. comdirect is a super-strong asset that can be leveraged in the group. And one thing is also clear: over the past years, Commerzbank has significantly reduced its problematic assets and cleaned up its balance sheet.

- If we tackle the weaknesses of low profitability, a weak execution track record and the lack of performance culture;
- if plans and announcements become actions and results;
- if we succeed in playing to our strengths and developing our potential,

I am absolutely convinced that this bank will see a successful and independent future! Obviously, this doesn't come by itself, but requires clear priorities and tough decisions to pave the way for sustainable success.

- We need an ambitious restructuring plan. The team has already worked hard on this and together, we have sharpened the program. Not only ambitious, but also achievable targets lay the foundation for future success.
- Second: the plan itself does not create the value. Rather, it is the stringent and rapid execution that creates value. We must implement our plan with determination and consistency. I believe this is our most important task ahead and this is what I stand for. I will make sure that we meet our milestones and show steady progress. From quarter to quarter, we will update you with our execution achievements. And, rest assured, there will be visible progress in implementation in the course of this year. Speedy, reliable and consistent implementation, that is what I stand for. I will come back to this in more detail later.
- Third, our plan comes with a massive transformation of the organisation and our business model.

We will focus on our strengths and increase efficiency across all areas of the bank. As a result, we will see a future-proof Commerzbank that is lean, digital and focuses on our core client franchise. We are combining a clear alignment to the needs of our private and corporate clients with

maximum efficiency. In this way, we are creating the conditions for being able to shape our own future as an independent force in the German banking market.

Our targets for 2024 are ambitious.

We will take out €1.4 billion from our cost base. This is more than 20% and involves a gross FTE reduction of 10,000 FTEs – primarily in our domestic operations. This requires overall restructuring charges of €1.8 billion, which we will fund completely with our existing capital. Based on this deep restructuring and the transformation of the business model, we target a Return on Tangible Equity of 7% by 2024.

With strict RWA management, we will also create excess capital of up to €3 billion, and still run a substantial buffer of 200 to 250 bp above MDA.

Our aim is clear: by 2023 at the latest, we want to return excess capital to our shareholders by means of dividends as well as share buy backs. The latter, of course, are subject to receiving the prior permission of the ECB.

The strategy towards these targets has clear levers.

- In Private & Small Business Customers, we will combine the best of two worlds: comdirect's high digital standard with Commerzbank's recognized advisory expertise. This is how we create a new type of offering in the German banking market: a unique combination of a high-performance direct bank with a first-class advisory service. Daily banking through digital channels has become the "new normal". During the pandemic, we have seen a significant increase in the usage of online and mobile banking. This will not reverse. By leveraging the strengths of comdirect, we will offer the efficient digital services of a direct bank to all of our 11 million customers.

This allows us to operate with a much smaller branch network without facing too much revenue churn. We will cut our branch network down to 450 branches compared to the 1,000 branches we had before Covid-19. At 220 of the remaining branches, we will offer our personal advisory service for premium clients. By focussing our top sales staff on the wealthy clients and entrepreneurs, we will increase business and revenues with these attractive client groups.

This is the framework in PSBC for an offer that meets the needs of our customers and takes us to a whole new level in terms of efficiency.

- In Corporate Clients, we will build our strategy on our acknowledged strengths, namely the strong relationship with our core clients. We are the leading bank for the German Mittelstand. Commerzbank is firmly rooted in corporate banking in its home market. This is where we generate a large part of our earnings, using our capital efficiently and with highly satisfied customers! And this is why our clear focus will continue to lie precisely here in the future. We will clearly focus on German clients and clients with German connectivity. They form the value of our franchise. We will remain their reliable banking partner of choice and we have the positive aspiration to take on additional business.

But it is obvious: strong partnerships require mutual benefits. Every single client relationship must contribute to our return target! In that sense, we will clearly put profitability before

growth. While focussing on the needs of our core clients, we will also increase the cost-efficiency of our set-up. All products and international locations, that are economically not viable, will be streamlined or closed. We will exit our equity business and streamline the entire product portfolio to reduce costly complexity. And we will reduce the oversized international network by closing down 30% of locations. We have already started this significant reshaping of our network abroad this year.

The resulting increased cost efficiency is a major building block for the Corporate Clients strategy, but a significant increase in RWA efficiency is equally important. We have already started to review each and every client relationship on its return profile. In future, we will only deploy capital in client relationships that provide us with a decent return.

So, in Corporate Clients, our strategy is about combining a customer-oriented approach with maximum efficiency in cost and RWA. This will deliver substantial value to the group and its shareholders.

Ladies and gentlemen, both client facing segments will increase their efficiency level and so will operations and head office. This is based on a lean set-up, reduced complexity and digitalised end-to-end processes. It leads to a reduction of more than 20% or 2.900 FTEs in operations and head office.

- Efficiency is also the name of the game in the development of new functionalities. We have already bundled all necessary resources end-to-end in our delivery organisation. Now it is about cost efficient sourcing and faster time-to-market. Based on these end-to-end processes, the delivery organisation plays a major role in building the new bank. In the next 4 years, we will invest €1.7 billion into change-the-bank projects. These investments are the most important fuel for the massive transformation of the business model of Commerzbank.

As I said at the beginning: this is a transformational programme that requires stringent and rapid execution. This is why I have already established a transformation office and appointed our chief transformation officer, who will directly report into me. Holger Schulte knows the bank inside out and will play a major role in executing the programme. And let me point out, that I will also take time in the upcoming months to investigate further opportunities to increase the profitability of our bank. This will be an ongoing process!

Now, let me summarize our Strategy 2024 alongside the four cornerstones, that characterize the future model of Commerzbank and defines what this bank will stand for:

- First: Customer-centric:
We are solely focused on the needs of our core clients. We are and we remain the number one bank for German clients. We aim to become the digital advisory bank for Germany. We offer a differentiated client coverage model alongside target groups and banking channels. As the leading bank for corporate clients we are committed to serve the German Mittelstand. For our premium clients in PSBC, we offer first class advisory.
- Second: Digital:
We are building a state-of-the-art digital bank by leveraging the comdirect model in PSBC. We are offering our customers the ability to buy their products completely digitally. We are accelerating the development speed for the technology of our digital bank. And we are focusing on future-

proof and innovative technology such as cloud computing. And not only in PSBC. We will also significantly extend our digital offering for corporate clients.

- Third: Sustainable:

Sustainability is a central building block of a strong and, above all, future-proof Commerzbank. Not only because we as a company have a high responsibility and can only counteract climate change if we all work together. But also because we use it to meet our customers' requirements and our investors' attitude towards sustainability. We are not beginning here at zero. Commerzbank already has many examples that show the importance of the topic for our bank. But we want to do much more in the future. That is why I have placed sustainability management directly in my area of responsibility - where it belongs, in the strategy department.

Our ambition is clear: We accompany our customers in their sustainable transformation and support them with our full know-how. We will manage our credit portfolio according to the Paris climate target of "well below 2 degrees". We lead by example and are pioneers in eco management. We are currently preparing a comprehensive framework and will present our company-wide sustainable strategy later in the year.

- Fourth: Profitable:

Creating shareholder value is, without doubt, the most important pillar and a prerequisite for sustainable future success. As a first major step, we target a Return on Tangible Equity of 7% by 2024 and create a potential of up to €3 billion for capital return to shareholders.

Ladies and gentlemen, this is an ambitious plan and a realistic one. We know, that at the end of the day, it is all about execution. And we could not be more determined to deliver. I will elaborate on our stringent execution path towards the end of our presentations.

Now, my colleagues will run you through the details of the strategy, and Michael is going to start with Corporate Customers.

Second Part

Ladies and Gentlemen, as you have heard, this is a truly transformational plan with high value creation potential.

Now, it is all about execution. I will personally head up the transformation management. It is my clear task as CEO to make sure that the team delivers. We have already set up the complete governance structure for execution. The new department for strategy, transformation and sustainability as key execution driver is directly under my supervision.

Based on this structure, we will drive and track the execution of the programme with high frequency. This is an important prerequisite to create a new performance culture that rewards accomplished targets and milestones. The most important task in the beginning is to ensure the efficient implementation of the FTE reduction programme.

Not an easy task, given the size of the envisaged job cuts. But we are optimistic to have fast and fair negotiations with the works council. So far, collaboration with the employee representatives on the supervisory board has been excellent. In principle they all support our programme. And we have already signed a first agreement with the Group Works Council. The agreement defines fundamental principles for shaping the transformation process in Germany.

The objective is to provide clarity and transparency as early as possible about positions affected, timeframes and perspectives. Our target is to conclude the necessary framework arrangements with the Works Council already for the AGM on May 5th. After that, we will negotiate the detailed agreements with the works council and can then start the implementation of the redundancy programme.

Clearly, it is important for me to treat the affected staff fairly at all times. This includes the offering of voluntary redundancy programmes. But it is also clear, that we have to think into the direction of a qualification company. This is a legal entity used to bridge between Commerzbank's redundancy programme and unemployment. Affected staff in such an entity will learn skills and be helped – where possible – to find other jobs.

At the end of the day, my hope is that we will have a lean and committed team in place who are focused on building the future of Commerzbank. The execution of our transformation has many other milestones to be achieved and there are also clear performance criteria that will be measured. We have created a dashboard for performance management that starts with the PnL and capital.

On top of this, we will closely monitor the achievement of every strategic milestone and the development of the most relevant KPIs. They all carry an ambitious target for 2024 – be it FTE reduction, asset growth in PSBC or RWA efficiency in Corporate Clients. My colleagues have just presented them in their presentations and are all committed to these KPIs.

We intend to start as we mean to go on and we have also defined specific targets for each KPI for this year.

To pick a few: In PSBC, we will reduce the number of branches by a further 200 and increase the loan and securities volume by €20 billion. In Corporate Clients we will have already exited 3 international locations. Despite further potential rating migrations, we will reduce the share of low yielding RWAs from 34% to 32%. And in Operations and Head Office, we will have already 50% of decentralized applications on cloud technology. This is an increase of 18 ppts.

My standard for performance management is clear: There are no excuses and promises are there to be kept!

Ladies and gentlemen, let me conclude what you have heard in the two past hours:

- First: we have developed a clear, ambitious strategy and all of us are fully committed to this strategy and the related targets.
- Second: we are completely focused on customers, digitalisation, sustainability and profitability.
- Third: we will execute the strategy and deliver every single year.

We all want to make Commerzbank strong, efficient and sustainably profitable again. By implementing our strategy, we believe Commerzbank can become THE digital advisory bank for Germany. Implementing this program is my mission. That's why I'm here. And please be assured: we will not rest until we have reached our goal.

Thank you very much.

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.

Commerzbank AG

Head Office
Kaiserplatz
Frankfurt am Main
www.commerzbank.de

Postal address
60261 Frankfurt am Main
Tel. +49 69 136-20
info@commerzbank.com

Group Investor Relations
www.commerzbank.com/ir-contact
ir@commerzbank.com

