



COMMERZBANK

# Capital Markets Day February 11<sup>th</sup>, 2021

Transcript

## Michael Kotzbauer Corporate Clients



The bank at your side

## Transcript

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### **Michael Kotzbauer, Corporate Clients**

Ladies and Gentlemen,

I'm delighted to be heading the Corporate Client division of Commerzbank. It's my personal aspiration to lead this division to its former profitable status. I'm very familiar with the needs of our clients and confident that Commerzbank is well positioned to continue serving them. Nevertheless, I can't ignore the challenges we're facing.

Over the last few months we've formulated a new and focused strategy that will help us to strengthen our leading position in the German Mittelstand business. We are a highly respected partner in cash management and we're helping our German corporate clients to do business in international markets. Commerzbank is handling more than 30% of Germany's foreign trade business - another stronghold of our bank.

However, to leverage these strengths we seriously need to address our challenges.

- The complexity of our segment is far too high.
- Revenues have been shrinking while the cost base remains on an unacceptable level.
- We also have a large variety of products which creates the already mentioned complexity and costs despite the client demand being limited.
- We're running a costly and undifferentiated coverage model.
- And probably the biggest challenge we're facing is that our overall RWA portfolio is yielding too low.

All of this is reflected in our strategic programme. In order to transform our business towards higher profitability, we will focus on six strategic priorities:

- First, German Corporates are - and will remain - at the core of our strategy. Additionally, we are serving international clients with connectivity to Germany.
- Second, to further differentiate our approach and to best serve the needs of our client portfolio, we are following an advisory proposition on the one hand and a digital banking proposition on the other.
- Third, we will re-focus our international footprint whilst still covering the most important trading corridors for our clients.
- Fourth, we will improve our product offering strictly along our clients' needs by streamlining and digitising our product universe.
- Fifth, we will increase our profitability by using the power and advantages of advanced analytics.
- And finally, we will pursue an active RWA management in order to improve the capital efficiency.

Let me go through these strategic priorities in some more detail.

We are firmly rooted in Germany. Our 26,000 German Mittelstand clients are at the heart of our strategy. This is where we have around €40 billion of RWA and achieve a significant part of our revenues with a comparatively high RWA efficiency. But the revenue distribution within the client base is too unbalanced. The top 10% of our customers generate 80% of our revenues. But what this means as well, is that the remaining 90% of our clients represent a huge business potential going forward.

In addition, we remain closely linked to international clients with a connectivity to Germany. International clients who don't have connectivity will only be served if they're active in selected lead sectors with significant future potential. These sectors are in line with the definition of the German Ministry for Economic Affairs and Energy. They are mobility, sustainability, communication, life sciences/chemicals and capital goods. In short, this means that we will exit relationships with those foreign companies that do not meet these criteria.

With regard to our institutional clients, we will further optimize our network of correspondent banks and selected non-bank financial institutions to serve our top clients with trade products and market placement capabilities.

A key lever to becoming more profitable in the business with our German clients is a new coverage model. Personal advisory continues to be a core element of our business model. But: Through a differentiated approach for each client group, we will be more cost-efficient and will, at the same time, create revenue opportunities.

On the one hand we're following an advisory proposition and on the other a digital banking proposition. The level of support depends on the intensity and profitability of the business relationship as well as the product needs and advisory requirement of the clients. Our 19,000 core clients will continue to receive personal support. Within this portfolio, we have identified 3,000 high-value clients with which we expect to grow revenues by up to €60 million until 2024.

A further main driver for improving revenues is the expansion of the sector-coverage model towards 400 large German and international clients. They will receive dual coverage - from sector specialists with deep industry knowledge and corporate finance expertise as well as from the relationship manager with local expertise. This dual coverage will result in a further revenue up-tick of €50 million.

To become more efficient, we are refocusing our product specialist set-up and reducing our respective full-time employees by 30%. By the end of 2024 roughly 850 people will work in our specialist organization - down from 1,300.

Clients with a need for very standardized products and a low demand for advisory will be best served by our digital banking proposition. Here we will meet the evolving digital client expectations. We will create synergies with the Small Business Customer segment by mutually developing products and services and sharing one IT platform. Within our digital banking proposition we will focus on a fraction of our product portfolio. The remaining product offering will be tailored to client needs and will assure an outstanding digital experience. The costs-to-serve are expected to decrease by around 70%. In the beginning, we expect to serve roughly 7,000 clients via our digital approach. We'll operate with a load ratio of 1:500.

However, all products and services launched for our digital approach, will also be available for the entire client base. With the measures outlined we expect to reduce costs by €100 million and lift a revenue potential of €110 million.

Our third strategic lever affects our international reach. We'll remain the international partner of choice for our core clients. 25% of our top clients' revenues arise from international products. Therefore, we'll continue to cover the most important trade corridors.

But, within our international reach we need to reduce costs, complexity and improve RWA efficiency. We intend to exit 15 international locations and to convert two branches into representative offices. Accordingly, the Bank will be present in almost 40 countries going forward - down

from 50. Please understand that today, I can't make a specific statement as to which locations will be affected since we want to talk to regulators first.

Our remaining locations abroad will be optimized. We will introduce a lean branch concept and intensify our nearshoring activities in two cost-efficient regional hubs. In total, we will reduce our headcount in the international network by almost 130 front office employees and we expect to transfer more than 220 employees to the cost-efficient hubs, just mentioned.

To sum it up: Due to a reduced international presence, we will see a revenue churn of close to €300 million. This will be almost completely offset equally by revenue growth in Europe and the USA and a significant cost reduction in front and back office units. Furthermore, we free up RWA of more than €4 billion to reduce the capital intensity of our international network.

Our fourth strategic lever is an improved product offering. As said, our product universe is too complex. Therefore, we will streamline our product offering by stopping those products that are of little relevance to our core clients or that are not part of our core business.

We will explore options to integrate our Equity Sales, Trading and Research capabilities into an existing or new European platform. On the other hand, we'll establish a Mid-Cap Corporate Finance Advisory unit in the primary market focusing on Capital Structuring, Succession Planning and Equity Capital Markets.

These measures will at the same time decrease infrastructure and support cost while reducing complexity. Let me stress that our clients won't experience any difference in their level of quality service.

We also aim to slim down the IT application landscape for the remaining products. The full digitization of the trading setup will result in a 50% reduction of trading employees. At the same time, we'll continuously improve the digital interface with our clients by:

- increasing the number of digitally available products
- increasing the number of clients who are using it
- and improving the Customer Experience

In short: The fourth lever, our improved product offering, will result in a cost reduction of almost €100 million.

Driving profitability through Smart Pricing and Sales Analytics is our fifth strategic lever. Big Data and Advanced Analytics will build the base for a best-in-class corporate bank. To this end, we've successfully launched Customer Sales Analytics Dashboards and a Smart Pricing tool in Germany.

We are establishing analytics-powered sales models

- to be faster in identifying client needs,
- To select sales opportunities more efficiently,
- To be best prepared in negotiation and more effective in closing deals
- And to price new business at an optimum.

We already started the rollout in 2020. Data-based support creates scope for the relationship managers to do what they do best – offer personal assistance for our customers and that very fast. For example: We have analysed the international value chain of our clients with just a few clicks we can immediately provide appropriate product opportunities.

Accordingly, we can explore our clients' use of letters of credits in relation to specific country risk to point out specific gaps and address their needs. As a result, revenues will grow by more than €130 million until 2024.

In terms of optimization, we will have reduced the correspondent banking network by another 300 to a total of 1,300 banks and we will also have trimmed down our central functions within corporate clients by the end of 2024.

Finally, let me now turn to our strategic lever number 6 - active RWA management. We absolutely share the view of investors that we need to improve RWA efficiency. We have grown our RWA base in recent years and we will now make sure that the return profile improves.

There's a significant variation in RWA efficiency across, as well as within, client groups. One third of credit RWA has a satisfactory efficiency of above 5%. However, approximately one third of our credit RWA are currently not yielding sufficiently. We will continue to tackle this portfolio name by name. Either we come up with visible potential for additional cross-sell or increased margins to lift RWA efficiency. And, of course, this would be our preferred outcome. But if not, we will exit the client relationship and free up RWA and capital. Our clear target is to shrink this low yielding RWA bucket to around 22% by the end of 2024.

A further initiative is securitization. Since mid-2019 we have already realized more than €4 billion gross RWA release, and still plan to further release more than €2 billion until 2024. Additionally, we will apply active and stringent collateral management and CVA hedging.

Overall, we expect to reduce the RWA portfolio from €90 billion to €84 billion by the end of 2024, including the expected regulatory impacts of almost €10 billion. We actively reduce RWAs by around €15 billion through divestments. The main drivers here are strict RWA management and the streamlining of our international footprint. A further relief of €8 billion is expected to come from the post-covid recovery of the economy and improved ratings. We aim to reinvest €7 billion RWA into business especially with smaller SMEs in Germany, since this is the market segment where we can build on our leading position and already have high RWA efficiency.

Despite this significant reduction in RWA, we plan that revenues will only slightly decrease until 2024. The gross revenue decrease of €300 million due to active RWA management and the right-sizing of our international reach will be mainly offset by the profitability initiatives I've just described. On the cost side, all these initiatives including a streamlining of employees in the middle- and back-office units will contribute to an overall cost reduction in the corporate client division of €600 million, arriving at a cost base of €1.9 billion by the end of 2024.

Overall, our new strategy will result in a cost-income ratio of 62% by the end of 2024. This is an improvement of 18ppt compared to 2020. This compares fairly well with our European peers. We will reduce employees by 900, which is roughly one in four.

By 2024, we will have achieved

- a substantial reduction of our international footprint
- a strict focus on German connectivity and lead markets
- a differentiation of our approach to serve our clients and
- an optimization and digitization of our product offering

Based on the improved Cost Income Ratio and the significantly reduced RWA base, we target a Return on Equity of 8.7% by 2024.

Let me conclude my presentation by highlighting the key milestones of our roadmap to 2024. This year we'll focus on a stringent reduction of employees. We want to complete 30% of the

overall reduction. We will roll out our sector-focused advisory services for an additional 150 clients. And we will further increase the securitization volumes to optimize our RWA efficiency.

In 2022 and 23, we will offer our clients the full benefit of our digital banking proposition and we will have right-sized our international footprint. Also, we will have taken out unnecessary complexity in our trading environment and will have reduced major front-office-systems down to 3 applications.

Latest by 2024, all Mittelstands clients will be transferred to the new coverage model. Our international footprint will be streamlined and we will see the full impact of our measures towards profitability.

I'm confident we will achieve our targets. Especially since we've already started to implement some of the measures last year with promising results. We'll strive to create an outstanding customer experience with our future digital banking proposition, which will be available for all our clients. As with my colleagues, I'm committed to re-shaping the future of this division and this bank. Efficient and effective execution are my highest priorities over the coming three years and

I'm passionate about achieving our targets. It is my clear ambition that Commerzbank remains the leading bank for the German Mittelstand.

Thank you!

## 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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