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Ladies and gentlemen,

This year, the renewed weakness of economic activity in Germany and equity prices falling on a previously unimaginable scale caused earnings to shrink at such an unexpected pace that it was very hard for us, on the other side, to register successes in our fight against overly high costs. You have already seen how this unequal struggle between earnings and costs, under which I also include provisioning, has affected our competitors, and we have also felt its impact on our own results.

The combination of all these adverse factors gave rise to sharp falls in market values and further rating downgrades for German banks. As only three banks now have a listing in Germany, negative reports, and consequently market sentiment, focused on their shares, not least on Commerzbank's. Coupled at times with absurd rumours, this led to dramatic plunges in equity prices in October. It was not until the Bundesbank and the German Financial Supervisory Authority confirmed that there were no grounds for fearing liquidity bottlenecks and a lack of stability that market participants regained confidence and revised at least some of their pessimistic views.

The wild speculations were also triggered by the frequently very complicated accounting rules, which are so difficult to understand and explain that even reputed analysts get confused. At the heart of all this lies the so-called revaluation reserve, an equity item required under IAS 39. Here the hidden reserves or hidden burdens represented by holdings in listed companies are shown. These are not gains or losses which are actually realized, but merely a balance-sheet item. It is not always realized that the revaluation reserve does not have any impact on the BIS capital ratios. The weak condition of the stock markets has caused this item to deteriorate considerably at all banks. Commerzbank is less affected here than its competitors.

German banks have adopted a serious and sober stance in facing up to this situation. All too often, unfortunately, facts and arguments are neglected which, with more careful analysis, indicate that banks have recognized the need for reforms and change and they are acting accordingly. Things are on the mend, and no one denies that much still remains to be done.

It is completely ridiculous to claim that Germany has a credit crunch along historical US lines. There is enough liquidity, even though – with risks increasing – there is no longer enough for everyone and at any price. It is equally absurd to compare the situation of German banks with that in Japan. Banks in Germany are not sitting on hundreds of billions in bad loans; there is no speculative bubble on the property market, nor any signs of deflation. Both relatively sound credit quality and banks' assets as well as the adjustment measures which they have introduced will carry them through the present difficult phase. Maybe they will even emerge from it stronger. It is wrong, therefore, to speak of a general banking crisis.

Cost-cutting offensive and fresh orientation in investment banking

However, I am not denying that German banks are experiencing a serious earnings and structural crisis. And as long as neither the real economy nor the financial sector show any signs of improvement, we primarily have to turn the cost-cutting screw.

At Commerzbank, for example, we began to make the first reductions in autumn 2000. Our cost-cutting offensive for the current year has ensured that our operating expenses were down by a solid 10% after nine months. Given the deterioration in the overall conditions from quarter to quarter, however, these measures are not enough. For this reason, we have launched our "cost-cutting offensive plus". Now that we have overhauled the domestic branch network and have now also resolved a restructuring of investment banking, we are focusing on the corporate centre. We are going to subject our head office in Frankfurt – i.e. the corporate centre and the staff and banking departments based there –, as well as the operative foreign units and our subsidiaries to very close scrutiny in order to identify inefficiencies, duplicated work and possible structural changes.

Various project teams are now working on this, each headed by a member of the Board. Their findings will be presented next spring. Our target is to reduce the Group's operating expenses substantially again to below €5bn next year. As I have already mentioned, the domestic branch network in Germany is not covered by the new project. Here, we have already made the necessary adjustments through the first cost-cutting offensive and the additional "Play to Win" programme. By year-end, we will have pruned our branch network by 200 offices to 727 and do not plan any further downsizing. However, we intend to test out other types of office than the existing branch offices 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 primarily related to corporate business and risk management. All told, we intend to shed at least 300 jobs in the front-office area and at least 150 corresponding back-office personnel. The measures I have mentioned represent potential annual savings of roughly €150m. The reductions are intended to produce stronger concentration on the needs of our German and European corporate customers.

Interim report as of September 30, 2002

Our figures as of September 30 were strongly 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 to €424bn.

Despite the lower equity shown, the core capital ratio in accordance with BIS rose from 6.0% at end-2001 to 6.7% – due, among other things, to the deconsolidation of Rheinhyp. 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 shortage of equity or plans for a capital increase.

For the first time, we have included information on the liquidity ratio in our interim report. Principle II requires it to be at least 1.0. At Commerzbank, it stood at 1.22 on September 30; this translates into a liquidity surplus in the short-term bracket of around €28bn. So much for the malicious rumours of liquidity problems.

Now let's turn to the income statement. In the third quarter of this year, we achieved net interest income of €721m. Even though our average interest margin in domestic corporate lending widened further, which was encouraging, this was still €140m lower than in the previous quarter, largely as a result of the Rheinhyp transaction.

After earmarking €254m in the first quarter and €308m in the second for provisioning purposes, we set aside €436m for the third. The combined sum is roughly 75% higher than in the first nine months of 2001, and all told it represents 9/12 of the amount of just over €1.3bn which we currently expect for 2002 as a whole.

One of the obstinate claims in this connection is that Commerzbank, because of its strong *Mittelstand* orientation, is exposed to higher-than-average credit risks. 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 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. In fact, this year as well, our provisioning statistics reflect a number of major insolvencies – above all, Kirch Media and Babcock – for which we have formed sizeable value allowances. On the other hand, we were not involved at all in several prominent large-scale national and international bankruptcies, thanks not least to our modern risk-management practice. This year, our provisioning ratio – i.e. provisioning as a percentage of total lending – will be about 0.70%, compared with 0.39% in 2001. Even by national and international – and especially Anglo-Saxon – standards, too, this is an acceptably low level.

With net commission income of €501m in the third quarter, we earned a good €50m less than in the previous quarter. The bearish stock market was responsible for weaker revenues in securities and new issues business, and also 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. Increases were registered in dealing in interest-rate risks and also in foreign exchange, precious metals and foreign notes and coin, whereas trading in equities and equity derivatives produced a minus result.

The negative balance of €531m in the third quarter on our investments and securities portfolio reflects the weakness of the stock market. In addition, we did not want to arouse the false impression that earnings performance was positive with the income from Rheinhyp. For this reason, we have already subjected our investments to a strict impairment test rather than waiting until the end of the year. This test establishes whether a company's earnings performance and business outlook justify the book value that is shown or whether the investment is permanently impaired. If this is not the case, write-downs have to be made. We have made write-downs of €545m on our investments. By far the greater part relates to our 2% shareholding in T-Online. We have also made write-downs amounting to a euro figure in the triple-digit millions on various other securities portfolios.

Despite the successes of our cost-cutting offensive, we were unable to compensate fully for the sharp drop in earnings. In a year-on-year comparison, operating expenses fell by 9.9% to €3.9bn in the first nine months. As of September 30, we had a workforce of 37,176, compared with 40,391 a year earlier.

The income of €721m from the deconsolidation of Rheinhyp is included 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 have used to cover the special burdens represented by write-downs. This has strengthened us for the future.

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 in the same quarter of 2001.

Segment reporting reveals the following picture. In retail banking, we achieved a positive operating result of €53m again in the first nine months. The marginal decline from the second to the third quarter was due to the lower net commission income and higher provisioning. However, it was more or less offset by reduced administrative costs. We are on the right path here. By contrast, we incurred an operating loss of €118m in asset management. This includes amortization of goodwill in an amount of €62m.

At €522m, the corporate customers and institutions segment once again made the largest profit contribution. The marginal slackening in the third quarter is due to higher value allowances. In the securities area, we did not manage to achieve our targeted revenues on account of weaker commissions and trading results. Here we show an operating result of -€244m. Thanks to tax income and profit contributions from business passed on, however, the minus sum for the result based on internal accounting was reduced to €78m. Treasury continues to produce good figures. It managed to register higher earnings and lower costs than in the first two quarters. Its pre-tax profit reached €258m.

As I have already mentioned, the mortgage-bank segment still includes Rheinhyp up to July 31. As from August, the pro-rata result of the new Eurohypo, in which we hold a 34.57% interest, appears under Net interest income. This change makes comparison with the previous year difficult.

For the Group as a whole, the results for the first three quarters yield an after-tax return on equity of –0.7%. Without the amortization of goodwill, it stands at +0.4%. Due to cost reductions, the cost/income ratio before provisioning improved from 83.5% a year previously to 78.5%. I hardly need to stress that we are not satisfied with this result.

Outlook

How our business develops will largely depend upon the overall conditions. And these are anything but rosy. All the leading indicators suggest that economic performance will slacken off even more during the winter months. At present, there are simply too many unanswered questions. What will happen in Iraq? What consequences would a war have on the supply of crude oil and energy prices? Will the US economy slide into recession again, with the expected consequences for the rest of the world?

I personally do not think that the worst will happen, particularly since some of the adverse factors will gradually disappear. However, the necessary impulses are lacking for a proper upswing. No export boom is in sight such as we experienced at the end of the nineties. And at present European monetary policy is not prepared to adopt an expansionary stance in the form of marked interest-rate cuts, whereby with the interest-rate level already low the question arises what effect a lowering of interest rates could still have.

Moreover, economic policy is not sending any positive signals. On the contrary, paralysis seems more likely than the reanimation that is needed. Instead of tackling Germany's very obvious structural problems and cutting spending, the government plans to increase taxes and social-security contributions. All told, current plans – including already approved measures – will add roughly €18bn to the burden shouldered by households and companies next year. This does not take into consideration the postponement of the second stage of the tax reform. As from 2004, the burden imposed on companies by these measures will even tend to increase as the restrictions on tax relief for losses will be felt to an ever greater extent.

It is not so much a question of whether the individual measures can be justified or not. Much more important is the signal created in the present economic climate by these measures that stem from a bad tradition. Over the past few years, namely, the burden of social-security contributions has steadily increased. There can be no talk of a perceptible easing of the burden on business as was promised in connection with the so-called major tax reform.

The upswing will only materialize when confidence is restored. At the moment, it is entirely lacking and politicians are not doing very much to alter this. The actual situation may not be quite as miserable as the mood. But it is probably no exaggeration to claim that the mood at present is worse than it has been for several decades. I wonder what must happen before our politicians wake up and initiate a real process of rejuvenation. We should be very bothered about the fact that people outside Germany, in a strange mixture of *Schadenfreude* and understandable concern, are currently focusing intensively on the sick man of Europe.

Against this background, our business environment remains extremely difficult. One imponderable is provisioning for possible loan losses, right up until the books are finally closed in February. In addition, we will have to form provisions for more restructuring expenses in the final quarter on account of the second cost-cutting offensive. For this reason, and in view of the markets' volatility, it makes no sense to present a forecast for the whole year. And given the more critical development of economic performance, we would be well advised to formulate modest expectations for 2003 as well. But you can safely assume that *we* will do all that is in our power to make Commerzbank profitable again.

Corporate governance

By way of conclusion, I want to make a few comments on the topic of corporate governance. The German corporate governance code, presented by the government commission on February 26, is now being implemented at Commerzbank as well in the form of a code of best practice. The text can be found on our internet site and is valid with immediate effect. In it, we will declare every year 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 also the goals and objects that it pursues. 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 an amount of €25,000 within 30 days. 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 implementation of the code is not a formal duty for us. Rather, it is a substantial element in a business policy geared to achieving a sustainable improvement in the company's value.

I said at the start of my remarks that things are already on the mend at Commerzbank even though very much still remains to be done. I hope that my comments have made that clear. It seems that there is no standard recipe for the 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.