



COMMERZBANK

Embargo

Start of speech of
the CEO

Annual Results Press Conference 11 February 2021



The bank at your side

The spoken word counts.

Manfred Knof, CEO

A very good morning to you all.

I'm delighted to be able to talk to you today – and not only today, but in the future as well. There will undoubtedly be a number of opportunities for this over the coming weeks and months.

This is my sixth week at Commerzbank. And I have to say: I feel very much at home here. Particularly in view of the many competent, motivated colleagues that I've already met. They want Commerzbank to be a strong bank, they want something to happen, and they want things to change for the better.

I share this commitment. That's why I came here, in order to make things happen and put Commerzbank back onto a trajectory of success.

Commerzbank looks back on a long tradition. Correspondingly, I want the Bank to enjoy a long, independent future going forward.

But this can only succeed if our Bank is once again placed on a robust foundation. If it succeeds in making the most of its strengths and developing its potential. If plans and announcements are transformed into actions and outcomes.

It's usually the case that a CEO starts off by taking 100 days to get into the job. In my case, that is not possible. The Bank needs clarity quickly on some important issues.

After a lot of intensive talks over recent weeks, we have now developed a clear view of what we need to do and how we should tackle implementation.

We've put in place an ambitious strategy programme and a binding implementation plan.

Firstly, our "Strategy 2024" stands for the four cornerstones customer-oriented, digital, sustainable, and profitable. We will base our business model on these principles. And secondly, it represents our overarching financial goal: return on tangible equity of around 7%.

In order to achieve this financial target, we are going to make significant adjustments to costs and capacities. In concrete terms, we will reduce costs by €1.4 billion.

But, of course, it's not sufficient to simply downsize and reduce costs!

We are also reorganising our business model: We want to be the go-to direct and advisory bank for Germany.

For private customers, this means: a modern direct bank for everyone and individual advisory services for premium customers and customers with complex advisory requirements. This also includes our small-business customers.

In Corporate Clients we are focussing on German companies, on the Mittelstand, and on international business with German connectivity.

We want to be sustainably profitable and shape our own destiny as an independent force in the German banking market. This is our priority.

We will concentrate on the changed needs of our customers while simultaneously focussing on maximum efficiency.

In order to achieve this goal, we are using several levers:

Firstly: Putting profitability before growth.

Growth at any price is no longer an option for Commerzbank. Profitability comes first.

Secondly: We will significantly adjust our capacities, and not simply in branch business. This means: We will streamline our structures in all areas and reduce hierarchies.

This will lead to a significant headcount reduction: In Germany, it will affect every third job.

These are painful cutbacks that my Board team and I find hard to decide upon.

However, there's no other choice.

If we want to make the Bank future-proof, we need to carry out in-depth restructuring – and as quickly as possible. Only a strong Commerzbank can be a good and secure employer for its employees over the long term. Naturally, we'll implement the headcount reduction in a decent and fair approach.

Let us now come to the third lever: We're going to carry out a wide-ranging digitalisation at the Bank. We will significantly expand our digital advisory services in both customer segments and make use of the specialist expertise of comdirect in this area. comdirect had a very good year and is a strong pillar of our business.

At the same time, we'll make our IT much more agile, more powerful, and more efficient over the coming years. Cloud-based solutions will play an important role here. In January, we strengthened our Cloud cooperation with Microsoft, and we are also working together as closely with Google. You'll hear more from us on this topic in the near future.

Ladies and Gentlemen, following on from this initial overview, I'd like to describe in rather more detail what our business model will look like.

In business with Private and Small-Business Customers, we want to meld the best of both worlds: the high digital standard of comdirect and the acknowledged advisory expertise of Commerzbank.

This will enable us to create a highly efficient direct bank with a first-class offering of advisory services.

This combination is also reflected in our new Corporate Design, presented for the first time today. It incorporates the visual elements of both brands and brings them together in a new, contemporary profile.

In future, we will be making the digital services of a direct bank available to all of our 11 million private and small-business customers.

Our aspiration is to make digital and mobile banking transactions even simpler and faster for everybody. We want to make comdirect the benchmark for the market.

We offer our customers personal advisory support on their digital and mobile devices and with telephone banking from our advisory centres or directly on the ground.

Independently of the channel, we remain true to our aspiration of being the Number One for advisory quality and customer experience.

Our new positioning will enable us to operate with significantly fewer branches. While we still had 1,000 locations before the coronavirus struck, in future, we'll only have 450.

We'll continue to advise customers there, but they will also receive advice on how to use our digital offerings.

Our objective is for as many customers as possible to make use of the digital channels.

At a total of 220 out of these 450 locations, we will offer personal advisory services on all issues relating to investing and financing to affluent customers and small businesses with a high advisory requirement.

Ladies and Gentlemen, we will become significantly more efficient with our new positioning.

We are not simply pursuing economic necessities in this process. We are also consistently aligning ourselves with the changed needs of our customers.

Today, customers only rarely make a visit to a branch of a bank. They want to carry out the majority of their banking transactions digitally.

Our new positioning is addressing these wishes. At the same time, it ratchets up our efficiency to an entirely new level.

And this is the foundation for enduring success in Private Customer business.

In the Corporate Clients segment, we are building on the acknowledged strengths of Commerzbank.

We are the leading bank for corporate clients and we have been firmly established in the German Mittelstand for decades.

We see ourselves as the strategic partner of our customers – in Germany and in international markets.

We generate a large proportion of our revenues in corporate banking, and this is achieved through efficient use of our capital and with highly satisfied customers!

That's why our clear focus will continue to be precisely on this area in future. We finance our corporate clients, and we support them in the capital markets and abroad. This is the case today, and that's how it will remain. Our clients can rely on this.

But: In future, we will be putting profitability before growth.

And we will increase our efficiency by reducing costs and using capital even more strategically.

This means that we will do a lot of things differently in future.

We'll continue to be present on the ground for our clients with complex advisory needs, and we'll continue to offer individual advisory services.

At the same time, we will develop an innovative direct-bank offering for corporate clients who have a standardised product and advisory requirement.

We will be implementing this advisory model gradually – this is where we are going to build the future of corporate banking.

As the clear market leader in Germany, we target growth with customers who have standardised product and advisory requirements and also with customers who have complex product and advisory requirements.

However, the focus on profitability also means: There are some things which we will no longer do. Here, we are also clearly oriented on customer needs.

For example, this has consequences for our Capital Market business. In this area, we will be focusing our activities and tailoring our offering even more intensively to the requirements of our core customers – especially to the Mittelstand, large corporates, and multinational corporates.

We'll no longer carry out equity trading and sales or equity research ourselves. We will rely on co-operation in these areas.

In the business with international corporates – an important area for us – we will focus on companies with German business connectivity. We'll only support other international customers if they are actively operating in selected future-oriented sectors.

We classify these as sectors that will be of particular importance for the German industry over the coming years. These are mobility, sustainability, communication, life sciences, and capital goods. Today, we already have a very high level of expertise in these sectors and many years of experience. One example of this is our Centre of Competence for Renewable Energies in Hamburg. We rank among the top players in Europe for this area.

Abroad, we will be reducing the number of our branches and representative offices. We're planning to exit 15 international locations, and we're going to convert 2 branches into representative offices.

At the same time, we'll bundle back-office functions in regional hubs, for example in Eastern Europe. And we'll optimise our network of correspondent banks. This will enable us to continue meeting our responsibility as a strong finance and hedging partner for the German Mittelstand in future.

In a nutshell: We will continue to be a powerful partner internationally. But with a more efficient structure and focussed on the most important trade corridors for German business.

Our focussed alignment also includes paying closer attention to the management and efficiency of our risk-weighted assets (RWA).

Our measures will allow us to significantly reduce the costs of the segment and keep income almost stable. This will lead to a significant improvement in our operating performance.

The realignment of Corporate Clients is associated with some tough decisions. There are business areas and locations that we are going to exit – even though colleagues there have been doing really good work. But the current situation requires decisiveness. A key factor will be our ability to retain our strong customer orientation while achieving maximum efficiency. Our firm conviction is that this is the only way that we can be an excellent and viable partner for our customers in the future.

Ladies and Gentlemen, you have now been presented with the basic features of our strategy.

It is ambitious, but feasible.

It requires comprehensive restructuring, but at the same time it represents a new beginning.

This strategy will empower Commerzbank to become a strong and modern bank. Even more: The Bank will become the go-to direct and advisory bank for Germany.

I'd now like to hand over to Bettina Orlopp, who will take you through the financial indicators relating to the strategy and through the figures for 2020.

Bettina Orlopp, CFO

I, too, wish you all a good morning.

I'd like to highlight the points made by Manfred Knof:

Commerzbank must become more efficient. This is the only way the Bank can guarantee its shareholders a competitive return and stand at the side of its customers over the long term – as we're doing at the moment in the current coronavirus situation, which is so very challenging for many sectors.

We intend to substantially improve the profitability of the Bank and we've put in place an ambitious but entirely realistic plan to achieve this.

Before I go into more detail, let's have a look at the starting point, namely the financial year 2020.

As for many other companies, the coronavirus pandemic had a significant impact. We have mastered the associated challenges and completed initial preparations for our restructuring. Both these circumstances are reflected in the result. This is the first time in many years that Commerzbank has concluded the year with a net loss.

However, the fact is that business with our customers has proved to be highly robust. Thanks to strong securities business over the entire year, net commission income rose by 9%, and this more than compensated for the negative impacts of the interest-rate environment.

Underlying revenues at around €8.4 billion were only slightly below the year-earlier value because we set aside additional legal provisions for foreign-currency lending at mBank. As you may know, this is booked in the revenue line.

In 2020, we also made further progress with reducing our costs. Costs amounted to more than €200 million below our original forecast. A number of factors contributed to this including a headcount reduction of around 900 positions, along with lower outgoings for advertising and business travel.

The risk result clearly shows the impacts of the coronavirus crisis. Out of €1.75 billion – the figure we already communicated at the beginning of January – more than half is connected to the coronavirus pandemic.

The good news is that a top-level adjustment of some €505 million is included in the amount of some €960 million related to the coronavirus, in other words an additional provision for effects that are already expected in 2021. This will benefit us over the coming months. We expect the number of bankruptcies to rise, even though up to now we only see a slight increase. The high quality of our loan book places us in a good position. The proportion of non-performing loans was at a low level of 1.0% at year-end.

Overall, we concluded 2020 with an operating loss of €233 million.

Over the past year, we also laid important foundations for our restructuring. This also exerted an impact on the result:

We booked restructuring charges amounting to €814 million and thereby already posted part of the costs for our new strategy programme in advance.

And we also cleaned up our balance sheet and consequently posted a goodwill impairment. This had also already been announced on 8 January. Incidentally, goodwill does not exert any impacts on regulatory capital.

All these contributing factors sum up to a net loss of around €2.9 billion.

As a result of active management, we reduced our risk-weighted assets to slightly below the year-earlier level in spite of the burdens of the coronavirus pandemic so that we concluded the year with a continuing strong CET 1 ratio of 13.2%. This is equivalent to a buffer of 370 basis points above the minimum regulatory requirements and forms a good foundation for our transformation.

Let's now take a look at the segments.

In the Private and Small-Business Customers segment, we acquired 375,000 new customers in Germany during the course of 2020, many of them through digital channels.

At the same time, we also adjusted the number of customers at year-end by removing 340,000 dormant accounts and furthermore identifying around 500,000 customers who had accounts both with Commerzbank and with comdirect. This has now given us a sound starting point for 2021: a customer base of around 11 million private and small-business customers.

The business volume of the segment has steadily increased over the course of the year. Securities business and mortgage lending developed extremely well.

In securities business, we posted an increase of more than €20 billion, of which some €12 billion came from new investments. And mortgage lending experienced the highest volume of new business for many years, and even with slightly better margins.

As a consequence, the segment succeeded in keeping revenues stable – and this was in spite of the burdens arising from the interest rate environment and the loans denominated in Swiss francs at mBank.

In the Corporate Clients segment, the pandemic exerted a stronger impact.

Although capital market business actually improved in 2020, this was only partly able to compensate for lower revenues in loan business and trade finance.

Revenues for the segment were therefore slightly lower than the year-earlier figure.

As a consequence of the coronavirus crisis, our Mittelstand customers had a lower demand for loans and liquidity at the end of the year, also on account of the good and comprehensive financial support programmes for businesses from the Federal Government.

In the course of the year, we intensified our active portfolio management and reduced business with lower capital efficiency particularly in relation to large corporates. This is the main driver for the lower volume of lending in the fourth quarter.

That's all for now on the segments.

In summary: 2020 was a challenging year. However, Commerzbank demonstrated that it has a robust operating business and that it is standing at the side of its customers during the coronavirus crisis. Furthermore, we established important foundations for the upcoming transformation.

Let's now take a look at the financial outlook for 2021.

Revenues will be slightly lower than previous year. This reflects our focus on RWA optimisation in the context of the transformation.

With increasing investments in line with our strategy, we are targeting a reduction in our cost base to around €6.5 billion.

We expect a risk result of between minus €0.8 billion and minus €1.2 billion. This is a relatively large range due to the uncertainties of the current situation. The value we eventually end up at within this range will depend on how the coronavirus crisis proceeds and on the economic development.

The capital ratio will come down over the course of the year. This is due to a number of factors including the remaining restructuring expenses and burdens caused by the coronavirus crisis. At year-end, we anticipate a CET 1 ratio of more than 12%.

For the year 2021, we expect a positive operating result in spite of the impacts of the pandemic.

That's it about 2020 and the outlook for the current year. Let's now move forward and take a look at our strategic plan up until 2024.

This is based on prudent assumptions regarding the framework conditions!

We anticipate a gradual recovery in the economy. In Germany, our economists are projecting economic growth of 4.5% for 2021.

Conversely, we're not expecting any easing in the interest environment any time soon. In this respect, we're being more cautious than the market. As you all know, Commerzbank would significantly benefit from a recovery in interest rates.

In 2024, we'll achieve a net return on tangible equity of around 7% as a result of consistent implementation of our strategy.

And we additionally see potential for returning up to €3 billion of capital to our shareholders. This of course is subject to our successful strategy execution and receiving prior permission of the European Central Bank.

An important lever in our programme is provided by costs. By 2024, we will reduce them by €1.4 billion, in other words by around 20%.

All areas will make a contribution to this and significantly reduce both their operating costs and their personnel expenses.

We're making a start on this immediately and we will be continuing to bring down our costs each year until 2024 - in spite of further strategic IT investments for our restructuring.

Already in 2022, we will have achieved more than one third of the savings. By the end of 2024, the planned cost reductions will have been fully implemented. Our cost base will then be only €5.3 billion.

Very regrettably, an unavoidable aspect of this reduction - and you know this already - is a substantial headcount reduction. This is not an end in itself, rather it arises from ongoing digitalisation and the simplification of our structures and processes.

The headcount reduction will affect all areas of the Bank: We're not only downsizing the branch network and reducing the number of our international locations, we're also carrying out deep cut-backs in the head office.

Overall, this entails a headcount reduction of around 10,000 full-time equivalents. This corresponds to around 30% of the jobs in the Group excluding mBank.

It gives a very drastic picture of just how far-reaching our reconstruction is.

I would like to highlight that the starting point for the reduction of 10,000 jobs is the number of our full-time positions at the end of 2020.

In parallel to the headcount reduction, we'll significantly reduce the number of our external service providers. In future, their functions will be carried out by internal employees, which is much more cost effective.

For this purpose, we'll make selective appointments. We're also anticipating a certain number of new appointments at our subsidiary companies.

The net headcount reduction will therefore be around 7,500 full-time equivalents.

The number of full-time equivalents employed in the Group will accordingly come down from around 39,500 to around 32,000 by 2024.

As I've already said, we're going to cut every third job at Commerzbank in Germany. This is not at all easy for us, but very regrettably there's no other option.

In an agreement on fundamental principles with the Works Council, we have formulated the objective of using socially responsible instruments for the workforce reduction as far as possible. We're going to use existing instruments from previous restructuring programmes. These include retirement arrangements and voluntary programmes.

We'll also make use of other options where necessary, for example a qualification and employment company. This can contribute to opening up perspectives for affected employees inside and outside the Bank.

And I'd like to state very clearly: We will do everything in our power to avoid redundancies for operational reasons. However, we can't guarantee that this will be one hundred per cent possible. If we are left with no other option, we'll attempt to keep the numbers as low as possible.

In the agreement on fundamental principles, the Board of Managing Directors and the Works Council have agreed an ambitious timetable. We want to conclude a framework settlement of interests and a framework social plan already in time for the Annual General Meeting being held on 5 May. Both sides were motivated by the aim for this to create clarity and transparency in relation to those positions affected, timetables, and perspectives.

On the reporting side, we're therefore anticipating that we'll book the remainder of the restructuring costs this year.

While we significantly bring down our costs, we're currently expecting only moderate growth in revenues for 2024.

We'll compensate for the burdens caused by the low-interest environment and customer churn resulting from the restructuring by generating additional business with profitable customers and products. Holding fees for high deposits will also play a role here.

Revenues at Commerzbank will therefore remain largely stable overall. The expected rise in income at Group level in the amount of €500 million is due to growth at mBank.

Cost of risk currently still shows the impacts of the coronavirus pandemic. However, these should gradually fall back and normalise by 2022. We will continue to pursue our prudent approach to risk management.

Ladies and Gentlemen, our planning in relation to costs, revenues, and risk result forms the foundation for our turnaround programme with the associated goals:

In 2024, we're projecting an operating result of €2.7 billion.

As a result of our cost reductions, we will improve the cost-income ratio by 20 percentage points - to 61% at that point!

That will make us competitive!

Our strategy puts profitability before growth. We therefore expect risk-weighted assets to only undergo a moderate increase for 2024 in spite of countervailing effects.

With a CET 1 ratio between 200 and 250 basis points above the minimum regulatory requirements, we have the potential to return up to €3 billion to shareholders in the years 2023 and 2024 if we successfully execute our strategy.

This may be through dividends or by means of share buybacks. As said, these two options naturally depend on further developments and require the approval of the regulatory authorities.

On the basis of today's perspective, we are planning to resume dividend payments for the financial year 2023.

But even without taking capital management measures such as dividends into account, we will achieve a return on tangible equity of around 7% in 2024 with our programme.

One thing is crystal clear: We not only want to be a dependable partner for our customers and a fair employer, we also want to offer our investors an attractive return! A return that is appropriate for a strong, efficient, and competitive bank.

And now I'd like to hand back to Manfred Knof.

Manfred Knof, CEO

As you've heard from Bettina and myself, this is an ambitious programme. In order to ensure that it works, the focus is on implementation. My colleagues and I are fully committed to the execution of our strategy.

We will prove this with actions rather than words.

These are our milestones for this year:

- As far as the headcount reduction is concerned, we want to conclude the necessary framework arrangements with the Works Council already in time for the Annual General Meeting being held on 5 May. To this end, we've already reached an agreement on fundamental principles. I am happy that both sides have been able to agree such an ambitious target date. This is intended to enable us to quickly achieve clarity for the employees here in Germany.
- This year, we also want to start reorganising and downsizing the head office.
- And we will close 190 of our branches in Germany permanently.

We intend to take the following action in the years 2022 and 2023:

- We will close a further 150 branches in Germany and will thereby achieve our target of 450.
- At the same time, we're going to expand our direct-bank capability and make our customers in both segments a comprehensive digital offering.
- And we're planning to withdraw from 15 international locations.
- By the end of 2023, we'd like to have concluded the lion's share of the headcount reduction.

At the close of 2024, we're aiming to have achieved all our goals. We will retain our strong customer orientation, but by that point we'll be on a much more digital and sustainable trajectory than we are today.

And we will be more profitable: 2024 will be the year in which we want to deliver a return on tangible equity of around 7%.

Ladies and Gentlemen, we're ready to tackle the transformation at speed and with decisiveness. We've created the structures that we need for this task:

The responsibilities are clearly defined in the Board team.

At meetings under my leadership, we will review the progress of the strategy programme every week.

And we will also report on our progress in the course of our external communications every quarter.

Commerzbank needs in-depth restructuring and transformation. This conclusion is nothing new.

What is new is that we are implementing the changes now - and with a clearly defined deadline.

I'm committed to this endeavour. My entire team on the Board of Managing Directors is committed to it. We will do everything in our power to make Commerzbank strong, highly efficient, and sustainably profitable once more.

Anybody who knows me will be aware that I will be extremely relentless in pursuing this objective. I will not be satisfied with doing things by halves.

And I'd also like to say something to our customers:

You are our most important asset. For more than 150 years, Commerzbank has been at the side of its customers. We will give it our all to ensure that the Bank continues to be at your side in the future - with new digital offerings, simple products, and a first-class advisory service.

The German economy needs a strong, dependable, and independent Commerzbank. Most importantly, the German Mittelstand relies on our being at their side over the long term.

The employees are the foundation of our success at Commerzbank. They not only want clarity on how we move forward, they also want to move forward with implementation of the long overdue changes. The hard fact is that over the short term, this means deep cutbacks, and indeed many employees will lose their jobs. However, this is the only way we'll be in a position to make Commerzbank a strong, dependable, and attractive employer.

My mission is to implement this programme. That's why I came here. I've been working on this since my very first day at Commerzbank.

We aren't going to take our eye off the ball until we've reached our goal.

Disclaimer and Forward-Looking Statement

This release 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.

2021 Financial Calendar

11 February 2021	Annual Results 2020
5 May 2021	Annual General Meeting
12 May 2021	Q1 2021 Results
4 August 2021	Q2 2021 Results
4 November 2021	Q3 2021 Results

Commerzbank AG

Head Office
Kaiserplatz
Frankfurt am Main
www.commerzbank.de

Postal address
60261 Frankfurt am Main
Tel. +49 69 136-20
info@commerzbank.com

Group Communications
Tel. +49 69 136-22830
Fax +49 69 136-29955
mediarelations@commerzbank.com



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