Jörg Oliveri del Castillo-Schulz (l-r), Thomas Schaufler, Sabine Mlnarsky, chief human resources officer, Bettina Orlopp, deputy chief financial officer, Manfred Knof, chairman of the board of managing directors, and Michael Kotzbauer celebrate the bank once again being listed in the Dax stock market index in February 2023 | Photo: Sebastian Christoph Gollnow/dp/Alamy

Commerzbank's corporate business inches back to **growth**

After years of retrenchment, Commerzbank's head of corporate clients Michael Kotzbauer tells Euromoney of a tentative return to growth. The bank has dodged Germany's commercial real estate slump but is having to adapt to a worsening geopolitical backdrop. Capital and cost efficiency remain big priorities

Dominic O'Neill

In the depths of the Covid-19 crisis, Michael Kotzbauer had one of the most memorable client meetings of his three-decade long career as a German corporate banker.

It was with a family-owned business in the entertainment industry, a firm that had lost about 95% of its revenues because of the pandemic. At the client's base – a vast Frankfurt building – only two people were present: the owner and the chief executive. They sat down with Kotzbauer, a 34-year corporate-banking veteran, to discuss what they needed to do to survive.

Three years later, the firm has not just survived but is thriving once

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again, despite Germany's economic recession last year.

Kotzbauer, who became head of Commerzbank's corporate business in early 2021, uses the example to illustrate how the bank has been able to renegotiate pricing with some clients – allowing it to boost what were previously desperately low lending yields – without taking on higher risk.

He notes that some corporate clients have been with the bank for more than 100 years. Indeed, he has personally covered some corporate clients for Commerz for three decades.

"Clients need loyal banking partners who they can trust," he says. "When you have no strategic value or a clear USP to someone, you end up being one of many, and this could put you at a disadvantage."

It could also mean Commerz gets paid less.

The entertainment client's recovery from Covid mirrors the bounce-back of the bank's own profitability and share price over the past four years, including a return to Germany's DAX index of blue-chip stocks in 2023. Commerz was trading at a discount to book value of 35% in late May, according to Citi. This was still much worse than the eurozone bank average (2% below book), yet it was five times higher than in early 2020, just after Covid struck.

Kotzbauer became board member for corporate clients on January 1, 2021, the same day as Manfred Knof – a former Deutsche Bank insider – became chief executive.

Former CEO Martin Zielke and chairman Stefan Schmittmann had both resigned in mid 2020 after the collapse of 2019 merger talks with Deutsche, and after Covid-19 triggered growing investor and supervisory concern about the timidity of plans to turn around the bank's dire profitability.

Commerz, of course, has since reaped the benefit of higher interest rates. Despite a €1 billion litigation provision concerning Swiss franc mortgages in Poland, it posted its highest net profit in 15 years in 2023, €2.2 billion, reaching the 7% return-on-equity target Knof initially set for 2024 a year early. Zielke, by contrast, had targeted 4% by 2023.

Knof and Bettina Orlopp, the bank's relatively outspoken chief financial officer, are now targeting more than 11% by 2027.

Kotzbauer's corporate-client division, meanwhile, is the bank's largest division by far, both in terms of revenues and risk-weighted assets. Catering to large and mid-cap businesses in Germany – including the so-called Mittelstand businesses, which are often family owned – is generally viewed as what Commerz does best.

The corporate division's operating result more than doubled to €2.1 billion in 2023, compared with a 60% rise in the bank at large, and the unit posted another record operating result in the first quarter of 2024. Risk-weighted-asset consumption means the corporate division's return on capital has sometimes been lower than in retail. On the other hand, its cost-to-income ratio is consistently lower – just 48.7% in 2023, compared with 72.2% in retail – a level Kotzbauer believes is replicable for 2024.

These good results helped Kotzbauer renew his term for another five years in early 2023, at the same time as the bank announced a new chairman, former Bundesbank president Jens Weidmann.

Kotzbauer insists his unit's recovery has not just been because of the impact of rates on net interest income and the deposits business. He says it is also because of a low cost of risk and a strategic refocus over past three years, including cutting less profitable clients who were unwilling to accept higher

International banks keep up the pressure in Germany

Deutsche Bank – to a greater extent than DZ Bank, UniCredit's HVB, or any of the Landesbanken – is generally seen as Commerzbank's biggest competitor in serving mid-cap clients with international needs.

But part of the reason why the German market is so competitive, especially in corporate banking, is down to the recent growth of international banks. Some of these firms have tried to benefit from the troubles of Commerz and Deutsche in the last decade, when local German privately owned banks' share prices hit rock bottom.

That has fundamentally changed the landscape, according to Eddy Henning, head of wholesale banking in Germany at ING, which launched a push into German corporate banking a decade ago, building on the online growth of its German retail franchise.

"German corporate clients don't only buy German anymore," he says. "They discovered alternatives. There's a very different mindset from 15 years ago."

BNP Paribas, which like ING also has a branch-light retail bank in Germany, is the most frequently cited international competitor for German mid-cap clients.

Germany, indeed, has been the starting point for a broader focus on growth in corporate and institutional banking in northwest Europe – including the UK, the Netherlands and Scandinavia – under BNPP's group CEO Jean-Laurent Bonnafé.

Partly thanks to using a regional German corporate network inherited from its 2009 takeover of Belgian lender Fortis Bank, the French firm has gone deeper into the mid-cap segment than most other international banks, encroaching on Commerz's core client base.

HSBC has recently retrenched from a brief foray into the smaller mid-cap space and is now more focused only on the top 750-odd Mittelstand clients with large international needs, where it believes it can add more value. It is also reportedly considering a sale of its private-banking business in Germany.

On the other hand, US banks – Bank of America, Citi and JPMorgan – are now embarking on their own push in banking mid-cap clients in Europe, including international cash management for German clients, perhaps teeing up future investment-banking deals.

JPMorgan's German business, for example, is already one of the biggest German banks in terms of balance sheet, and since 2019, it has built a local commercial banking team from one to 30 people. It is also preparing to launch a Berlin-based version of its UK app-based bank, Chase – targeting continental Europe, potentially starting in Germany.

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prices – because, as he says, any relationship needs to be equally balanced to the mutual benefit of the bank and the client.

"We are seeing a broad-based, customer-driven source of results, across all corporate client segments and product groups," he insists.

Although making widespread layoffs in Germany is notoriously difficult due to the power of trade unions, cost cuts have clearly played a role in increasing profitability. Kotzbauer has overseen a 7% reduction in costs in absolute terms, despite inflation. The division has reduced its headcount and, more recently, implemented an IT simplification drive that has allowed it to cut its number of IT apps in capital-markets trading by 40%.

More cost savings came from a 2021 move of its equities business to a new partnership with Oddo BHF, which has similar partnerships with ABN Amro, BBVA and Natixis, and creating what the bank believes is one of continental Europe's most capable platforms for equity research and distribution.

At the same time, the firm has set up what it calls a corporate direct bank, effectively doing away with any dependence on branches for servicing some clients, although Kotzbauer says this is led by changing client needs and not cost-cutting.

Kotzbauer is partly building on an earlier refocus to German mid-caps under Zielke. He has furthered that strategy, and cut more costs by closing offices including São Paolo, consolidated Benelux coverage in Amsterdam, and by selling its Hungarian corporate-banking operation to Erste Bank as part of the move to further jettison clients with no connection to Germany.

Some in Frankfurt's banking community wonder whether a retreat from China could the next part of its international network to be clipped, given rising geopolitical tensions with the West, but that does not seem to be the case today.

Kotzbauer, who spent three years in Shanghai in the early 2010s, acknowledges the global near-shoring trend.

"There is a rebalancing of the German corporate world, with trade and investment moving more towards Europe and the US," he says.

But his biggest worry is Chinese economic growth, rather than any imminent breakdown in economic relations.

"China – with our branches in Shanghai and Beijing – is and will remain an important market for Germany and Europe," he says.

The Hungarian exit, moreover, came with a new referral agreement with Erste, recently extended to nine countries in central and eastern Europe.

The sale was first announced in 2021 under Erste's then chief executive Bernhard Spalt, who joined as Commerz's chief risk officer in 2023. Erste was also a potential acquiror of mBank, Poland's fifth largest bank, when Commerz previously sought to sell its 70% stake.

In late May, according to reports, a court in Russia ordered asset seizures against Commerz and Deutsche due to their involvement as guarantor lenders to a gas-processing project, stopped due to sanctions, and involving German firm Linde. That included Commerz assets of €93.7 million, as well as securities and a building in Moscow.

Commerz does, however, seem to have benefited from a much lower exposure to commercial real estate – in Europe and the US – by comparison to other German banks, after cuts to the sector, along with shipping, in the last decade.

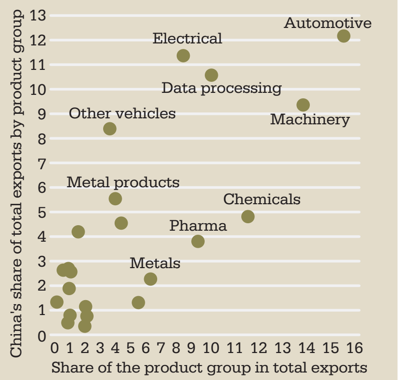
German banks have the highest exposure to CRE of the large European banking sectors, according to the European Banking Authority, and Germany has been by far the highest-levered of Europe's big CRE markets, according to Bayes business school. BayernLB, Helaba, LBBW and NordLB all had more than 20% of their loan books in CRE last year, according to the EBA's mid-2023 data. Deutsche and DZ Bank had slightly less than 10%. Commerz had less than 5%.

"You will not find a substantial exposure to commercial real estate at Commerzbank," says Kotzbauer. "We are very selective when it comes to developers."

As ever, Commerz's approach largely mirrors that of Deutsche. Commerz's more determined efficiency drive under Knof, as well as the more decisive return to roots in Germany – especially in corporate banking – partly replicates what Deutsche has done since Christian Sewing became its CEO in 2018.

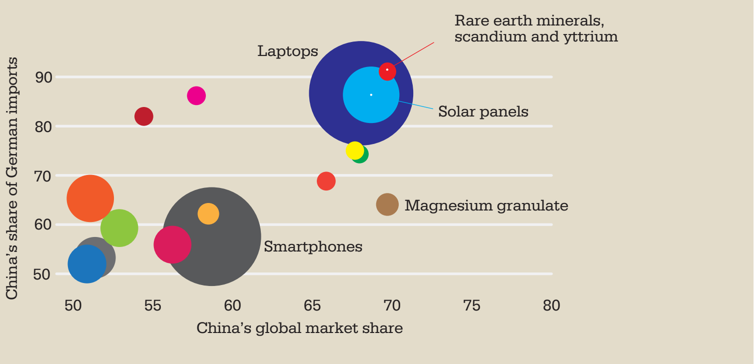
Sewing has also appealed to corporate client loyalty to boost transaction-banking business. Deutsche's German-centred corporate business is today one of its most profitable areas, alongside wealth

CHINA'S IMPORTANCE FOR GERMAN EXPORTS
In percent



Source: Deutsche Bundesbank

GERMANY'S CRITICAL IMPORTS FROM CHINA
Data for 2022



Source: Deutsche Bundesbank

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management and private banking. By contrast, its retail business has run into new IT troubles lately, and – as at Commerz – the retail business may be fundamentally less profitable due to competition with unlisted public-sector and mutual banks.

"I am a client guy," says Kotzbauer, again illustrating the similarities to Sewing's Hausbank strategy. "I have been a relationship manager all my life. I still consider myself to be a corporate relationship manager."

Compared with Deutsche, however, Commerz is much smaller in investment banking – including in Germany. Deutsche came first in Dealogic's investment-banking revenue ranking for 2023. Commerz was 10th.

Kotzbauer points to strengths in bonds, schuldschein and syndicated finance, which Dealogic bears out.

By volumes, Commerz was fourth in debt capital markets last year (Deutsche was first) and second in loans (Deutsche was fourth).

"We are the bank for German foreign trade. We accompany our customers around the world, and we bring the world to Germany"

Michael Kotzbauer, Commerzbank

He adds that Commerz was involved in all the key 2023 IPOs and equity capital increases in Germany, although there were not many.

In February, it was joint bookrunner in the €500 million IPO of tank-component manufacturer Renk (Deutsche was joint global coordinator alongside US firms).

This prominence in German ECM, according to Kotzbauer, is primarily thanks to the success of the Oddo partnership, something driven by a recognition that it needed a partner for secondary equities trading.

Commerz has further refocused in M&A to situations related to succession – one of the most critical times for any family-owned business, Kotzbauer points out.

Commerz was not a top 10 bookrunner for either M&A or ECM in 2023, according to Dealogic.

"Clearly, we are not a big investment bank, and we don't try to be," Kotzbauer says. "When you look at our capital

Is Deutsche following Commerzbank's move to a corporate direct bank?

Setting up 'Germany's first corporate direct-banking proposition' is Commerzbank's way of adapting to how it sees corporate clients interacting with the bank in the future, according to corporate clients head Michael Kotzbauer. The direct bank offers normal corporate-banking products – accounts, payments, financing, treasury management and hedging – but without branches.

This obviously plays into the need for better cost efficiency in German banking. But it is a source of growth, too, according to Kotzbauer. The digital-banking project, called Mittelstandsbank Direkt, has 6,000 medium-sized corporate clients three years after its launch, compared with a corporate client base of 25,500 at Commerz as a whole.

Now Deutsche Bank is heading towards a similar digital-first approach for its small and mid-cap corporate clients, aiming for more of an online self-service provision of cash management, trade finance and foreign exchange. However, it aims to maintain some in-person coverage, with a view to maintaining business origination. It kicked off workers' council negotiations in May for an associated restructuring of its small-caps business.

"For the smaller corporate clients, rather than mediocre coverage by human beings, it's probably better to have a direct bank," comments one former Deutsche insider, perhaps slightly cynically, speaking about the move away to cheaper models of corporate-banking coverage in Germany.

The direct-bank model also seems to follow ING's branch-light approach. ING's German wholesale business started around 13 years ago, building on the earlier growth of the German version of its international branchless retail business in the early 2000s, ING Direct. Like Commerz's direct bank, it is relatively focused in terms of products. This slimmed-down network helps give ING one of the best efficiency ratios in German corporate banking.

Even if it is smaller than Commerz and Deutsche, a cost-to-income ratio of less than 40% in German wholesale banking allows ING to compete on price in a financially sustainable manner, says Eddy Henning, ING's head of wholesale in Germany.

"When you don't have the fee volumes of the US or the net interest margins of Asia in wholesale banking, you need to keep your costs under control," he says.

At Commerz, Kotzbauer says the direct bank now co-exists with what he calls the advisory bank, which is centred around in branches in cities such as Hamburg, Munich or Leipzig.

"In three, four or five years if you don't have a corporate direct bank, you will be at a clear disadvantage," Kotzbauer says. "I am convinced that there will be a need for a direct bank in corporate clients. There's a new generation of owners coming, especially for the smaller small and medium-sized enterprises, which don't feel the need for a local branch just next to the company's door. They want an excellent, swift and uncomplicated direct-banking proposition."

Mittelstandsbank Direkt is based in Hamburg, partly as comdirect is also based there – the branchless banking and brokerage platform for retail clients set up during the dotcom boom and fully integrated into Commerzbank four years ago after previously being partially listed. The two sides exchange ideas and experience, even if they are based in different buildings.

"We can learn a lot from each other," says Kotzbauer.

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markets products, what you see is a very well-positioned suite of corporate-finance products."

Nevertheless, Commerz believes it has strong competitive advantages when it comes to facilitating Germany's international trade and catering to German corporates, going all the way back to its 19th-century founding by Hamburg merchants. Kotzbauer says it is Germany's number one bank for mid-cap corporate clients, or what he calls small and medium-sized enterprises (SMEs), a view he says is uncontested.

Partly thanks to the legacy of the 2008 takeover of Dresdner Bank, Commerz's strong hold on the international trade business of many German mid-caps is widely acknowledged in the local financial sector, including by its competitors. It is seen as especially strong among smaller mid-cap clients, perhaps more outside the big cities, despite its recent shift to a direct-banking model for mid-caps.

One banker calls to mind a company with a turnover in the tens of million euros, but with a globally important market share in the manufacture, for example, of industrial sewing needles – based in the Swabian Jura in central Baden-Württemberg, but with global sales offices.

"That company might have an export-import portion of more than 80%," says the banker. "It's fantastic business because you can make a tonne of money in payments and foreign exchange."

Although the corporate-clients division covers businesses with more than €15 million in turnover, a large proportion of the business is related to international flows. One of the bank's other favourite internal statistics shows it has a roughly 30% market share in German trade finance.

Strength in this area is one of the things that has not changed throughout Kotzbauer's three decades at Commerz.

"We are a transaction bank, a flow bank," he says. "Strategy should never be rocket science. We are the bank for German foreign trade. We accompany our customers around the world, and we bring the world to Germany."

According to Kotzbauer, trade finance and cash management also play into the group's activities in DCM, and its trading activities in foreign exchange, rates and commodities.

Looking ahead, he points to investments, notably in technology, in its trade-finance, cash-management and commodities-trading platforms as a key business driver. These include a newly planned update to its system for high-value cross-border payments on the ISO20022 messaging standard, alongside German financial software company PPI. It is also expanding the Oddo partnership to Switzerland, which it regards as a home market, being in the DACH region of Germany, Austria and Switzerland.

Renewable energy has become a new third pillar for the bank, alongside trade finance and German corporate banking. The bank has financed renewable energy for more than three decades, thanks to a centre of expertise for this business in Hamburg. Its loan book in renewable energy was around €9.5 billion at the end of the first quarter.

The bank recently beefed-up its office in Singapore – already its biggest Asian office – largely to follow the renewable-energy sector in Asia and especially in Australia, as well as because of the growing importance of southeast Asia for trade and investment with Germany.

With the US surpassing China as Germany's biggest trade partner in early 2024, Kotzbauer expects to grow the New York office for similar reasons, including renewable-energy financing, despite the prospect of a second Donald Trump presidency.

Newly opened representative offices in Morocco and Jordan are further signs of a growth phase at Commerz, ending the prior international retrenchment.

GERMANY IB REVENUE BY BANK

FY 2023

Rank	Bank	Rev $mln	% share
1	Deutsche Bank	179	7.4
2	Morgan Stanley	177	7.35
3	Goldman Sachs	170	7.0
4	JPMorgan	168	6.9
5	Citi	120	5.0
6	BofA Securities	118	4.9
7	BNP Paribas	96	3.9
8	Barclays	93	3.8
9	UniCredit	85	3.5
10	Commerzbank Group	65	2.7
	Total	2,425	100

Source: Dealogic

The new offices in part reflect a desire to play a role in Europe's energy transition, given Morocco's future importance for wind and solar energy, for example. The bank will announce other new international locations later this year, adding to a network that stretches to around 40 countries, from Kazakhstan to Nigeria (down from 50 countries at the start of Zielke's international restructuring in 2017).

Some bankers at firms with better-staffed international locations, like Deutsche or HSBC, can be dismissive of Commerz's deployment of representative offices, which are often staffed by a small number of expatriates. Rivals say this just helps Commerz find local correspondent-banking partners in transaction banking. But others, including outside the firm, say the approach works well enough.

Overall, one does not get a sense that Commerz is planning an aggressive return to growth.

For 2030, Kotzbauer merely wants to remain the leading corporate and SME bank in Germany, and one of the leading banks for trade and renewable energy in Europe. Its strength in corporate Germany is not just a differentiating factor, but a matter of relatively strict focus. Corporate clients with no link to Germany are, for the most part, not in its sights – in contrast with Deutsche.

"For any company, including Commerzbank, you need to make a difference to your customer," says Kotzbauer. "The model we are following internationally is connectivity to the DACH region. Throughout the world, we are the bridge to and from the DACH region."

The bank has between 60 and 70 clients with no investments in Germany, Switzerland or Austria, which it covers because it decided four years ago to cover their sectors globally, due to the relevance to Germany's economy. These are automotive, machinery, energy and utilities, construction and paper, chemicals and plastics, and metals.

"Strategy is all about focus," Kotzbauer says. "One of the secrets of strategy in my eyes is that you should know exactly why you are here and what you do. But likewise, you need to know very well why you are not here and what you don't do. Sometimes the latter is more important than the former. Only focus can create excellence." EM

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