COMMERZBANK

Capital Markets Day
1 March 2022

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CEO

The bank at your side

Transcript

Manfred Knof, CEO

Good afternoon everyone and welcome to our Capital Markets Day.

Twelve months after the presentation of our strategy 2024, we thought it was the right time to take stock and provide you with the next steps towards our targets.

However, we should look at our plan with the caveat owing to the terrible situation we are witnessing in Ukraine.
The world is holding its breath. We here at Commerzbank, strongly condemn the attack on Ukraine.
Hardly any of us imagined that this could happen. Our thoughts are with the people of Ukraine who are defending democracy and its values for all of us. I say this with all humility and the greatest respect.
And it goes without saying that we will fully implement all sanctions imposed.

We have of course analysed the situation and what it means for Commerzbank.
We currently employ 135 people in Russia and we have one employee in Ukraine. And we are in close contact with them.

Our business focusses especially on the German Mittelstand and corporates in Germany. Our total financial exposure to Russia amounts to roughly 1.3 billion euros. This is net of 400 million ECA coverage.
On top of this exposure, we also have around 600 million Russia related exposure which consists mostly of pre-export financing of commodities.
All in all, this represents 0.4% of our total exposure at default in Commerzbank. We have already reduced this exposure over the last years. Of course, we will closely monitor the situation especially regarding our subsidiary in Moscow.

That said, let me now start with the update on our Strategy, which of course does not reflect any potential impact from this situation. Just a few days ago, we presented our figures for the past year. Our good performance in 2021 gives us a tailwind. With respect to our targets in 2024, we are positive about the current year and beyond:

We are increasing our return target for 2024 to MORE than 7 percent.
At the same time we have achieved a clear view on capital return with a potential pay out of 3 to 5 billion Euros.

And I want to stress that all our ambitions towards 2024 do NOT include any positive impact from possible rate hikes by the ECB. This would rather come on top of the numbers we present today.

Let me start with the points that are most important to me:

- First: We have a clear target business model with focus on efficient, value oriented client coverage. The bank will be much leaner while keeping service and advisory at a high level.
- Second: Our transformation is well on track and we delivered in 2021. We have reported good financial results and have reached all significant transformation milestones.
- Third: In 2022, we will finalize the implementation of the client-facing set up and largely lock-in the redundancy program. We will roll out our new business model for private, business and corporate clients. At the same time, we aim to have individual agreements with the vast majority of redundant staff.
- Fourth: We have set clear KPIs to measure the progress of the transformation in 2022. As last year, I am closely tracking the process and milestones of the transformation. This is a clear CEO task.

- Fifth: Sustainability has become an integral part of our strategy. We have defined ambitious targets for the carbon footprint and will actively seize the business opportunities from the green transformation.
- Sixth: We are committed to our 2024 targets and have decided on a capital return policy. We aim to resume dividends for 2022 and we want to return 3 to 5 billion Euros.

Now, let me underpin each of these key messages with a little more detail and I will start with our target business-model.

Both segments have entered into a fundamental transformation towards an efficient, value-oriented client coverage model with focus on sustainability.

- **Client centricity** remains core. In PSBC, we focus our sales and advisory resources on our premium clients, which stand for a large share of German revenues.
  In Corporate Clients, we have the clear target to extend our undisputed leadership in banking for the Mittelstand. This includes our coverage of the German foreign trade, where we already enjoy a market share of more than 20%.

- The second pillar of our target business model is **digital**. Our digital banking propositions in both segments meet the needs of an increasing customer base and are very cost efficient. For private clients, we are leveraging all our comdirect expertise and for corporates, we are first in the German market.

- When it comes to the **profitability** pillar of our target business model, efficiency is at the top of my list. Efficiency in terms of costs and capital. Lower costs due to a leaner service network and remote advisory are clearly the name of the game in PSBC.
  In Corporate Clients, it's also very much about capital accretive business. We will only pursue client business that follows a clear path towards earning cost of capital. We are clearly putting **profitability** before growth.

- The fourth pillar of our target business model is **sustainability**. As an integral part of our business model, we offer a broad range of sustainable banking products to our private customers.
  In Corporate Clients, we support the green transition of our clients. Thus, we also make sure that we meet our net zero target by 2050.
  Based on these pillars and an improved outlook on revenues, we are confident to reach more than 7% return on tangible equity by 2024. And the transformation towards this target is well on track.

Let me point to some of the **highlights of 2021**.

Financially, 2021 was a good year.
We achieved a positive net result despite almost 2 billion one-time charges such as restructuring provisions for the redundancy program. Fee income developed nicely and in Corporate Clients, we could keep revenues stable despite an 8% reduction in RWA.

And it was also a successful first year of the transformation.
More than 6,000 of 10,000 job-cuts are already locked-in on an individual basis. The first three advisory centers in PSBC are operational, while we have closed further 250 branches.
In Corporate Clients, we have already launched our direct bank coverage model and to date have closed 6 international locations.

Again: 2021 was a good start. And we have a clear ambition for 2022.

We will complete the client facing setup of both segments this year.

In PSBC, we will go live with all 12 advisory centers. This enables us to keep the high standard of service and advisory while closing the final 100 branches. At the same time, we will strengthen our business with premium clients by special product offerings and by allocating more advisory time.

In Corporate Clients, our direct bank for 7,000 clients will be up and running. Our new coverage model for the Mittelstand will be implemented and we will have closed 10 out of the targeted 15 international locations.

Financially, we aim for a net result of more than 1 billion and a cost base of 6.3 billion euros. Regarding capital, we prudently guide for a CET1 ratio of more than 13 percent.

Our strategic targets for 2022 are also reflected in the dashboard, that I use for regular performance management. Overall, I am pleased with the performance so far and also optimistic towards our ambitious and, at the same time sensible, targets for 2022 and 2024.

I already touched on PSBC and Corporate Clients and Thomas and Michael will go into more details on the two segments later on.

Let's now look at the **KPIs** for Operations and Head Office. A substantial pillar of the digital transformation is the ramp-up of our nearshoring locations in Lodz, Prague and Sofia.

As planned, the share of the overall IT nearshore capacity has increased from 14 to 20% in 2021. The ramp-up is well on track to achieve the KPI target of 24% by end of this year.

A further important measure to reduce complexity and increase efficiency is the migration of IT applications into the cloud. In 2021, we have further increased the share of applications, that run on cloud technology to 41 percent. Our target for 2022 is to reach 60% by the end of the year.

To ensure high stability of the systems and processes at all times, we have slightly reduced the targets for the reduction of staff in 2024. This also takes into account the internal servicing of the securities settlement business.

Let me move on to our achievements and plan for **sustainability**.
Sustainability has become an integral part of our strategy and also our governance framework.

We have set clear targets to become net zero. While our own banking operations shall be net zero by 2040, our customer portfolio shall be there by 2050. Furthermore, we have committed to channel 300 billion euros into sustainable products by 2025.

We have issued our new policy for fossil fuels and have paved the way to be compliant with regulatory requirements such as EU taxonomy.

We have almost doubled the volume of sustainable products last year and aim for more than 200 billion euros in 2022. I will come back to this in a moment.

I am also pleased to show you that we have set Carbon Reduction targets for the first two portfolios within our SBTi commitment. Both portfolios are carbon intensive and therefore of high relevance for our net zero commitment.
The emissions of our electricity generation portfolio will be reduced by more than 75% and those of OEMs in automotive by more than 45% until 2030.

But sustainability and ESG are more than carbon footprint. The social dimension, in which Commerzbank is well advanced, is also very important to me.

To give you a flavor: more than 1,500 employees engage in bottom up developed networks for gay people, fathers in jobs or female leadership – to name just a few. Diversity in its best sense is deeply rooted in the corporate culture of Commerzbank.

And we can further leverage this asset. We want to increase the share of women in management positions from 34% to 40% by 2030.

Let's take a closer look at the volumes of sustainable products within Commerzbank. On our way to 300 billion by 2025, we aim for 207 billion in 2022.

Please note, that the counting of volumes of many products in the set start again from zero every year. ESG bond transactions serve as good example. This is why the target for 2022 may not look over ambitious. In fact, it requires all hands on deck in the second year of our transformation.
We will also constantly improve our internal processes and data basis in order to optimize the sustainable classification of our portfolio.

Let me now summarize our **targets for 2024**, which are somewhat more ambitious than with our original plan one year ago.

- First of all, we plan to increase revenues by 600 million Euros compared to 2021. This is 400 million more than one year ago and reflects the positive development in 2021 as well as the impact of Polish rate hikes on February 4th. And again very importantly: This revenue plan does not incorporate any positive impact from possible Euro rate hikes. In this sense, I would call our revenue plan prudent.

- On costs, we aim for an overall cost reduction of 1.3 billion euros. This is 100 million less than announced last year. The difference stems from mBank in Poland, where inflation kicks in. I have finally accepted this cost increase as it comes with at least 200 million extra revenues from rate rises in Poland.

- The German cost reduction path however is completely unchanged to last year's announcement and is based on the gross reduction of 10,000 FTEs.

- With a 300 million higher pre provision profit compared to last years plan, and an assumed dividend pay out ratio of 30%, we raise our target for 2024 to more than 7% return on tangible equity.

- And we increase our previous target for up to 3 billion capital return to shareholders. Now, we aim to return three to five billion Euros.

This leads me to my final key message on **Capital Return Policy** and I would like to reiterate what I said two weeks ago, when we disclosed our 2021 figures.

We currently run our business with a substantial capital buffer of more than 400 basis points in CET1 ratio.
This buffer provides us with comfort during the transformation, but once we have reached higher levels of income, we will definitely return substantial parts of the buffer to our shareholders.
To provide you with clear guidance, we have developed a capital return policy for Commerzbank. The policy has been approved by the Board of Managing Directors as well as by the Supervisory Board. And it is also agreed with the regulators.

Provided that we meet our financial targets in 2022, we want to pay a dividend with a pay out ratio of 30% to begin with. Afterwards, we want to increase our pay out ratio within the range of 30-50%.

We will also consider share buy backs as part of pay outs or as additional distribution. Of course, such concrete buy back programs will always be subject to regulatory approval.

Based on this policy, we want to distribute 3 to 5 billion euros to our shareholders and keep a CET1 buffer of 200 to 250 basispoints above MDA.

I do hope that you can all see how much we have achieved and that we have a clear plan for the future.
But, at the end of the day, it's all about execution and delivery quarter by quarter by quarter.

As CEO of Commerzbank, I stand for the new business model for a sustainably successful Commerzbank. And, in particular, I also stand for performance management, accountability and execution.
As a team, we all share this mindset. I am very confident that we will get things done and reach the milestones for 2022 as well as our targets for 2024.

Now let me pass on to Thomas Schaufler, our new board member for Private and Small Business Customers, who will provide you with his update on the PSBC strategy.

Disclaimer

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