

Capital Markets Day February 11th, 2021

Transcript

Please note:

The original video recording of the event is available on the Commerzbank.com website. This document offers interested parties an edited version of the Q&A session in written form.

Q & A session



Edited transcript

Participants Commerzbank – in order of first appearance:

Christoph Wortig (Head of Investor Relations) - moderator
Sabine Schmittroth (Head of HR, Group Compliance & Member of the Board of Managing Directors)
Michael Kotzbauer (Head of Corporate Clients Business & Member of the Board of Managing Directors)
Bettina Orlopp (CFO, Head of Tax, IR, Treasury & Member of the Board of Managing Directors)
Manfred Knof (Chairman of the Board of Managing Director & CEO)
Marcus Chromik (Chief Risk Officer & Member of the Board of Managing Directors)
Jörg Hessenmüller (COO & Member of the Board of Managing Directors)

External participants via Teams, phone line, webcast – in order of first appearance:

Izabel Dobrova (Morgan Stanley, Research Division)
Roy Adams (shareholder)
Riccardo Rovere (Mediobanca - Banca di credito finanziario S.p.A., Research Division)
Kian Abouhossein (JPMorgan Chase & Co, Research Division)
Stuart Graham (Autonomous Research LLP)
Benjamin Goy (Deutsche Bank AG, Research Division)
Anke Reingen (RBC Capital Markets, Research Division)
Dirk Becker (GlobeAllianz Investors)
Jochen Schmitt (Metzler)
Jeremy Charles Sigee (Exane BNP Paribas, Research Division)
Cerberus Capital Management
Hugo Moniz Marques Da Cruz (Keefe, Bruyette & Woods Limited, Research Division)
Nicholas Herman (Citigroup Inc., Research Division)
Ian Lapey (Gabelli Funds)
Andreas Thomae (DEKA Investment)
Stefan Lake (Investor)
Tobias Lukesch (Kepler Cheuvreux, Research Division)

Izabel Dobрева (Morgan Stanley, Research Division)

My first question is on revenues and specifically the revenue assumptions within the retail division. If I look at the NII guidance and the fee guidance there, it looks like there is a meaningful step-up in the pace of revenue growth. So could you give us some more, I guess, tangible examples about what you aim to do to increase the pricing in payments? Also, what are the volume assumptions you have underlining that NII growth, specifically by product? I think in the presentation you talk about cross-selling more consumer lending through third-party channels. So that's my first question on revenues.

And my second question is on the roll-off of the CIB and the corporate restructuring. I'm interested to know how quickly you plan to roll off those RWAs, specifically within the years of the plan.

Christoph Wortig

Sabine will start and then Michael on the RWAs.

Sabine Schmittroth (Head of HR, Group Compliance & Member of the Board of Managing Directors)

Sure. I take the first question related on the revenue growth in my segment. We are planning both for the NCI side, I'm planning growth in the securities business and that will benefit from the comdirect expertise in brokerage. If we bring it to all our 11 million clients, there will be an effect. And the scaling model of the brokerage model of comdirect will create additional fees. And absolutely right. We are planning to increase prices, and these are related to our payment business.

We have last year already started to bring a new current account model into the market, and we see slightly increasing revenues from that. And we are going to plan it also for the comdirect in the first quarter of this year.

And looking to the NII growth path, you can see that we plan our growth in the consumer finance business by bringing more third-party sales in it. We have an attractive product at the moment, but we need more hands-on the business. The third-party sales is the one side and also the improvement on the digital sales side. And then the lending part, we are planning growing in mortgage business and also in individual loans for the premium client segment.

Michael Kotzbauer (Head of Corporate Clients Business & Member of the Board of Managing Directors)

On the RWA question, we will, as we said, decrease RWA substantially in the Corporate Client segment. We'll -- basically, we'll decrease RWA by roughly, I would say, EUR 50 million, mitigating also regulatory model effects that we see during the course of the year 2024. And we don't put a time frame on years onto the RWA reduction because it certainly depends also in the international franchise of closing locations because that's a big part of it, reducing the RWAs and exiting the clients without connectivity and sector. But this said, we basically will decrease RWAs substantially to '24, mitigating also the regulatory effect.

Roy Adams (shareholder)

Thank you for taking my questions. We are favorably impressed by the leadership skill and planning of Manfred Knof, Bettina Orlopp and Hans-Jörg Vetter, and we have confidence in the bank's new strategy. My two questions are as follows: one, how will Commerzbank decide which branches it will retain? Which parameters exactly are in your branch retention algorithm? And number two, what is Commerzbank's strategy for mitigating the direct and indirect litigation risks associated with mBank's Swiss franc mortgage portfolio?

Christoph Wortig

Sabine will take the first question on the branches and then Bettina on the litigation risk with regard to mBank.

Sabine Schmittroth

Let's start with the branches. We have a lot of experience and know our branches, our locations very well. And so we have our own analysts and we put on external data on the table to create an overview for the potential for the future. For me, it's important to know where is the traffic in the future, where are the growing areas in Germany. And therefore, I think it is really necessary to put also the future data in it. And therefore, we have now a plan. But yes, I have to put the answer a bit into the future because we have to negotiate this plan, first of all, with our workers' councils. And we will do that fast because it's necessary to make also for clients and employees clear what's the future workplace for them.

Bettina Orlopp (CFO, Head of Tax, IR, Treasury & Member of the Board of Managing Directors)

Hi, Roy, on the Swiss franc reserves, as you probably have seen, we have booked now more than EUR 300 million reserves for Swiss franc litigation, alone, EUR 229 million in 2020, and that basically reflects the incoming lawsuits we have already seen but also our assumption on future lawsuits to come in. From today's perspective, we have fully provisioned what we see.

It's important to note that there will be end of March a Supreme Court decision, and that will hopefully provide a lot of clarity on that. And then we will see whether we have booked too much, whether we are right to the point or whether we need to book more. But today, we are fully provisioned.

Riccardo Rovere (Mediobanca - Banca di credito finanziario S.p.A., Research Division)

In the previous plan in Commerzbank 5.0, you had some revenue growth embedded in the plan and you were somehow criticized for that. This plan, at least in Germany, embeds 0, technically 0 revenue growth. The whole revenue is from Poland. Do you think it is literally impossible to assume modest revenue growth, 1 or maybe 2 percentage points? Do you think that your assumptions are conservative on that front?

The second question, if I may, is on rates. You clearly stated that any movement in rates is excluded in this plan, and I have nothing against that. And you say the 25 basis point risk cost in 2022 onward is a normalized one. 25 basis points, is that compatible with the current ultra-low level of rates? Or is it a bit too high? Because, if I'm not mistaken, in 2019 when rates were as low as they are, maybe you didn't plug, you didn't charge 25 basis points or something like that.

Bettina Orlopp

Thank you, Riccardo. I think I'd take the 2 questions. On your first question, indeed, we have been very conservative now on the revenue planning. No margin easing in Germany, no rate increase. However, if you look deeper into the planning of Corporate Clients and Private Clients, you see different effects. You see negative effects coming from the negative rate environment. You see negative effect because of churn, which we expect and also because of the streamlining and RWA optimization initiatives, specifically at Corporate Clients. And that we balance out basically, and we completely balance it out in PSBC due to our positive measures Sabine just elaborated on. Plus, we also managed to basically manage it out due to profitable growth in the Mittelstand business here in Germany. There's a lot of ongoing things.

Regarding loan loss provisions, yes, we say that on 2022 onwards, we believe that there will be normalized levels for loan loss provisions. And the 25 basis points are pretty much the level which we have seen in 2019. So it definitely fits to the rate environment we are currently assuming. Thank you.

Kian Abouhossein (JPMorgan Chase & Co, Research Division)

I have a question regarding Page 57. Just wanted to have more details on your mBank EUR 600 million contribution. What are the assumption that you've made on the revenue side, on the cost side, i.e., how do we get to the EUR 600 million?

And secondly, on Page 28, you talk about the 10% CAGR growth. And I wanted to understand, first of all, what is the base for business client loans. And in addition to that, how do I square that with the EUR 20 billion that you discussed in terms of, I believe, credit growth? I think that was on slide -- no, I can't find the right slide now, but I think you talked about EUR 20 billion of growth.

Bettina Orlopp

Well, on mBank, indeed, you see a EUR 600 million revenue increase, on the one side and a EUR 200 million cost increase on the other side. So that's basically very much in line what we have seen basically with mBank also in the past. Please understand that mBank is an independent company. They will also reveal their own plans beginning of March. They will then deliver much more details. I can only say that if you look on the historic growth on their customer base they have, on the market development, we expect in Poland, it's a very feasible and realistic plan.

Sabine Schmittroth

Coming to Page 28, for my part of the presentation, there, I'm focusing on premium clients. That means it's only a part of my whole business. So overall, we are planning a growth from assets under control around EUR 100 million until 2024, but this page only focuses on the premium client side.

What does it mean? There are the private banking and wealth management clients, on the one-hand side, on the other side are the small business clients. And with them, we are planning a CAGR of 10% growing path with the loan business, also with the security business. So it's only a part of it so you can't compare the figures, the overall and the part of this -- on this slide. But that means that my growing part is really linked to the premium client segment. Because on the mass retail side, it's more flattish, and I think we can gain market share with the premium client and, therefore, the asset part is growing and with attractive margin products on the loan side and also on the security side. Hope that helps.

Stuart Graham (Autonomous Research LLP)

I had 2 questions, please. The first is for Mr. Knof. To drive this restructuring, you're going to need very good management information systems. How happy are you with the management information systems you've inherited at Commerzbank?

And then the second question is, are there any accounting regulatory or rating agency blockages on dividend buybacks in 2022? You say you're going to be solidly profitable, I agree, but I don't understand why shareholders need to wait for 2023 on dividends or buybacks.

Manfred Knof (Chairman of the Board of Managing Director & CEO)

Yes, Stuart. Thank you for the question. I mean at least what I found here on the management information system is good enough to drive execution. This strategy is all about execution going forward and, therefore, I'm really happy what I find and I can work with as well. The proof will come in the execution. And therefore, I can work with what I have here, and that's where the focus is. Now we need to deliver. And the second question – Bettina.

Bettina Orlopp

Yes, Stuart. I mean you know we are always on the prudent side of the world. So I mean in 2022, we expect an operating result of more EUR 1 billion already. So you could say why not already planning dividends at that time? I think being realistic and given where we are currently with the corona pandemic, et cetera, we just wanted to be rather cautious on delivering such a message. So I think on 2023, we can be absolutely sure that if we execute the plan as presented today, we will see quite some potential with respect to capital return. 2022 is probably a little bit too early.

Stuart Oliver Graham

But it's conservatism on your part. It's not some regulatory or rating agency blockages?

Bettina Orlopp

No, it's nothing regulatory, et cetera. So it's basically just the fact that -- I mean 2021 will be very much still impacted by the corona pandemic. And we are just on the cautious side of where is the capital ratio. I mean we will see a decline -- as said before, we will see a decline in the capital ratio for 2021. It will definitely recover, but we are just prudent.

Benjamin Goy (Deutsche Bank AG, Research Division)

Two questions, please. First, on costs. So as you said, it's a big cost-cutting program and, as Mr Knof mentioned in his initial remarks, a big execution track record. So I'm basically wondering about contingency plans. And in case the progress is stuck or it doesn't move as fast as you would like to see it, I was wondering whether you would also consider "betriebsbedingte Kündigungen" or I think redundancies for operational reasons. That's the first question.

And the second is, coming back to the Chief Risk Officer presentation and artificial intelligence maybe, because a lot of neo banks are talking about their risk capabilities based on big data. But you should actually have probably one of the best databases that is available. So just wondering any lessons or any experience you can use to lower your cost of risk sustainably?

Manfred Knof

Okay, Benjamin. Then I'm taking the first question, and then I will hand over to Marcus. With regard to the cost-cutting program, we are very confident that we can deliver in time because we have already our first agreement with the works council, and now we are planning for May 5 for the social plan negotiated. And then with further negotiations, we then really can go out to all our employees. So far, so good, and we are really in time, and we have excellent negotiations so far. So I'm very confident and optimistic that we will be in plan. Can we exclude "betriebsbedingte Kündigungen"? No. I cannot exclude that for today. But we hope it will not be the case, and we will work that this will not be happening, but I cannot exclude it. So Marcus, now on your question.

Marcus Chromik (Chief Risk Officer & Member of the Board of Managing Directors)

Yes, Benjamin, thanks for the question. I truly believe in the combination of human intelligence and artificial intelligence as a combination. And the combination is always very powerful when you're dealing with very complex data and a big amount of data, which we have now these days, when you're looking for the needle in the haystack. And then you also have in the financial crime area, changing schemata of fraud, for example. And so we can use the techniques, on the one side, to lead the people to investigate the right topic by reducing massively the amount of false positives or wrong alerts, for example, in the compliance area or in searches for fraud schemes which is reducing, on the one side, because it's efficient, risk cost, but also the cost of doing risk management because you have more targeted investigations then.

And secondly, I also believe it will play a major role in optimizing more and more credit decisions. And I believe that with our database and our customer base, we have the capability and the data to do it basically in the -- more or less the full retail and scheme up to small SMEs, and that's what we are shooting for. And that's why I believe we can, on the one side, reduce the cost of doing risk management and also tackle the risk cost this way.

Rohith Chandra-Rajan (BofA Securities, Research Division)

I had a couple as well, please, one on Corporate Clients and one more broadly on revenues. The plan to reduce the low-returning risk-weighted assets in Corporate Clients from 34% to 22% looks like it's mainly exits from those client relationships. So I just wanted to clarify the EUR 200 million revenue uplift in Corporate Clients that's targeted. Is that mainly from the EUR 7 billion RWA reinvestment? Or is there some additional benefit from improving profitability on existing risk-weighted assets?

And then the second question was around revenue. So firstly, thank you very much for the phasing on costs. And on revenues, you've already guided that 2021 revenues will be a little below EUR 8.2 billion and you've got the EUR 8.7 billion target for 2024. I was wondering if you could help us with the phasing for 2022 and 2023. And your comments just now on an operating results of over EUR 1 billion for 2022 seems to imply something around EUR 8 billion revenues for 2022. So I just wanted to check really on the phasing of revenues '22 and '23, please?

Christoph Wortig

Let's start with Michael on Corporate Clients and then Bettina on guiding the revenues.2

Michael Kotzbauer

So actually, Rohith, it's both. It's, first of all, exiting clients. But the other one, which is even more important, is increasing profitability of our low-yielding clients, so below 3%. So what we do is, as I said in the speech, we look at each and every client, which doesn't -- to make the 3% hurdle. And here, we do the following. We basically try to improve cross-sell as much as possible, and this is where the returns are coming from. Where we can't make it and where we don't see a chance to do that, we clearly will exit the clients. So it's a mixture of both elements that we do here.

Bettina Orlopp

And on the revenue development, let me start first to put again some clarity around the 2021 guidance because I think there was some confusion around that. So on 2021, we guide for lower revenues than 2020, so lower than the EUR 8.2 billion, slightly lower. And that includes -- the guidance includes the expected TLTRO revenues. And what we then see is a recovery, stepwise recovery, both for Corporate Clients and PSBC where basically the negative ones, the negative effects balance out -- are balanced out by positive effects. So you can assume a step-wise increase until the EUR 8.7 billion for 2024.

Rohith Chandra-Rajan

Can I just clarify that, please? So slightly below EUR 8.2 billion in 2021, including EUR 160 million from TLTRO, and then we should assume something like a straight-line recovery to the EUR 8.7 billion?

Bettina Orlopp

Yes, that's what I would definitely assume.

Anke Reingen (RBC Capital Markets, Research Division)

I just actually had a similar question to the previous one. So just concluding the 2021 revenue should basically be the trough in terms of the trajectory? And then I was wondering on the mBank, EUR 600 million revenues, it seems quite a lot. If I don't think you make the EUR 600 million revenues, can I then assume the cost will be EUR 200 million lower as well?

And then the second -- and then lastly, on strategy. I mean, obviously, there is a big change from when I sat on your previous strategic update. And I just wondered if you can say what's different now? What's making you excited? Is this also the environment? Is your capital ratio stronger? Or what has set you on this path?

Manfred Knof

Anke, let me take the question on strategy first. Yes, this is a new strategy, which my team and myself has worked out over the last weeks. And we are very confident that this strategy will safeguard and secure the independence of Commerzbank going forward. In Private Clients, we are combining the best of 2 worlds, the digital innovative power of comdirect with excellent advisory capabilities of Commerzbank.

And in Corporate Clients, we will focus mainly on the German Mittelstand and on customers with German connectivity. So we are very focused and we are very happy and we are very clear. And the difference is really that execution is key

now. And this team is fully committed as well as all the employees in the bank, and that's why we are so confident. And maybe, Bettina, on revenues?

Bettina Orlopp

Perhaps, Anke, first on the revenues for 2021. Let me just explain why do we believe that there will be slightly lower revenues in 2021. Key driver is actually really Corporate Clients because we believe we will see effects from the streamlining and RWA optimization measures, Michael just presented. So there will be effects out of that. Plus, besides that, we haven't assumed any positive contribution from Commerz Ventures, and you will recall that in 2020, they really added quite a nice contribution to our revenue side.

And mBank, we believe, will show an increase in 2021, while PSBC Germany will most likely stay stable. That's basically the outlook on -- for 2021. On mBank, I mean it's pretty sure. If they do not generate the EUR 600 million revenue growth, you will also not see the EUR 200 million cost increase, so this goes in parallel. And clearly, no revenues, then there will be also not a cost increase.

Anke Reingen

If I can just ask one follow-up question, obviously, sort of a concern as we see all the revenue headwinds first. And then the tailwinds are only coming in '23, '24. So that's basically when we should think about it. We have the decline in 2021, and then we see a gradual increase as these effects offset each other?

Bettina Orlopp

That's exactly the case. Thank you.

Dirk Becker (Globe Allianz Investors)

Fantastic. And yes, first of all, a big compliment to Mr. Knof after only 6 weeks in the job to come up with such a credible and comprehensive plan, and we're really looking forward to the implementation, and that will be an exciting journey. To my questions. First, on Page 30, on the private bank, if I understand that correctly, you're looking to increase revenues by EUR 100 million, but at the same time, the risk-weighted assets will go up by EUR 7 billion. So that will dilute the revenue over RWA by over 200 basis points. And I was just trying to understand why that is a good idea.

And then secondly, on the short-term revenue headwinds, isn't it also true that you slightly overearned last year in your brokerage in comdirect? I remember, in March, you executed probably in 1 month as many orders as you usually have in a full year, and that's probably not going to repeat itself. So isn't that also a headwind, the normalization of the brokerage business?

Manfred Knof

Dirk, thank you, first of all, for your kind words. And before I hand that over to Sabine, I think during the corona, we see a change in customer behavior, and this continues in comdirect. So maybe Sabine, you can explain and put it in a framework and then Bettina.

Sabine Schmittroth

Dirk, I just want to pick up first RWA because it comes first in my mind at the moment to put it away and then go to the brokerage business. Is it fine for you? So let's start with the RWA. This is pretty much linked up to 95% to the lending growth. And I need this lending growth to fight against the losses from the deposit side. And 50% of this lending growth is the mortgage business and then it comes nearly half-to-half between the consumer finance and the loans for the small business clients, and they are all with attractive margins. So you can be sure that these RWAs are pretty well invested and helps me to increase the NII. So that's the first part of the increase of RWAs.

The second question is, yes, we had an extraordinary year in comdirect, and we didn't plan it for the future. So it's not in the plans for 2021, but I can see the January, I can see that the interest rate environment is, for private investors, yes, very critical. They all ask questions how to invest and how to make sure that their money will be stable. So there are a lot of question in the community, and I think we have the answer with products and with brokerage. And it's not in the plan, but I hope that we can scale it up in the future.

Bettina Orlopp

So basically, not really something to add, except Dirk, if you look on the RWA efficiency and calculate the RWA efficiency, still far above 10%. So, I would say it's still a very decent RWA efficiency, and it's worth to invest. So therefore, I think it's a smart move.

Christoph Wortig

And now I'd like to take a question from the webcast. And I will read it out. It comes from Jochen Schmitt from Metzler:

“You have mentioned in your presentation that you aim to complete the integration of comdirect in 2022 or 2023. Just one clarification. Will the comdirect brand be kept in the medium term?”

Manfred Knof

We give that to Sabine.

Sabine Schmittroth

Yes. It's me again. So today, it's not so important to answer the question because we have 2 strong brands at the moment, and they are - both of them are growing. The most important question is, is it possible to bring all these IT platforms together to make sure that we gain the synergies from this movement, from the headquarter reduction and also get rid of some of these IT legacies?

So, for me, it's important that we can see at the moment strong brands. I will keep the customer journeys from comdirect, and I'm sure that it is absolutely necessary to keep it for our brokerage business. And then let's look and let's have a look how it works, and then we come back with the concrete answer.

Jeremy Charles Sigee (Exane BNP Paribas, Research Division)

Two questions, please. One is a detailed question for Bettina, and it's another one on this sort of question of phasing and specifically about the risk-weighted assets. I think you said this morning that you're expecting 2 sets of RWA inflation in Q1 and I think you said both of them single-digit billions. So, it sounded like there could be quite a meaningful step-up in RWAs in Q1, maybe as much as EUR 10 billion or something, and then sort of the other effects kick in after that, including some of the reductions. So, I just wondered if you could talk us through the phasing, Bettina, of the RWA movement, particularly in the sort of 2021 impact. So that's my first question.

The second question was really for Sabine on the retail side. Slightly continuing the previous question and thinking about that relationship between Commerzbank, the parent bank and comdirect from a customer -- you mentioned customer journeys. From a customer experience point of view, how integrated will those brands be in the near term? Will a customer of one be offered the services of the other automatically or selectively? How will you sort of integrate those brands? Or how separate will you keep them?

Bettina Orlopp

Okay. Let me start, Jeremy, with the RWAs for 2021. I mean we guided that we would expect a capital ratio of above 12%. And given that we have a starting base of 13.2%, and yes, we have the restructuring cost of EUR 900 million, there must be something on the RWA side happening. And the thing is that we know that in the Q1, there will be effects from TRIM that will be a single-digit billion number. That's for sure.

And then the question on when do we see the rating migrations and the RWA inflation? It might be in Q1. It might be also in Q2. But that's why we have been cautious on guiding on the capital ratio. I mean it's very much dependent on the development of the corona pandemic and the economic development. So, it's a little bit related to our LLPs, where we also have guided for quite a range of the EUR 0.8 billion to EUR 1.2 billion for the same reasons, lots of volatility still in the system.

Sabine Schmittroth

Okay. And the second part of your question, yes, the combination of comdirect experience and Commerzbank experience is, at the moment, we are working, yes, in different systems. So, there are people who could help each other, but there is no systematic approach at the moment. We had the first success to bring up on our online page the first links that you can switch from one to the other if you are a client from comdirect and a client of Commerzbank. So that's the first, tiny, tiny step, but we are working to -- as I said, to bring the IT systems together.

My goal is that you can, as a client, seamless walk through this new bank, this digital bank. And my retail -- mass retail approach will be that you have the impression that you have today at comdirect. So, everything end-to-end is digital. You have helpful hands and helpful ears in our customer centers and in our advisory centers. And if it comes to a difficult problem and you need personal help, you can go into our branches. And this is -- this will be all linked, and we are today able to link all these channels together with our Microsoft Dynamics systems. So, all the channels are linked to each other. In every second, every channel knows what the client is doing at the moment. And I think this could be a good picture for the future.

Christoph Wortig

The next question is in text again, and I'll read it out and it goes to Michael. It comes from Cerberus. They asked:

“How has the corporate client product and geographic perimeter been optimized to meet the requirements of your core Mittelstand clients? Specifically, what makes you confident that not fully exiting equities, ECM, M&A and underperforming parts of FICC adds value to shareholders?”

Michael Kotzbauer

Well, thank you for the question. First of all, international locations, we analyzed each and every location for its relevance for our core clients for the German Mittelstand. So, we looked at the importance for German trade corridors. We looked at the relevance for German clients and the number of connected clients in this location and the financial KPIs. So, this is for the international locations to make sure that we cover the trade corridors our clients do need.

Regarding the product optimization, the digital products will be available for the entire client base. So, all products we digitize will not be just for the direct bank, will be basically for all the clients we have in the segment.

And then coming to the investment banking products, we looked at the equity progression for the equity brokerage business. We plan to enter into a cooperation, which, for all practical reasons, means exit. So, just to make this clear, we continue to offer ECM origination and IPO advisory. This is very important. So, we do the advisory and the origination. We continue the advice on capital structuring and debt transactions, and we continue the advising of restructurings. This is what our clients expect from us.

What we basically -- for the M&A part, we do see a high potential of our SME clients on succession planning. And just to give you a number, we see 40,000 company handovers per year in Germany. So, this is a huge potential. And we talk to our clients about succession planning. They expect that we do the M&A transaction. We advise on the succession, and we do the M&A transaction. If we do not, he would take another bank and we would lose the whole relationship, the entire relationship. So, when we talk about M&A, we will strictly confine it to the SME world. What we basically will end where we seek partnerships is the ECM technical execution, sales trading, equity research and corporate brokerage service. Here, we look for partners.

And then when you look at the FICC business, it's centered around a profitable arena on FX platform. We basically have one of Europe's best e-FX platforms, and this is what we continue to add onto. So, here, we do see declining costs and higher profitability. And on commodities already is and a profitable business that we do, and also looking at ESG, 55% of the commodity trading we do is on carbon trading.

Hugo Moniz Marques Da Cruz (Keefe, Bruyette & Woods Limited, Research Division)

3 questions. First, if you start to miss on your revenue targets, generally, and I guess that's more after 2021, what will you do? Will you try to cut costs more? Or would you accept a lower ROE target?

Second, what kind of capital return policy would you like to see after 2022? Specifically, would you prefer dividends or buybacks?

And third, what's your exact definition of RoTE? Because I just want to make sure I calculate it on the same way as you do.

Bettina Orlopp

Let me start. So, miss on revenue targets, I mean, we have been really cautious on planning the revenues. So, I'm pretty convinced that we will not miss on the revenue targets. And the whole plan is really, very much targeted in the direction of cost reduction and RWA optimization. So that's number one.

And therefore, we are really convinced that we meet the RoTE targets. Taking the RoTE because that was, I think, the third question, it's a return on tangible equity. So, you find that also, if you look in our documents, even in the analyst presentation, there is -- in the Appendix, there is a clear definition what is tangible equity. And it's derived from the IFS capital. I don't know which page, but I'm pretty sure you will find it.

On capital return policy, we said, we keep it open. We have dividends. We have share buybacks. It's totally clear that share buybacks is a very preferred instrument from the perspective of investors. We need to make sure that we get the approval of the ECB. That is an important prerequisite. But I think the most important thing is we see the potential. So, as I said, EUR 3 billion -- up to EUR 3 billion we see as a potential, and that would move up the RoTE from 7% to 7.8%. And we are very committed to basically provide this capital return to our investors.

Nicholas Herman (Citigroup Inc., Research Division)

Two questions from my side, please. One on consumer finance and one on Corporate Clients revenue efficiency. So - on PSBC consumer finance, can I just push you to be a bit more granular on that? What level of volumes do you anticipate by 2024? And why can this management team successfully grow the book when it couldn't be done before?

The second question, on Corporate Clients and revenue efficiency, I was a little surprised to see that revenue efficiency in 2024 is -- looks only modestly up, that in 2020, which to me appears to be more than of a client mix effect rather than a business mix effect. In the previous Strategy Days, you'd guided that about 60% of revenues was coming from lending and only 30% from lighter -- capital lighter activities like trade finance and cash management. Just curious in terms of how that mix will look under your new model?

Sabine Schmittroth

[The first one] is linked to the concept. It was on the consumer finance. So - we didn't reach the target in the past. And Nicolas, you're asking yourself, how is it going for the future, I think. So, we can see slightly, I think, 13% growing path the last year. And going forward, we are going to double our loan volume from this moment to 2024. And that means then that we will have a market share far below our natural market share. That means there is enough space for us to go for it.

And yes, we have to improve our sales better. That's the one thing because our product is attractive. But we have at different sales channels, and we have to improve the digital sales process. So, to have the consumer finance business on mobile will be the goal up to the end of this year. And so, I think we can carefully but go for a growing path in the future.

Michael Kotzbauer

When it comes to the RWA question, going forward, for first years going forward, we do sacrifice revenues, streamlining the international business. So here, when you look at the international side, we basically have a revenue attrition of roughly EUR 300 million. And this is basically how our revenue has been hit in the first years going forward. And this is why also RWA efficiency is taking a slight dip.

On the second part of the question, so composition of income. When looking at '24, we have a composition of EUR 55 million in NII and EUR 45 million in net commission income. So that's roughly basically the distribution.

Christoph Wortig

And now I'll turn again to the webcast questions. And the next one is from **Ian Lapey** from **Gabelli Funds**. And it goes: "Please discuss the apparent increase in the strategic importance of mBank. Is this due to mBank's lower stock price or a higher appreciation for its long-term business fundamentals?"

Bettina Orlopp

mBank has been also in the past, a core element of our strategy and also our profit generation, and it will be in the future. And nothing has changed, basically, to be very honest.

Christoph Wortig

Next one, again, from the chat are questions from Andreas Thomae from DEKA Investment, both go, I believe, to Sabine: "What are the measures you take to enhance your market share in small business clients?"

And the second one from Andreas is: "What are the loan volume targets for consumer loans, which have not grown for two years." So basically, what you just covered two questions before, basically.

Sabine Schmittroth

Yes. Then Andreas, I will focus on the small business clients. So, first of all, it's important that we have a clear responsibility in our sales organisation. So - in the future, we will have the revenue responsibility. And one of my executive team members, and we have a clear, yes, sales team in Germany, and we will combine the personal advisory with also the team advisory and the advisory center and the digital approach. So, I think we have a really modern states model also for small business clients.

And looking to the digital capabilities we will have in the future, I think it could be very, very interesting for my target group, for the small premium business clients to make business with us because it will be easy and comfortable for them.

Izabel Dobрева

So- my first question is a little bit of a follow-up on the corporate restructuring. If I look at where you end up in 2024 in your strategic plan, there is still about 22% of RWAs which are below 3% in terms of yield, and the bank is still spread in

over 40 international locations. So, my question is, really, what stops you from going further in sizing down in CIB. What was the binding constraint? Or should we think about this as more of a starting point to be potentially revised later? So that's my first kind of follow-up.

And then the second one is a bit more technical. It's on Slide 60 where you have shown the RWA decomposition. And I saw on that slide that you are guiding for a EUR 3 billion RWA increase related to regulation. So, my question is does this include Basel IV on a fully loaded basis? Just to make sure that we are clear.

Manfred Knof

Before Michael takes over, Izabel, first of all, I think it's important to note that we will continue the German Mittelstand and the German SME abroad. It's very important, and that's where Commerzbank stands for as a partner of the German SME also doing business in Germany and internationally. So - therefore, international presence is important, even if in some locations Michael will reduce them. So, maybe you can take over.

Michael Kotzbauer

Thank you, Manfred. So, to your question regarding the closure of branches we do, we close 9 branches till '24. And with the remaining branches, we do feel comfortable. But just don't forget that also for the remaining branches, we do streamline those branches, which means that we will centralize middle and back-office work in the 2 hubs, 2 cost-efficient hubs, and we'll introduce a lean branch concept in Europe, which means that only salespeople will stay in the branch, and the rest has been done in hubs in Europe. So, we'll streamline here the branch significantly going forward. And we need to be active in the relevant trade corridors of the German economy, and this is exactly what we're up to.

Regarding the RWA concentration, we always will see clients in the bucket below 3% because when we invest in clients, we usually have a certain period until it pays off in cross-sell. So, this is why we continuously see inflows into the below 3% bucket. But naturally, we keep on working on the 22%, try to get it lower, but it will never basically -- will be zero because we always have new interest in investing in loans and then basically, the clients getting out again in the course of a few months. So, 22 is the go for '24, and we'll continue to decrease this.

Marcus Chromik

Izabel, on RWA, quickly, the effect in '24 you see there is basically due to the fact of starting with Basel IV. So FRTB market risk, CVA risk capital charging of risk, it is not including the fully fledged effect when the output floor kicks in.

Christoph Wortig

The next question is from the webcast again, and it comes from **Stefan Lake** from Switzerland asking: "How much in percentage of the back-office activities do you plan to transfer to near-shoring? And what are the plans for far-shoring?" And I believe this goes definitely to Jörg.

Manfred Knof

Absolutely. Now Jörg, we can bring you into the play here.

Jörg Hessenmüller (COO & Member of the Board of Managing Directors)

Yes. Therefore, many thanks for the question. I already thought that there will be none for me. So Stefan, I'm really happy. On near-shoring, I think we have to distinguish here, on the one-hand side, what we will do is we will beef up further our resources, our tech resources in near-shoring locations in Central Europe.

So - we have 3 hubs in Lodz, Prague and in Sofia. And there, we want to double up the number of colleagues working there from currently 700 to 800 up to 1,400, within the range of our strategic frame.

And then next to that, we also use intensively near-shoring on the operations side. And there, we would - we see also a further increase. And we will also add resources in Kuala Lumpur where we have started with near-shoring on the trade finance side, and we want to build up Kuala Lumpur to a bigger shoring hub. So, this also contains a far-shoring component if you want to say so. Thanks.

Tobias Lukesch (Kepler Cheuvreux, Research Division)

I have 2. One is for Jörg Hessenmüller. Again, on the IT and the digitalization. I mean this has been an issue at 2016 strategy already and for '20. Back then, Commerzbank had to confess that a lot of spending basically was not successful. When did you realise that you need an additional of EUR 1 billion to put in that '24 plan compared to the Commerzbank 5.0? And how can we be sure that there is enough resources available that we don't have a drag here, i.e., that the FTE reductions are really feasible given that the IT setup is in place?

And the second question is on the risk side. There was a comment from Mr. Chromik earlier on the insolvencies. And if I got that correctly, he said that he expects these insolvency rates to increase by 4 times, if I'm not mistaken. So, I was wondering how this then actually match with the kind of potential risk cost planning for the coming periods, especially for '21. I would say a risk cost, a target close to what we have seen might also be within reach, given such a scenario.

Manfred Knof

Okay. I think then, Jörg, you can take the question and you have the second one. And then for the final, we close with our Risk Officer, Marcus.

Jörg Hessenmüller

Yes, Tobias. Many thanks for the question. As you've said, kind of we started our journey towards digitization in 2016, and we have already achieved a lot since then. So - there is a basis on which we can now base the future development.

Why is EUR 1.7 billion the right figure? We will invest a lot in enabling Sabine in her journey to combine 2 banks and to move them into a primary digital business on the retail side. There, we will invest roughly 35%. We also have to support kind of our corporate customer clients because also there, a significant transformation on the technology side is necessary.

And on top of this, and this is an important enabler, we will continue to invest into the tech bases. We have mentioned our journey into the cloud, which will help us next to other enablers that we spend the money on the right topics and fast and efficient. Previously, I kind of said that part of our near-shoring strategy is building up further tech capacities in our near-shoring center, and this is another enabler, which will allow us to deliver on our plans. I hope this helps.

Marcus Chromik

Yes. Tobias, regarding your question, when you look at the events in 2019 in Germany, you basically saw 20,000, 25,000 cases. You saw them basically this number dropping by 50% in 2020 because of the moratoria and so on and also the state support. And when you just assume what would be the refill effect or the fill-up effect from the past and the normal rate, you're ending up with the 40,000, and that is – it gets at least the number 4.

And two comments on that one. That will most likely occur, of course, in the very small business space. So small business customers will be affected. So there, you will see this many cases. And secondly, it will, of course, hit those sectors which are obviously very immediately affected from COVID, i.e., stationary retail, tourism, gastronomy and so on. And as you can see on the presentation, these are sectors where we are underweighted in our portfolio. We're also aren't really depending, to a large extent, from commercial real estate, especially not commercial real estate, the retail-associated revenues. That's why I feel comfortable with our LLP planning for the upcoming year, together with the TLA.

But as a risk manager, I always say, I don't have a crystal ball, so -- and it all depends, of course, very much whether the lockdown will continue or whether there will be a third one, that we can't rule out, of course.

Christoph Wortig

Thank you very much for this lively debate and for all your questions. Apologies if there has been any kind of technical problem throughout the session and personal sorry for Johannes. I think it was probably my personal fault that you didn't come through. I thought you're in Teams, but you were actually on audio. Sorry for that.

Please get back to our Investor Relations department, in case you still have any open questions or further questions. Come up to us and go into the discussion with us. Other than that, we all look very much forward to seeing you again as soon as possible, hopefully in-person, as soon as the situation allows.

Thank you very much, and bye-bye.

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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