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Remarks as prepared for delivery

Welcome to our traditional DVFA conference. After yesterday's publication of our interim figures as of September 30, I am pleased to have this opportunity to present them to you and to answer your questions today. Many of you took part in our first Investors' Day early in September. And now you are quite rightly expecting an update on Commerzbank's business prospects. Unfortunately, the positive feedback from you as regards our Investors' Day has not led to a higher share price. Quite the opposite. The Commerzbank share has come under considerable pressure.

Hounded by wild rumours, it dropped to €5.04 early in October, only to climb practically 60% to €8 three days later. It was claimed that we were planning a capital increase in the near future. We were said to have massive liquidity problems. And the crowning rumour was that we had suffered a loss of billions of euros through credit derivatives. To put things quite straight, let me say that although we are anything but happy with our 9-month figures, the rumours are clearly absurd. I will provide the evidence for this in the course of the next twenty minutes.

Cost-cutting offensive plus and the fresh orientation in investment banking

I cannot deny that German banks are experiencing a serious earnings and structural crisis. And until there is a marked improvement in the overall conditions, all we can do is turn the cost-cutting screw and bring our capacities into line with the lower level of demand.

Back in autumn 2000, Commerzbank began to make the first cuts – earlier than many of our competitors did. Our cost-cutting offensive for the current year has brought our operating expenses down by a solid 10% after nine months. In view of the weakness of earnings, these measures in themselves are not enough. That is why we have launched our "cost-cutting offensive plus". We are not only going to subject our head office here in Frankfurt, but also the operative units abroad and our subsidiaries, to very close scrutiny in order to identify inefficiencies, duplicated work and the structural changes that are needed. I will explain our decisions with regard to our new investment-banking model later on.

Our target here must be to bring the Group's operating expenses down to well below €5bn next year. The domestic branch network in Germany is not covered by this new project. Here, we have already made the necessary major adjustments. We will definitely have pruned our branch network by 200 offices to 727 by year-end, and we do not plan any further downsizing. However, we intend to test other types of office in pilot projects.

In investment banking, we decided last week to discontinue our activities in New York, Prague, Singapore and Tokyo, or to restrict them to areas related to corporate business and risk management. All told, we will shed at least 300 front-office jobs and at least 150 back-office personnel. The main cuts are expected to affect Tokyo and New York.

Overall, the measures I have mentioned represent potential annual savings of roughly €150m. The reductions are intended to produce a stronger focus on the needs of our German and European corporate customers. We are beginning to implement these measures immediately.

Interim report as of September 30, 2002

Our figures as of September 30 were very much influenced by the removal of Rheinhyp from the list of consolidated companies on July 31 of this year. This is the main reason why the Group's balance-sheet total has contracted sharply by about €77bn to €424bn. Over the same period, our risk-weighted assets were reduced by just under €26bn to €178bn.

Our equity, which has become the focus of attention for external observers, has declined to €8.8bn since the end of last year – due almost entirely to the effects of IAS 39. On the reporting date, the revaluation reserve stood at -€1.3bn on account of the sharp drop in equity prices. So it is far below the estimate that was circulating in the market a few days ago. On last Monday's prices (11.11.2001), this minus was reduced to around €1.1bn, after standing at €909m on November 5. This underlines the volatility of this item. The net result on so-called cash flow hedges is shown at -€1.0bn. Later on, Mr. Naumann will provide you with detailed information on this complex, explaining to you that these negative items do not represent realized losses, but rather a balance-sheet statement on the reporting date.

Despite the lower equity shown, the core capital ratio, including market risk, in accordance with BIS has risen from 6.0% at the end of 2001 to 6.7%. Our own funds ratio is now 11.5%, as against 10.3%. This is quite a respectable level by European standards. Perhaps these figures will put an end to speculation about a supposed lack of equity or plans for a capital increase.

Nor does Commerzbank have any liquidity problems. As you probably saw yesterday in our interim report, we have published information on our liquidity ratio for the first time. Principle II of the German Banking Act (KWG) requires it to be at least 1.0. At Commerzbank, the figure was 1.22 on September 30; this translates into a liquidity surplus in the short-term bracket of around 28 billion euros. There is no deviation from our long-term average here.

Now let's take a look at the income statement. In the third quarter of this year, we achieved net interest income of €721m, €140m lower than in the previous quarter. €108m of this was due to the Rheinhyp transaction. An additional factor here was our cautious approach to new lending and to extensions of loans already in our portfolio.

Encouraging once again was the development of our average interest margin in German corporate business, which is now 30% above its level at the start of 2001. Given the average three-and-a-half-year lifetime of this portfolio, a further widening of this margin can be expected. This positive trend is almost absorbed by the decline in interest spreads on our own float or deposits by customers.

As in the final quarter of last year, we expect our interest income to improve in the fourth quarter. I should also like to mention that per end of September we reported interest payments of

€488m on our profit-sharing certificates and subordinated capital. This is equivalent to three-quarters of the amount required for the year as a whole, and it demonstrates our firm intention of making a full interest payment on these borrowed funds.

After earmarking €254m for provisioning in the first quarter and €308m in the second, we set aside €436m for the third. The combined sum is roughly 75% higher than in the first nine months of 2001. All told, it represents nine-twelfths of the amount of €1.33bn which we currently expect for this year as a whole. This will probably take the provisioning ratio to 0.70%, compared with 0.39% for the 2001 business year. This increase is due to some extent to the deconsolidation of Rheinhyp. Of course, it also reflects the situation of our borrowers. But even the present ratio can be considered good by national and international standards.

Before they were reduced by individual value allowances and collateral, the value-adjusted claims producing neither interest nor income amounted to €6.93bn. Our cover ratio – in other words: our loan-loss reserves as a percentage of our non-performing loans – remains strong, which means it was above 100% per end of September. As we pursue a very conservative course in assessing our exposure, which is not the case with all of our competitors, we believe that this is a good ratio.

One of the obstinate assumptions in this connection is that Commerzbank, because of its strong focus on *Mittelstand* companies, is exposed to higher-than-average credit risks. But quite the opposite is the case. Not only in absolute terms but also relative to total lending, the loan losses in this segment are smaller than those for large companies. Or to put it differently: we achieve far higher profitability in our business with *Mittelstand* firms than in corporate business as a whole. This is demonstrated by the following figures. Business involving *Mittelstand* clients is the mainstay of our domestic corporate business. Per end-September, we had lent €15.8bn to such companies, compared with €12.4bn to large companies and €9.3bn to multinationals. We expect the individual segments of domestic corporate business to develop very unevenly this year. While just under 40% of operating income in *Mittelstand* business will be consumed by value allowances, the corresponding figure for large companies is – this year, at least – virtually 90%. At the same time, though, business involving multinationals has been more or less free from risk for many years. This year's earnings trend also reflects the development over the past few years, but there is less need to provide for possible loan losses in the SME and large-customer segments.

With net commission income of €501m, we earned just over €50m less in the third quarter than in the previous quarter. The bearish stock market was responsible for weaker revenues in securities and new issues business, as well as in asset management. By contrast, we were able to raise commissions in the area of payments, guarantees and foreign commercial business.

In our proprietary trading, we show a plus of €36m for the third quarter. We registered increases for dealing in interest-rate risks and also in foreign exchange, precious metals and foreign notes and coin. Trading in equities and equity derivatives, however, produced a negative result of €125m.

The negative balance of €531m on our investments and securities portfolio in the third quarter reflects a cautious approach on our part. We decided to subject the entire investment portfolio to a strict impairment test even before the end of the year. The overall balance of €531m stands for a number of individual transactions. Altogether, we made write-downs on investments of

€545m. With more than €500m, by far the greater part of this relates to our 2% interest in T-Online. At the same time, we have formed sizeable value allowances for blocks of shares held in our securities portfolio. On the other hand, we realized gains through the disposal of securities and promissory notes. All these transactions have taken some of the strain off our revaluation reserves in the balance sheet; for the write-downs have eliminated hidden burdens.

The proceeds of €721m from the deconsolidation of Rheinhyp appear in the balance of other operating income and expenses. There were also some reversals of provisions. Overall, we show an amount of €853m under our Other operating result, which we used to cover the special burdens in provisioning and the write-downs. This has strengthened us for the future.

Despite the successes of our cost-cutting offensive, we were unable to fully compensate for the sharp drop in earnings. We managed to reduce our operating expenses according to plan to €1.23bn in the third quarter. Compared with the same period of 2001, this is a cut of almost 19%. But while this development is encouraging, it does not relieve us of the duty to cut costs even further. On September 30, we had a workforce of 37,176, compared with 40,391 a year earlier.

After restructuring expenses of €32m for comdirect bank have been deducted, we achieved a pre-tax profit of €45m from January to September. For the third quarter alone, we show a negative pre-tax profit of €133m, as against -€279m for the same quarter of 2001.

After taxes and minority interests have been deducted, we are left with a consolidated loss of €55m, which translates into an after-tax return on equity of -0.7%. Before the amortization of goodwill, however, we had a positive return on equity of 0.4%. Thanks to cost-cutting, our cost/income ratio before provisioning has improved from 82.4% in 2001 to 78.5%. Earnings per share, calculated on the basis of the published net result, were -10 cents for the 9-month period. I hardly need to stress that we are not satisfied with this result.

As our interim report has been available to you since yesterday, I do not want to comment upon the individual business lines here.

In order to achieve greater transparency in our segment reporting, we intend to change our reporting at year-end and replace the item “profit contribution from business passed on” with a so-called profit split. Then the income and expenses will be assigned directly to the respective business lines. We believe this is in your interest as well.

Outlook

As the current political setting is unlikely to provide a boost for our business activities or to offer brighter prospects for the stock market, it is almost impossible to make a serious forecast even for the next few months. However, it is certainly true that the overall conditions are hardly going to improve in the short run. One major imponderable is provisioning for possible loan losses. But here we will not decide upon the precise amount to be set aside for this year until next February. Provided that we don’t have to make unexpected write-downs on loans to large corporates, the amount of just over €1.3bn that we have already earmarked for this purpose should be adequate.

In the final quarter, we will have to form further provisions for restructuring expenses on account of the second cost-cutting offensive.

Corporate governance

By way of conclusion, I want to say something about how we're tackling the issue of corporate governance. The German corporate governance code, presented by the government commission on February 26, is now being implemented by Commerzbank in the form of a code of best practice. Yesterday, the text appeared on Commerzbank's internet site and is valid with immediate effect.

At the end of every year from now on, we will declare whether the recommendations of the commission have been met and which recommendations were not applied – fully in keeping with the "comply or explain" principle.

We explicitly welcome and support the German corporate governance code, and naturally its goals and objectives as well. With two exceptions, we not only comply with all its recommendations, but have also taken up the "suggestions" which it makes. The first exception relates to the disclosure of purchases and disposals of shares of the Bank and also of its Group companies, of options and also of other derivatives based on these shares by members of both the Board of Managing Directors and the Supervisory Board. We believe that we have introduced a sensible limit relating to the amount that is relevant for publication purposes. As a result, notification of transactions by members of the Bank's boards is required only if these exceed €25,000 within thirty days. According to our present information, this restriction will be included in the revised code of the government commission, in line with Article 15a of the German Securities Trading Act.

The second point of deviation from the recommendations stems from an internal arrangement. Under this ruling, it is the Bank's risk committee rather than its audit committee which deals with risk-management issues.

I think it is very important to emphasize that we do not look upon implementation of the code as a formal duty. Rather, it is a substantial element in a business policy geared to achieving a sustainable improvement in shareholder value.

In conclusion, let me point out very clearly that in 2002 as well we have provided for the years ahead by using the entire extraordinary income – especially from the Rheinhyp transaction – to eliminate the hidden burdens in our balance sheet. In provisioning as well, we have done all that is necessary as things stand today; and we feel that we have a comfortable position for the future. In your expectations for the final quarter, too, you should work on the assumption that we will not budge at all from this cautious approach. I hope that my comments have made it clear. It seems that there is no standard recipe for a successful bank. Each institution has to work to improve its own specific business model. For us, this means eradicating the weaknesses and developing our strengths. Only in this way can we be successful.