Klaus-Peter Müller
Chairman of the Board
of Managing Directors
Commerzbank AG

Press conference
November 9, 2004
Frankfurt am Main

Remarks as prepared for delivery

Ladies and gentlemen,

Welcome to this press conference. We think it right to inform the public in detail through the media and analysts about special events and decisions. And what I have to report today can definitely be considered important strategic decisions regarding Commerzbank's future. The key point is our repositioning in investment banking. Bound up with this is a large-scale reshuffle of board responsibilities.

The people who are most affected are sitting beside me. I will begin with Dr. Achim Kassow, who was appointed a member of Commerzbank's Board of Managing Directors at today's meeting of the Supervisory Board. You will be familiar with him up to now as the CEO of our subsidiary comdirect bank. His successor was also appointed a few minutes ago. He is Dr. Kassow's previous deputy and CFO, Dr. André Carls. Ms. Katerbau will now join the comdirect bank management board.

In future, Mr. Kassow will be responsible at Commerzbank for retail and private banking; in other words, for those areas where he has gained experience at comdirect. He will also be in charge of CGI, our subsidiary for open-ended property funds. His promotion to the Group's management board should also be seen as an acknowledgement of his successful work to date.

Achim Kassow is taking over a well-ordered house. Within a few years, Martin Blessing has managed to restructure our retail banking so that it makes a stable and strong profit contribution. He is now taking over the no less challenging task of looking after our second main target group, German SMEs – or *Mittelstand* firms – as well as the major part of our larger corporates in a *Mittelstand* bank. We are entrusting him with regional responsibility for Central and Eastern Europe, previously borne by Nicholas Teller, and from Wolfgang Hartmann he is assuming responsibility for the Düsseldorf subsidiary CommerzLeasing und Immobilien AG.

With immediate effect, Nicholas Teller – and here we come full circle – is taking charge of our capital-market activities as well as the business involving our roughly 100 multinationals and also 50 to 80 selected larger corporates in the new Corporates & Markets unit. He will also be responsible for our London branch.

Nicholas Teller is taking over this business line from Klaus Patig, who has looked after Investment Banking on an interim basis since Mehmet Dalman left. Mr. Patig, for his part, will assume responsibility for Financial Institutions, which takes care of our relationships with banks in Germany and abroad, central banks and sovereign states. In addition to the previous areas of which he is charge, he is also being given regional responsibility for our operative outlets in Western Europe (except for London).

By pooling responsibility for multinationals and companies requiring capital-market products, we are reducing frictions and interfaces and are in the final analysis adopting the organization structure selected by many of our competitors. In addition, our business up to now was too strongly dependent upon changing market moods, i.e. on trading activities, as this year in particular has dramatically demonstrated. The logical response to these problems is a greatly streamlined capital-market business, which operates with much lower costs and is focused on clients with a strong need for capital-market products – a business which also promises to yield more stable results. Naturally, the management board is prepared to increase the staff of the Corporates & Markets business line again in the future, but this will be strictly determined by the profitability of the relevant product groups.

Earnings performance in third quarter 2004

Before I give you any further details, I will briefly comment upon the figures for the third quarter, which are described in detail in our latest interim report.

At first glance, the figures may seem disappointing, above all when compared with the good results of the previous two quarters. Only on closer analysis does it become clear that the two key quantities in our operational business, net interest and net commission income, have continued to develop well, especially if the more subdued business activity during the summer months is taken into consideration. Net interest income before provisioning, for instance, at €718m in the third quarter, was 8.5% stronger than a year earlier. After pro-rata provisioning, which we now put at a maximum of €850m compared with the originally budgeted amount of €950m, the year-on-year increase in net interest income is even as high as 33%. The €519m is the second-best result in 10 quarters – despite the shrinking credit volume.

Net commission income of €526m was a good 3% ahead of the figure for the third quarter of 2003. This shows that we have a robust and profitable core business even under adverse economic and financial conditions or during slacker periods. Basically, therefore, Commerzbank is on the right course.

Our operating expenses, which at €1,078m were even slightly lower than in the preceding quarters and exactly matched the year-ago amount, also continue to develop according to plan. And this despite the fact that, at 33,206, we employed roughly 500 more people in the Group at end-September than at mid-year.

Despite all this, we achieved no more than a meagre operating profit of €31m in the past quarter, which was primarily due to the exceptionally disappointing trading profit.

Even with the trading loss, we can be satisfied with what we have achieved, for the operating profit of €869m after nine months was not only well above the previous year's (+86%), but also exceeded our original expectations. Our progress is reflected in the relevant key figures. The operative return on equity improved year-on-year from 5.4% to 11.3%, while the cost/income ratio was down to 68.5%. Our capital ratios have also risen somewhat recently: the core capital ratio now stands at 7.2%, and the own funds ratio at 12.3%. Both are thus above our targets.

Although we have not included the pro-rata profit attributable to us from Eurohypo, and despite the goodwill amortization which we have continued to make and also the €132m of restructuring expenses for the downsizing of Investment Banking, we achieved a pre-tax profit of €676m up to September. Given the large loss which we showed last September as a result of our revaluation measures, comparison with last year is not instructive. The same holds true – after the large tax payments of €306m and minority interests have been taken into account – for the consolidated profit after taxes, which was €294m after nine months. If the restructuring costs had not been recognized, our profit would have been correspondingly higher and the quarterly results would also be that much more attractive.

Segment reporting for the third quarter confirms the previous trends. In **Retail Banking**, commission income in securities business was weaker for seasonal reasons. But with costs steadily declining, the operating profit attained a solid level of €85m. After nine months, our profit in this business line is practically two-thirds higher than a year earlier. At 22.6%, the operative return on equity is excellent even by international comparison.

Asset Management is also well on course. Here the operating profit of €126m up to end-September was even 73% ahead of the previous year. In Asset Management as in retail business, our returns on equity are clearly above the long-term cost of capital.

The reversal of trend in **Corporate Banking** is remarkable. Despite reduced volumes and fresh pressure on the average interest margin, the operating profit was raised thanks to higher commission income and above all lower provisioning. We have almost achieved our operating target of just over €500m. In this business line as well, the year-on-year comparison reveals a sharp increase.

Unfortunately, the situation for our problem child **Securities** is still dire. After an excellent result in the first quarter, the negative trend which produced a minus of €47m in the second quarter grew stronger in the third. Despite strained market conditions, there is no acceptable excuse for the operating minus of €171m. Due in part to our swiftly and systematically introduced counter-measures, we expect to be in the black in the final quarter.

With a flat interest curve, the **Treasury** business line generated a weaker trading profit; its overall result was much weaker than in the preceding quarter. But the operative return on equity is still above 140%.

Re-launch of Investment Banking

This takes me back to Investment Banking. As is well-known, and as I announced here at the start of August, we have subjected the earnings, cost and organizational structures in this area to a searching analysis and a benchmarking in recent months. On this basis, we on the Board of Managing Directors have adopted far-reaching resolutions, which we presented today to the Supervisory Board.

It is wrong to assume that the entire business line was incorrectly positioned and loss-making. Quite the contrary: we have a stable and profitable customer-oriented core business, generating 97% of all income (without proprietary trading).

And the structure of these earnings is convincing as well: 27% comes from private customers, 30% from institutions and 43% from companies. Conversely, though, it is also true that with other, non-customer areas of business we either earned nothing at all or incurred high losses over the past few years.

We now intend to systematically terminate such activities as trading in convertible bonds and private equity. But we are not going to abandon proprietary trading; rather, we will reduce it considerably. The same holds true for brokerage and research, where we will concentrate in future on German and sectoral European business. We are closing down the loss-making Commerz Securities in Tokyo completely; the New York-based Commerzbank Capital Markets Corporation will be substantially reduced in size. In Tokyo, this will affect all 31 jobs and in New York 89 of the 118 positions. This reveals the extent to which we want to restrict ourselves in capital-market business to our home market or to the enlarged European market in future.

However, I want to confirm our willingness not only to maintain the customer-oriented areas but also to expand them. This relates to derivatives, for example, structured capital-market products and traditional risk-management products for companies. In regional terms, we intend to focus more strongly on the Central and Eastern European markets.

Our analyses have also revealed marked productivity gaps between the two main locations Frankfurt and London. With a third of our total front-office staff of 1,275 in Investment Banking, Frankfurt generates 51% of all earnings. London, with 45% of the workforce, contributes only 34% of earnings. Accordingly, we will primarily launch our measures to raise efficiency there and also shed a correspondingly larger number of staff there.

We plan, therefore, to reduce our London staff from a current 576 to roughly 300 full-time personnel. Frankfurt with its fairly effective structures and ratios will remain largely unchanged, losing about 30 staff (out of a current 425). All in all, we will reduce the number of front-office employees in Investment Banking by around 490, or just under 40%. This number will be augmented by a further 410 staff in various back-office functions.

These are tough measures. Yet they are essential in order to quickly reach an adequate level of profitability. It was never a question of closing down the entire business line. A major bank like Commerzbank, which is so strongly anchored in corporate finance and securities business, could not allow itself to withdraw completely unless it wanted to risk losing many profitable relationships with clients. We believe that with the cuts that have been resolved we are steering a sensible middle course between offering clients a range of high-quality products and commercial necessities.

At this point, I should also like to thank Klaus Patig publicly for looking after our investment bank so constructively and with such commitment over the past few weeks.

Ladies and gentlemen,

The re-launch of our capital-market activities which we are now undertaking is one of a set of – in some cases – incisive measures in recent years. Let me recall for you:

– the huge cutting of costs, which within the Bank as a whole are now down by a quarter from their 2001 level,

- the revaluation of our investments a year ago, producing a far more positive revaluation reserve since then,
- the successful restructuring of Retail Banking and Asset Management, which has led to a strong improvement in profitability and cost/income ratios. Above all in Retail Banking, we are going to expand further and broaden our customer base.
- New structures in Corporate Banking, with ambitious goals for earnings and market shares. It remains our goal to position ourselves as *the* bank for Germany's and Europe's *Mittelstand*. In addition, we want to expand in Central and Eastern Europe.
- We are now closing the open flank in Investment Banking. Simply through cost-cutting and a focus on profitable business with customers, we will considerably improve the result in this area by next year and reduce earnings volatility.

In future, to an even greater degree than up to now, the prime criterion guiding our efforts will be the customer. This may sound trivial, for with whom should we do business, if not with customers? However, as current examples demonstrate, preaching customer orientation and practising it are two rather different things. Both the creation of our own *Mittelstand* bank and the integration of capital-market clients and Investment Banking to form Corporates & Markets underlines that we are moving not simply verbally but also strategically in this direction. In future, these areas will also be reflected in an organization systematically geared to customer segments. We feel well-equipped as a result and look ahead with confidence. We have done our homework. Naturally, it would be helpful if we had the boost from economic activity for which we have now been hoping for several years.

Nonetheless, we expect the final quarter to produce a better trading profit and also a higher overall operating profit. That is why we are sticking to our statement that we will have our shareholders participate in our profits.

Next year, we aim to achieve an after-tax return on equity of at least 8% and thus earn our cost of capital. For 2006, the goal is an after-tax return on equity of more than 10% – in other words, at least on a par with our medium-term cost of capital. These targets are not new, but we are upholding them without any qualification.