Klaus-Peter Müller
Chairman of the
Board of Managing Directors
Commerzbank AG

DVFA analysts' meeting
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Ladies and gentlemen,

Welcome to our traditional November DVFA meeting at Commerzbank. Today, it's my pleasure for the first time to welcome you as Chairman. After my presentation, which will probably last around thirty minutes, my colleagues and I will answer your questions.

In addition to Mr. Naumann and Mr. Lauinger, both from our Accounting and Taxes department, I have the support today of Mr. Ramm and Mr. Ackermann, with whom you're also acquainted through various events of this kind and individual discussions.

I'm very pleased that so many of you have been able to take up our invitation, as it shows your interest in our bank. Unfortunately, however, we've heard that some have not come here today – mostly for budget reasons.

For me, this shows that the present phase of weak earnings is also making itself felt at other institutions. At least, all those who – for one reason or another – can't be here in person with us today have the chance to follow this event live on the internet.

As you know, we published our interim report as of September 30, 2001 last Friday. So today I want to limit myself to just a few core aspects.

Chart 1:
Net interest income

In the first nine months, our net interest income rose to almost 2.7 billion euros. This put it 1.8% higher than a year previously. However, the third-quarter result was well down on that for the second.

The reason for this was an uneven development of the various business lines. Retail Banking and Corporate Customers and Institutions managed to raise their net interest income – thanks to slightly improved interest margins.

At the same time, though, we had to accept much lower net interest income than in the preceding quarters for the item Others and Consolidation in our segment reporting. Traditionally, the net dividend income from our strategic investments has a positive impact in the <u>second</u> quarter. This was missing in the third quarter. At the same time, however, the volume of such investments which have to be financed has increased.

Chart 2:
Retail Banking:
Rating of agreed credit lines

Let's now look a little more closely at our provisioning in the third quarter. In view of the difficult world-economic situation, we thought it advisable to raise our provisioning considerably in the third quarter.

But the credit ratings in both the Retail Banking and Corporate Customers areas have not worsened substantially in the course of the year. In the retail segment, we have even managed to expand the risk-free credit classes 0 and 0.5 even further.

Chart 3:
Corporate Banking:
Rating of agreed credit lines

In the Corporate Customers segment, we registered further concentration of the classes 2 to 3.5 – these are all loans with an investment grade rating. In view of the high quality of our loan portfolio, we're also confident that we'll be able to hold our provisioning at between 800 and 900 million euros this year, which represents a provisioning ratio of below 0.40%. So we'll continue to show a good level by any international comparison.

Chart 4:
Income statement

Net commission income and also proprietary trading and the result from financial investments were hit especially hard by the weakness of the stock market and the turbulence following September 11.

In the first nine months, commissions from securities business were almost 30% down on their level a year earlier. The result from the Bank's own-account dealing in equities and other price risks fell by 351 million euros to 182 million. By contrast, in a nine-month comparison, dealing in interest-rate risks was up by almost 70% to 273 million euros, while foreign-exchange trading was boosted to a level of 169 million euros.

Chart 5: Operating expenditure

The development of our operating expenses in the third quarter underlines the fact that our great efforts to rein in costs are producing their first successes.

In the third quarter, we managed to reduce the level of costs by 20 million euros compared with the second quarter. So far this year, we have been able to limit the rise in personnel costs to 7.3%.

Admittedly, there was a slight increase in our overall workforce in the third quarter – by 330 to 40,400 – but the people in question had signed their contracts before the recruitment freeze was announced. Since the start of the year, roughly 180 free-lance personnel have been taken over as regular staff, mainly in the IT area. We intend to continue this process.

The increase of more than 18% in other operating expenses was again disproportionately strong. The growth here is due to various factors: IT projects, the introduction of the euro, consulting costs and the streamlining of the branch network. Depreciation of office equipment, furniture and premises rose according to plan by over a third.

In the short term, we are concentrating our efforts on getting operating expenses under control. I'll come back to the measures we've resolved and how we're implementing them in a moment.

Chart 6:
Income statement

The Commerzbank Group posted a pre-tax loss of 269 million euros for the third quarter, reducing the result for the first nine months to 226 million euros. Due to tax relief of more than 100 million euros for the June-to-September period, our tax expenses were down to 82 million euros. After the profit attributable to minority interests is deducted, this leaves a net after-tax profit of no more than 78 million euros.

That was an overall view of the income statement. Now I should like to make a few comments on individual business lines.

Chart 7:
Retail Banking – quarterly figures

The earnings performance of Retail Banking strongly reflects the weakness of the securities markets.

Having extended our settlement capacities at Commerzbank AG and “comdirect” substantially last year – not least in response to demands from the supervisory authorities – we now see that our commission income of 716 million euros after nine months is down by exactly one quarter from its year-ago level. At the same time, our operating expenses have risen by 14%.

Chart 8:
Retail Banking

This also reflects one-off costs related to our efforts to streamline the branch network. At the end of last year, we had 924 branches in Germany; by the end of September, we had reduced their number to 841. This is another important step in making our operations more efficient and creating better prospects for earnings. Further steps are to follow.

As from the end of next year, once the CB 21 measures have been implemented and the cost-cutting offensive recently resolved by the Board of Managing Directors takes effect, we will have a branch network of 727. This downsizing will go hand in hand with further staff cuts in this area.

We plan to shed 1,120 jobs here. In our current planning, the Retail Banking area, for which Martin Blessing has been responsible since the start of this month, will turn in a positive result next year.

Chart 9:
Asset Management – quarterly figures

Once again, the earnings performance of Asset Management was unsatisfactory. In addition to a marked decline of over 16% in commission income in a 9-month comparison, the renewed 8% rise in costs and one-off expenses as a result of value adjustments to investment-fund units which are held in our portfolio adversely affected the result on financial investments. The pre-tax result was a net loss of 94 million euros.

Commerzbank’s Asset Management requires a lot of pruning if we want to achieve a sustained improvement in earnings performance.

Chart 10:
Asset Management

Having made personnel changes at board level and created a new management team, we’re tightening our product range and pressing ahead with our concentration on geographical markets. Here, too, we must adjust the size of our workforce to the business volume we expect in the future. Above all in the back-office area, 400 to 500 jobs will be affected by the staff cuts. At some subsidiaries, such as Jupiter International Group, we are on the way towards achieving the higher earnings levels we’ve had in the past. By systematically implementing the projects which we have initiated, we expect a distinct improvement in earnings next year.

Chart 11:
Corporate customers and institutions – quarterly figures

As far as the business and earnings performance of the Corporate Customers and Institutions segment is concerned, we continue to be satisfied. This area is increasingly proving to be a stabilizing factor on our income side.

Chart 12:
Corporate customers and institutions

Despite higher provisioning, we managed to improve the return on equity and the cost/income ratio both in a year-on-year comparison and compared with the first half of 2001. The return on equity was 11.5% and the cost/income ratio 49%. Net interest income also registered encouraging growth in the third quarter – as it had in the preceding quarters. To an ever greater extent, our focus on small to medium-sized corporates in Germany – the famous *Mittelstand* – is turning out to be the right strategic orientation.

We're convinced that the meshing of investment banking and traditional corporate-banking business, together with a nationwide presence, are guarantees that, in the future as well, we can achieve rising profit contributions in this area. With our broadly-based relationship management approach, we are distinguishing our bank positively from its rivals. Our customers are confirming this to a growing extent.

I have often said, and I emphasize it here, that we can only implement a customer-oriented approach successfully if we combine investment and commercial banking. In line with this approach, we will continue to build up our relationship management teams at our main branches.

The good position which this business line has achieved for itself is underlined by the fact that only 70 jobs are to be shed in this area.

This shows that we have been working with more or less optimal capacity by international benchmarking standards.

Chart 13: Securities – quarterly figures

Parallel to the development of virtually all the other market players, Commerzbank's Securities unit also had to accept a marked drop in its earnings. Up to August, our earnings performance in this segment was positive. Results were then hit, however, by the price upsets that followed. The decline in operating income was accompanied by a further increase in administrative expenses.

High IT costs in London, but also rising personnel costs, left their mark here. As regards personnel costs, we should note that provisions for staff bonuses were higher once again. As things stand today, they seem to be on the high side. And operating expenses are likely to decrease in the final quarter at least.

Chart 14: Securities

At the same time, we're optimistic that the first signs of stabilization and improvement in the securities markets will continue, which should lead to better results for both net commission income and the trading profit.

Our Securities business is also subject to our cost-cutting offensive. Here as well, we have to bring our personnel resources into line with our reduced volume of business. We currently plan to lay off about 190 of the 1,300 employees.

Despite difficult overall conditions, we're satisfied with the development in the Treasury and Foreign Exchange area.

Admittedly, the pre-tax profit was lower again in the third quarter compared with previous quarters. But thanks to a lower amount of equity tied up, we managed to raise the return on equity further to over 43%.

For the final quarter as well, and also for next year as a whole, we're optimistic that this business line can repeat its past successes.

Mortgage-bank business didn't manage to maintain the earnings levels it reached in the preceding quarters either. All the same, we're generally satisfied with earnings performance.

Chart 15: Highlights of the mortgage bank-merger

In view of recent developments, I want to say a little more on the topic of mortgage banks. I think last week's announced merger of our subsidiary Rheinhyp with Eurohypo of Deutsche Bank and Deutsche Hyp of Dresdner Bank is important for the credibility of Germany's major banks, especially with investors from abroad. This sent a clear signal to the capital market that German banks aren't as ossified and inflexible as they're often claimed to be.

After long negotiations, largely unknown to the public, a result was produced in which all those involved can feel themselves to be winners. Subject to confirmatory due diligence, which now begins, we will hold a share of 35% in the leading German financier of commercial premises. This bundling of resources gives us the opportunity to explore Europe even more strongly as our home market. But we don't intend to restrict ourselves to Europe; rather, Eurohypo will follow Rheinhyp and build up sizeable business in the North American market.

Chart 16:
New Eurohypo:
Synergies result from multiple sources

Eurohypo will be well prepared for the growing international markets. Here size is a decisive competitive factor. The merger is intended to make possible annual cost savings of 120 million euros from 2004 onwards.

We’re optimistic that the legal conditions necessary for the launch of the new company will be met by the middle of next year. Until then, all three mortgage banks involved will have a BIS equity ratio of at least 6%. For us, this means that in addition to the recently announced capital increase, Commerzbank will contribute about 300 million euros in the form of a cash capital increase.

Our other mortgage-bank subsidiaries Hypothekenbank in Essen, with its special strength in lending to the public sector, and Erste Europäische Pfandbrief- und Kommunalkreditbank in Luxembourg – also specializing in public-sector lending – will remain part of the Commerzbank Group.

Having analysed the 9-month figures, many of you asked why provisioning was increased by 52 million euros in the Mortgage Banks segment.

I want to stress at this point that we're convinced that Rheinhyp has always made adequate provision for latent risks. The higher provisioning in the third quarter is merely an expression of our conservative approach.

On account of Rheinhyp's removal from the list of companies included in the consolidation, the Commerzbank Group's risk-weighted assets will be reduced by roughly 20 billion euros. In this way, we will improve our core capital ratios, both in terms of Principle I of the German Banking Act and also according to BIS. Both ratios will rise by an estimated 0.5%. As a result, we see our BIS ratio at slightly over 7%.

But let’s get back to Commerzbank’s earnings performance. Naturally, we can’t be satisfied with our earnings figures per end of September, nor with a return on equity of only barely one per cent, a cost/income ratio of practically 85%, and an earnings per share figure of 0.15 euros.

In view of the currently unfavourable overall conditions, we have to cut our personnel and other expenses radically as a first step in an effort to improve our earnings performance.

Chart 17: Commerzbank’s cost-cutting offensive

As far as staff are concerned, I’ve already mentioned that 3,400 jobs are to go. At the same time, around 1,500 vacant jobs are not being refilled.

We have already started to tackle other operating costs through measures which will cut expenses by altogether 360 million euros next year. The reductions will be spread across the following areas:

- 110 million euros through cuts in the volume of IT projects;

- 100 million through cuts in the advertising and communications budget; and

- 150 million through cuts in other administrative costs.

Our target for this year is now about 5.9 billion euros, plus probable provisions of around 200 million euros to cover restructuring costs. Next year, we’re going to bring operating expenses down to last year’s level, in other words: to roughly 5.5 billion euros.

All these measures are designed to make us leaner, more agile and more flexible. But we’re also aware that cost-cutting and job-shedding do not make up a strategy, which will secure our presence in the financial market.

For this reason, we have decided to restructure Commerzbank. The new approach will meet the demand for a focused, integrated and forward-looking bank.

The basis for this is provided by the goals and lines of development outlined in our CB 21 project, and these remain valid.

Chart 18:
Our strategy

Put briefly and concisely, Commerzbank is an integrated financial institution

- with a regional focus on Germany, Europe and the U.S.,
- a focus in terms of customer groups on sophisticated private clients and the *Mittelstand*,
- and a focus in terms of products on asset gathering and accumulation, as well as financing and liquidity management.

Chart 19: Commerzbank's new structure

In order to perform these functions even better in future, several structural changes will become effective on January 1, 2002.

In corporate banking, clear-cut divisions will be set up for Germany and Europe, with four regional board members appointed for Germany and two for Europe.

The Multinational Corporates department will be organized along sector lines – the aim being to identify up to 200 multinational companies and financial institutions.

On a sectoral basis, members of the management board will look after these companies; they are then exclusively responsible for this target group.

Chart 20: Establishment of regional board members

Regional board members will be responsible for looking after mid caps and major corporates. They will be able to concentrate entirely upon this function because they bear no other business responsibility.

They are all senior members of our Bank who have already gathered management experience outside Germany.

Apart from four regional board members for Germany, we’ve appointed one each for the regions of Western and Eastern Europe. One of the main functions of the new regional board members will also be to help the Bank integrate its corporate and investment banking activities – as required by our CB 21 project.

In retail banking as well, we will use two regional board members to maintain closer contact with our top customers.

By the middle of next year, we will have installed a new department “Financial Controlling”. The function of this department will be to establish a uniform and binding financial controlling system throughout the Group.

Near-time, highly efficient controlling is absolutely necessary in order to respond quickly to adverse developments and adopt counter-measures. In the past, we have not had a really adequate early-warning system.

We at Commerzbank mean business with our restructuring. Among other things, in recent weeks, we have parted with two of our colleagues on the Board of Managing Directors.

In Mr. Dalman, for the securities area, and Mr. Blessing, for retail banking, we have appointed two proven experts to the board, whom we expect to generate fresh momentum.

At the same time, we have asked our long-serving board member Mr. Müller-Gebel to monitor and implement the CB 21 project and the cost-cutting offensive.

We’re convinced that it is the job of top management to ensure that the measures are realized quickly and in full. For us, this is the key to higher profitability. And we feel a commitment towards our customers, our employees, and naturally towards our shareholders to achieve this goal. Most of our shareholders also expect us to pay a dividend.

Chart 21: Commerzbank’s credo for success

I’ve frequently been asked and I repeat once again that for the current year we will pay a dividend to our shareholders from the result of Commerzbank AG. This also reflects our confidence that 2001 has been the negative exception. Our foremost goal is to get Commerzbank back onto a successful course.

Until we’ve achieved this goal, Commerzbank will not initiate any further merger talks with any other bank.

First of all, we have to do our homework – a statement which you'll probably recognize from the cover of the brochure which you have in front of you.

Thank you.