COMMERZBANK

Press release

For business desks
12 February 2016

Commerzbank: Strategy successful – net profit of over 1 billion euros and dividend

- **Operating profit in 2015 more than doubled to EUR 1,909 m (2014: EUR 689 m)**
- **Operating profit in the fourth quarter was EUR 376 m (Q4 2014: EUR –260 m)**
- **Net profit in 2015 increased significantly to EUR 1,062 m after EUR 266 m in previous year**
- **Revenues before loan loss provisions improved to EUR 9.8 bn (2014: EUR 8.8 bn)**
- **Loan loss provisions at low level of EUR 696 m (2014: EUR 1,144 m)**
- **NCA with further portfolio run-down to less than EUR 20 bn in CRE and Ship Finance – NCA run-down since Q3 2012 totals EUR 97 bn**
- **Equity ratio CET 1 with full application of Basel 3 increased significantly as of end of 2015 to 12.0% (end of 2014: 9.3%) – core regulatory equity capital increased by approximately EUR 3.8 bn in the course of the year**
- **Leverage ratio with full application of Basel 3 as of end of 2015 improved to 4.5% (end of 2014: 3.6%)**
- **Blessing: “2015 has shown that our strategy is right and that the implementation has been successful. For the first time in five years we have attained a net profit of more than 1 billion euros and have seen further significant strengthening of our capital base. The Board of Managing Directors plans to propose a dividend of 20 cents per share for the 2015 financial year.”**

Commerzbank has further improved its profitability and capital base, while simultaneously significantly reducing risks. The **operating profit** in the Group increased to EUR 1,909 million as of the end of 2015 (2014: EUR 689 million). In the 2015 financial year the **revenues before loan loss provisions** improved by EUR 1 billion year-on-year to EUR 9,762 million (2014: EUR 8,762 million). The **loan loss provisions** in the 2015 financial year were EUR 696 million and thus approximately 40% lower than in the previous year (2014: EUR 1,144 million). This is clear testimony to the high quality of the credit portfolio, which is also confirmed by a very low non-performing loan ratio (NPL ratio) of 1.6%. The **operating expenses** totalled EUR 7,157 million (2014: EUR 6,929 million). This increase is due to external factors: minus expenses for the European Bank Levy (EUR 119 million) and currency effects (EUR 85 million) the operating expenses amounted to EUR 6,953 million. Thus, the operating expenses – despite additional strategic investments such as those in digitalisation – were maintained at a stable level thanks to consistent efficiency measures.

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Likewise, it was possible to compensate in full for additional investments in regulatory matters and compliance, as well as a higher contribution to the Polish deposit guarantee fund. The full year **net profit** improved considerably to EUR 1,062 million (2014: EUR 266 million); this sum includes **restructuring expenses** of EUR 114 million (2014: EUR 61 million).

In the **fourth quarter of 2015** the operating profit increased to EUR 376 million, following on from minus EUR 260 million in the same quarter of the previous year. The net profit improved significantly over the fourth quarter of 2014 to EUR 187 million (Q4 2014: minus EUR 280 million). This positive development is also due to provisions for legal risks in the fourth quarter of 2014. The revenues before loan loss provisions increased year-on-year by approximately 21% to EUR 2,232 million (Q4 2014: EUR 1,848 million). In the fourth quarter the loan loss provisions decreased considerably year-on-year to a low level of EUR 112 million (Q4 2014: EUR 308 million). The operating expenses amounted to EUR 1,744 million, which corresponds to a slight downturn of 3% over the same quarter of the previous year (Q4 2014: EUR 1,800 million).

The **Core Bank** increased its **operating profit** to EUR 2,310 million (2014: EUR 1,504 million) in 2015. This positive development is also reflected in the return on equity (RoE) of the Core Bank, as well as in the return on tangible equity (RoTE). With a net RoE of 8.1% and an operating RoTE of 12.3% of the Core Bank these were significantly better compared to the same period in the previous year (net RoE 2014: 6.2%; operating RoTE 2014: 9.2%). The **revenues before loan loss provisions** in the Core Bank increased to EUR 9,504 million, following on from EUR 8,614 million in the 2014 financial year. In the previous year accruals for a settlement in the USA had led to charges on the revenues. The **loan loss provisions** decreased by 33% to EUR 330 million (2014: EUR 490 million). The **operating expenses** in the Core Bank were EUR 6,864 million and thus higher, at 3.7%, in a year-on-year comparison (2014: EUR 6,620 million). The **credit volume** was again increased in this period. Compared to the previous year the Private Customers and Mittelstandsbank segments increased their credit volumes on a yearly average by approximately 8% and approximately 4%, respectively.

“2015 has shown that our strategy is right and the implementation has been successful. For the first time in five years we have attained a net profit of more than 1 billion euros. In addition, we have further strengthened our capital base, which is at a good level compared to our competitors. The Board of Managing Directors plans to propose a dividend of 20 cents per share for the 2015 financial year,” said Martin Blessing, Chairman of the Board of Managing Directors of Commerzbank AG.

Risk profile improved, equity ratio increased significantly

The **risk-weighted assets** (RWA) with full application of Basel 3 were significantly reduced in the course of the fourth quarter of 2015, something which had a positive impact on the development of the core equity ratio. The risk-weighted assets amounted to EUR 197 billion, compared to EUR 213 billion as of the end of the third quarter of 2015. The clear decrease is due, among other things, to the continued portfolio run-down in the Non-Core Assets segment and the reduction in the RWA in the credit risk sector as a result of the application of a revised standard defined by the European Banking Authority (EBA). Both effects reduced RWA by EUR 10.5 bn. The **Common Equity Tier 1 ratio** (CET 1) with full application of Basel 3 increased considerably to 12.0%, compared to 9.3% as of the end of December 2014. This significant improvement is due to lower RWA and to an increase in the capital base. The CET 1 ratio already includes a dividend deferral of EUR 250 million, or 20 cents per share. The earnings per share increased significantly to EUR 0.88 (2014: EUR 0.23). The **leverage ratio** improved to 4.5% as of the end of the 2015 financial year, after amounting to 3.6% as of the end of 2014. The **total assets** were EUR 533 billion (2014: EUR 558 billion).

"In 2015 we have further reduced the risks and significantly increased the stability of Commerzbank. Our regulatory capital base has increased by approximately EUR 3.8 billion or nearly 20%. Our Common Equity Tier 1 ratio is now 12.0%," said Stephan Engels, Chief Financial Officer of Commerzbank.

New financial architecture "Group Finance Architecture" launched

With the current financial reporting Commerzbank has launched a new financial architecture for Commerzbank AG Germany. The new "Group Finance Architecture" platform (GFA) significantly reduces complexity and provides the structural basis for future regulatory reporting. Permanent methodology changes are associated with the launch of GFA; these necessitate a one-off restatement for the preceding quarters of 2015 and for 2014. These adjustments have been adopted for the figures published today.

"With Group Finance Architecture we are able to consolidate our financial data on a single platform. This innovative architecture is one of the largest investments ever made by Commerzbank. Together with my fellow board member Frank Annuscheit and our colleagues from IT and Finance I am very pleased with the successful launch. This makes our financial architecture even better, even faster and even more secure," said Engels.

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Individual financial statement of Commerzbank AG

The provisional individual financial statement of Commerzbank AG pursuant to the provisions of the German Commercial Code (HGB) states higher annual net income of EUR 1,693 million for 2015 (2014: EUR 282 million). This sum takes into consideration the payment of interest on all profit-sharing rights in Commerzbank AG. The Board of Managing Directors plans to propose a dividend of 20 cents per share for the 2015 financial year and the accumulation of the remaining net profit in order to further strengthen the capital base.

Development of the segments

In the 2015 financial year the **Private Customers** segment successfully continued its growth in terms of customers, assets and revenues. The operating profit increased significantly year-on-year, by 65% to EUR 751 million (2014: EUR 455 million). This includes a one-off net effect of approximately EUR 80 million which was booked in the third quarter. The revenues before loan loss provisions increased to EUR 3.7 billion (2014: EUR 3.5 billion), in particular as a consequence of the expansion of the credit business and a rise in revenues from existing customers in securities trading. The ratio of assets in premium and managed accounts increased in the fourth quarter 2015 compared to the previous year from 36% to 46%. Thus, the volatility in commission income was reduced further, as foreseen. In total, commission income was increased by more than 11% over the previous year. The loan loss provisions declined in the same period to EUR 14 million (2014: EUR 79 million). The operating expenses remained stable at EUR 2,953 million (2014: EUR 2,919 million). The number of net new customers increased in 2015 by approximately 286,000, having risen by 819,000 since the end of 2012. New business in residential mortgage loans grew by 18% year-on-year to more than EUR 12 billion. A volume increase of 27% was registered with consumer loans. In the fourth quarter of 2015 the segment virtually doubled its year-on-year operating profit to EUR 160 million (Q4 2014: EUR 81 million). The revenues before loan loss provisions amounted to EUR 894 million, higher than the level posted in the same quarter of the previous year (Q4 2014: EUR 842 million).

Mittelstandsbank attained a solid result in a challenging market environment. The operating profit declined in the 2015 financial year to EUR 1,062 million (2014: EUR 1,224 million), yet remains at a high level. The fourth quarter accounted for EUR 212 million (Q4 2014: EUR 251 million). The full year revenues before loan loss provisions declined to EUR 2.7 billion (2014: EUR 2.9 billion). This development is due in particular to the downturn in deposit transactions, which was driven by the negative level of interest rates on the market as well as the depreciation of a shareholding. Adjusted for valuation effects from counterparty risks in the derivatives business, the fourth quarter contributed revenues of EUR 679 million (Q4 2014: EUR 731 million). The loan loss provisions declined in the 2015 financial year to EUR 192 million (2014: EUR 342 million). The operating expenses increased in 2015 to EUR 1,471 million (2014: EUR 1,362 million),

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primarily due to higher regulatory costs and the European Bank Levy. Based on the sustained high level, the segment Mittelstandsbank generated a credit volume growth of 4% over 2014 in the 2015 financial year. It was also possible to improve the customer satisfaction among Germany's SMEs to a very high level. In 2015 the segment also optimised its client-centric business model through a more regional and focused realignment in domestic sales.

The result in the **Central & Eastern Europe** segment reflects the good business development at M Bank in spite of the increasingly challenging market environment in Poland. In 2015 the segment generated an operating profit of EUR 346 million, which is only slightly lower than the result attained in the previous year (2014: EUR 364 million). The fourth quarter accounted for EUR 81 million (Q4 2014: EUR 89 million). The revenues before loan loss provisions in the segment increased in 2015 as a whole over the previous year by 2% to EUR 941 million (2014: EUR 923 million) and over the same quarter of the previous year by 12% to EUR 251 million (Q4 2014: EUR 225 million). The loan loss provisions declined in the 2015 financial year by 21% to EUR 97 million in the 2015 financial year (2014: EUR 123 million). The operating expenses increased to EUR 498 million (2014: EUR 436 million) as a consequence of contributions to the Polish deposit guarantee fund and to the "Fund for Supporting Distressed Mortgage Borrowers". On the whole, M Bank was able to continue its operating growth in 2015, with the credit volume increasing by 7% and the deposits volume by 17% over the course of the year. It was also able to acquire around 400,000 net new customers, meaning that M Bank now has some 5 million customers in Poland, the Czech Republic, and Slovakia.

In 2015 **Corporates & Markets** achieved an operating profit of EUR 610 million (2014: EUR 675 million). After a strong start into the year, concerns over global growth led to a weaker second half in 2015. Adjusted for effects from the valuation of own liabilities (OCS) and counterparty risks in the derivatives business, the operating profit in the fourth quarter was EUR 80 million (Q4 2014: EUR 150 million). Adjusted revenues before loan loss provisions in 2015 were EUR 1.9 billion, virtually the same level as in the previous year (2014: EUR 2.0 billion). With revenues of EUR 595 million (2014: EUR 592 million), Equity Markets & Commodities (EMC) was the largest contributor to earnings. In Fixed Income & Currencies (FIC) the strong demand for foreign exchange products was not able to compensate for weaker client activity in interest rates and credit. Revenues in Corporate Finance decreased year-on-year due to lower fees on deposits on the back of the low interest rate environment. The loan loss provisions saw net reversals of EUR 36 million, following on from EUR 55 million in 2014. Ongoing investments in the optimisation of the back-office as part of the Centres of Competence model, the European Bank Levy and regulatory costs lead to increased operating expenses of EUR 1,426 million in 2015 (2014: EUR 1,352 million).

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NCA: Further portfolio run-down – CRE and Ship Finance portfolio less than EUR 20 billion

In the 2015 financial year the **Non-Core Assets** (NCA) segment posted a much improved result, in both revenues as well as loan loss provisions and cost base. The operating profit improved to minus EUR 401 million over the previous year (2014: minus EUR 815 million). In this respect the fourth quarter of 2015 accounted for minus EUR 61 million (Q4 2014: minus EUR 189 million). The revenues before loan loss provisions totalled EUR 258 million, following on from EUR 148 million in the previous year. The operating expenses decreased slightly to EUR 293 million (2014: EUR 309 million).

The value-preserving portfolio run-down was successfully continued in 2015. In total, the exposure at default (EaD) was reduced by EUR 13 billion in the Commercial Real Estate (CRE) and Ship Finance areas. The EaD of the two segments at the end of the year was a mere EUR 19 billion. Thus, the objective of approximately EUR 20 billion by the end of 2016 has already been attained. As of the end of 2015 CRE accounted for approximately EUR 10.3 billion of the EaD; this corresponds to a reduction of EUR 9.7 billion or 49% over 2014. The EaD in Ship Finance was reduced by EUR 3.6 billion or approximately 30% to EUR 8.4 billion in the course of the year. The portfolios of non-performing loans at the end of the past year in both CRE and Ship Finance were only EUR 1 billion, both meaning a reduction of two-thirds year-on-year.

Commerzbank has reduced the portfolios in the NCA segment since the third quarter of 2012 from EUR 160 billion to EUR 63 billion at the end of 2015. As a result of this successful run-down, the Board of Managing Directors has decided to dissolve NCA and implement a new structure with the intention of transferring portfolios of higher quality and lower risk to the Core Bank. Approximately EUR 7 billion of the some EUR 10 billion in the portfolio of CRE will be transferred to the Core Bank segments Private Customers and Mittelstandsbank. From Ship Finance (portfolio: approximately EUR 8 billion) approximately EUR 3 billion are being transferred to Mittelstandsbank. Treasury will assume approximately EUR 36 billion of the EUR 44 billion from the Public Finance area. The remaining portions of the respective segments correspond to approximately EUR 18 billion and thus to less than 4% of group total assets. They will be bundled in the newly-created “Asset & Capital Recovery Unit” (ACR). The aim by year-end 2019 is that CRE and Ship Finance will show a combined EaD run-down to low single digit billion exposure. ACR will be endowed with a substantial capital buffer. The exact details, such as volumes and rating classes, will be communicated with the figures for the first quarter of 2016 at the latest.

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Outlook

The year 2016 will be a challenging one due to the geopolitical and macroeconomic environment. However, this will not prevent the Bank from consistently implementing its strategy and aiming to further increase market shares in its Core Bank divisions. The cost base shall be kept stable except of additional external non-influenceable burdens. Commerzbank expects a moderate increase in loan loss provisions due to lower recoveries from impaired loans. From today's perspective the Bank expects a slight increase in net profit in comparison with this year's result.

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Financial figures at a glance

Note: The financial reporting has been amended in accordance with IAS 8.

In EUR m	2015	2014	Q4 2015	Q3 2015	Q4 2014
Net interest and trading income	6,278	5,953	1,276	1,486	1,428
Provisions for loan losses	–696	–1,144	–112	–146	–308
Net commission income	3,424	3,260	829	825	823
Net investment income	–7	82	99	–39	64
Current income on companies accounted for at equity	82	44	36	15	2
Other income	–15	–577	–8	22	–469
Revenues before loan loss provisions	9,762	8,762	2,232	2,309	1,848
Operating expenses	7,157	6,929	1,744	1,719	1,800
Operating profit or loss	1,909	689	376	444	–260
Impairments of Goodwill	-	-	-	-	-
Restructuring expenses	114	61	20	28	61
Pre-tax profit or loss	1,795	628	356	416	–321
Taxes	618	256	138	155	–68
Consolidated profit or loss attributable to Commerzbank shareholders	1,062	266	187	230	–280
Earnings per share	0.88	0.23	0.15	0.18	–0.25
Cost/income ratio in operating business (%)	73.3	79.1	78.1	74.4	97.4
Operating RoTE (%)	7.3	2.8	5.6	6.7	–4.3
Net RoTE (%)	4.2	1.1	2.9	3.6	–4.7
Net RoE (%)	3.8	1.0	2.6	3.2	–4.2
CET 1 ratio B3, fully phased-in (%)	12.0	9.3	12.0	10.8	9.3
Leverage Ratio, fully phased-in (%)	4.5	3.6	4.5	4.1	3.6
Total assets (EUR bn)	533	558	533	568	558

2015 figures published in this press release are preliminary and unaudited.

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About Commerzbank

Commerzbank is a leading international commercial bank with branches and offices in more than 50 countries. The core markets of Commerzbank are Germany and Poland. With the business areas Private Customers, Mittelstandsbank, Corporates & Markets and Central & Eastern Europe, its private customers and corporate clients, as well as institutional investors, profit from a comprehensive portfolio of banking and capital market services. Commerzbank finances more than 30 per cent of Germany's foreign trade and is the unchallenged leader in financing for SMEs. With its subsidiaries Comdirect and Poland's M Bank it owns two of the world's most innovative online banks. With approximately 1,050 branches and more than 90 advisory centres for business customers Commerzbank has one of the densest branch networks among German private banks. In total, Commerzbank boasts more than 16 million private customers, as well as 1 million business and corporate clients. The Bank, which was founded in 1870, is represented at all the world's major stock exchanges. In 2015, it generated gross revenues of EUR 9.8 billion with 51,300 employees.

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Disclaimer

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, particularly to reduce its NCA portfolio, 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.

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