

Press release

For business editors
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Commerzbank: Operating Profit of €1.4bn and Improved Capital Ratio

- **Operating profit of €1,399m for 2016 (2015: €1,942m)**
- **Operating profit of €337m for fourth quarter 2016 (Q4 2015: €384m)**
- **Net profit of €279m for 2016 (2015: €1,084m)**
- **Revenues before loan loss provisions in 2016 of €9.4bn (2015: €9.8bn)**
- **Loan loss provisions increased to €900m in timely response to the deterioration in the shipping markets (2015: €696m); non-performing loan ratio still very low at 1.6%**
- **CET 1 ratio with full application of Basel 3 up at 12.3% as of end of 2016 (end of 2015: 12.0%), exceeding all regulatory requirements**
- **Improved leverage ratio with full application of Basel 3 of 4.8% as of end of 2016 (end of 2015: 4.5%)**
- **Zielke: “In 2016 we achieved a solid profit and further improved our capital ratio. However, we cannot yet be satisfied with the quality of our earnings and that’s why we will put every effort into the implementation of our strategy. We have now given ourselves the room for manoeuvre needed for this and can proceed with the transformation as planned. We want to make Commerzbank the most competitive bank in Germany by 2020. We will now work to achieve, step by step, the targets we have set ourselves.”**

Commerzbank generated a solid operating profit and further improved its Common Equity Tier 1 ratio in 2016. The implementation of the “Commerzbank 4.0” strategy announced in autumn last year has begun on schedule. The **operating profit** for financial year 2016 fell to €1,399 million as of the end of 2016 (2015: €1,942 million). This was due mainly to challenging market conditions and the continued negative interest environment, which had an adverse impact on net interest income. **Revenues before loan loss provisions** fell year-on-year to €9,399 million (2015: €9,795 million). They also include some positive one-off effects, for example in the second quarter as a result of the sale of the Visa Europe shares, and in the fourth quarter in connection with the Heta exposure. **Loan loss provisions** stood at €900 million in financial year 2016 (2015: €696 million). The year-on-year increase in loan loss provisions was the result of high loan loss provisions for ship finance due to the difficult situation on the shipping markets. The Bank’s non-performing loan ratio of just 1.6%, which remains very good compared to its European peers, reflects the Bank’s healthy risk profile. **Operating expenses** were reduced to €7,100 million despite the charges arising from the new

Polish banking tax and the European Bank Levy (2015: €7,157 million). The **pre-tax profit**, taking into account the impairment on goodwill and other intangible assets of €627 million in the third quarter and restructuring costs of €129 million, came in at €643 million for 2016. So after deduction of taxes of €261 million and minority interests of €103 million, Commerzbank posted a **net profit** of €279 million for 2016 (2015: €1,084 million). Earnings per share came in at €0.22 in financial year 2016 (2015: €0.90).

In the **fourth quarter of 2016**, the net profit fell year-on-year to €183 million (Q4 2015: €193 million). An operating profit of €337 million was recorded, versus €384 million in the fourth quarter of 2015. Revenues before loan loss provisions increased year-on-year to €2,399 million (Q4 2015: €2,240 million). This increase was attributable to the reinstatement of the value of the Heta exposure and revenues from the Bank's sales of real estate, among other things. Loan loss provisions rose sharply year-on-year in the fourth quarter to €290 million (Q4 2015: €112 million). This development was due to the loan loss provisions on the ship finance portfolio, as was the case for the year as a whole. Operating expenses remained almost stable year-on-year, at €1,772 million (Q4 2015: €1,744 million).

"In 2016 we achieved a solid profit and further improved our capital ratio. However, we cannot yet be satisfied with the quality of our earnings and that's why we will put every effort into the implementation of our strategy. We have now given ourselves the room for manoeuvre needed for this and can proceed with the transformation as planned. We want to make Commerzbank the most competitive bank in Germany by 2020. We will now work to achieve, step by step, the targets we have set ourselves", said Martin Zielke, Chairman of the Board of Managing Directors of Commerzbank AG.

Common Equity Tier 1 ratio up at 12.3% – risk profile remains good

Risk-Weighted Assets (RWA) with full application of Basel 3 were further reduced in the fourth quarter of 2016 by active portfolio management. They stood at €190 billion at the end of 2016, compared with €195 billion at the end of the third quarter and €197 billion at the end of 2015. The **Common Equity Tier 1 ratio (CET 1)** with full application of Basel 3 rose to 12.3%, versus 12.0% at the end of December 2015. The increase was due to lower RWA. The level of the CET 1 ratio gives the Bank scope to absorb the forthcoming charges arising from restructuring costs and regulatory and accounting requirements. The **leverage ratio** improved to 4.8% at the end of financial year 2016, from 4.5% at the end of 2015. **Total assets** came to €480 billion (2015: €533 billion).

"Our Common Equity Tier 1 ratio has gone up to 12.3 per cent and exceeds all regulatory requirements. It means we are ready for the forthcoming charges arising from restructuring costs and regulatory obligations. And the CET 1 ratio is set to remain at or above 12 per cent for the rest of the year", explained Stephan Engels, Chief Financial Officer of Commerzbank. Engels added: "We kept our costs stable in 2016 and were able to fully offset additional external charges."

Implementation of Commerzbank 4.0 strategy under way

The implementation of the Commerzbank 4.0 strategy announced at the end of September 2016 is under way and running to plan. 300 staff are now on-site on the Digital Campus working on the digitalisation of 6 of the 14 end-to-end processes, known as “journeys”. One example of an end-to-end process is the Digital Instalment Loan platform, which will be started for the customers this year. Our target is to digitalise 80% of relevant processes within the Group by 2020. In retail banking a new type of branch was introduced: the “city branch”. The new sales platform, “One”, was also rolled out at the end of November. The unified user interface means customers and advisors have access to the same information – in the branch, in online banking, and in future at the customer centre as well. In the Corporate Clients segment, a new management structure has been agreed and already put in place to a large extent. Moreover, we have put in place teams of experts for all key industries, allowing us to offer our clients the combined expertise of Corporate Finance, Risk Management and Research. We are expanding this business.

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 net income of €1,494 million for 2016 (2015: €1,693 million). This sum takes into consideration the payment of interest on all profit-sharing rights in Commerzbank AG. The Bank intends to retain full earnings.

Development of the segments

Under the new strategy unveiled at the end of September, which includes the restructuring of the segments, Commerzbank will now concentrate on two operating segments: the new Private and Small Business Customers segment and the new Corporate Clients segment.

The **Private and Small Business Customers** segment achieved continued growth in the 2016 financial year, both in Germany and at mBank. Its operating profit rose slightly year-on-year by 3% to €1,079 million (2015: €1,051 million). The figure includes several positive one-off effects which offset the adverse impact of the negative interest rate environment in Germany. In a tough market environment, revenues before loan loss provisions remained stable at €4.8 billion (2015: €4.8 billion). In Germany the loan volume was 8% up on the previous year, exceeding the market growth rate. Volatility in net commission income was further reduced according to plan by increasing the volume of securities in premium custody accounts and managed accounts. Loan loss provisions decreased by 29% over the same period to €119 million (2015: €167 million). Operating expenses remained stable at €3,621 million (2015: €3,627 million). This includes a rise in costs at mBank due largely to the Polish banking tax.

In Germany the segment attracted approximately a net 321,000 new customers in 2016. Since the end of 2012 it has gained 1.1 million customers. This means the retail business has met or surpassed all the essential targets it had set itself for the end of 2016. Especially the targets for the operating profit and assets under management have been significantly overachieved. The volume of new business in mortgage lending was roughly the same in 2016 as in the previous year, with a slightly higher margin. Sales of consumer loans increased by 31% in volume terms.

mBank also saw further business growth in financial year 2016, and was able to raise its revenues before loan loss provisions compared to the previous year. New business volume in consumer loans increased by more than 20% over the same period. mBank also gained a good 400,000 net new customers, so that it now has around 5.4 million customers in Poland, the Czech Republic and Slovakia. In the fourth quarter of 2016 the operating profit for the new Private and Small Business Customers segment totalled €235 million (Q4 2015: €227 million). Revenues before loan loss provisions amounted to €1,177 million (Q4 2015: €1,190 million).

The results of the **Corporate Clients** segment in financial year 2016 were adversely affected by the negative interest rate environment and the reorientation of business operations, though business with SMEs and German large corporates remained stable. Its operating profit was down year-on-year, at €1,287 million (2015: €1,695 million). The figure for the fourth quarter was €360 million (Q4 2015: €258 million). The improvement versus the same quarter of the previous year was due in particular to the fact there was a net release of loan loss provisions in the fourth quarter of 2016, whereas in the fourth quarter of 2015 loan loss provisions were still being added to on a net basis. Revenues before loan loss provisions, after adjustments for valuation effects from own liabilities (OCS) and for counterparty risk in the derivatives business, decreased to €4.3 billion in 2016 (2015: €4.7 billion). The fourth quarter contributed €1,083 million in revenues, after adjustments (Q4 2015: €1,120 million). The segment registered a marked fall in revenues in financial year 2016 due to the strategic adjustments to the business model. These adjustments are aimed at both improving the segment's risk position and focussing more on core competencies and client needs. By contrast the Mittelstand Group division succeeded in maintaining its strong market position with overall stable revenues despite the negative interest rate environment. In International Corporates, clients were reluctant to engage in capital market activities, and ECB purchases of corporate bonds reduced fees for bond issuance and margins on corporate loans, while revenues from commercial banking as a whole remained stable. However, despite the tough market environment, capital market business was able to contribute to profits on the debt capital side as well, where stable revenues were recorded. The segment's loan loss provisions rose to €185 million in 2016 (2015: €108 million). Operating expenses were down slightly at €2,973 million (2015: €3,030 million).

In the **Asset & Capital Recovery (ACR)** segment, the portfolios were run down further again in 2016. Exposure at Default (EaD) fell by €2.3 billion, taking it to €16.2 billion at the end of the year. The operating result was worse than the previous year at minus €514 million (2015: minus €466 million) on account of the steep increase in loan loss provisions in Ship Finance. The fourth quarter accounted for minus €155 million of this operating result (Q4 2015: minus €67 million). Revenues before loan loss provisions came out at €213 million for 2016 as a whole (2015: €76 million), supported by the reinstatement of the value of the Heta exposure in the fourth quarter. Loan loss provisions increased in 2016, due almost entirely to the further deterioration on the shipping markets, to €599 million, compared with €361 million the previous year. Operating expenses were reduced over the same period to €128 million (2015: €181 million).

Outlook

In financial year 2017 the Bank will further strengthen its market position and will focus on the implementation of the Commerzbank 4.0 strategy. Investments, P&L including restructuring costs, capital and RWA will be managed in such a way as to keep the CET 1 ratio stable at 12% or above. Commerzbank will aim to keep the cost base stable and book the first part of restructuring charges for Commerzbank 4.0. The Bank expects loan loss provisions for segments Private and Small Business Customers as well as Corporate Clients to be on the level of 2016, while loan loss provisions in Ship Finance are expected to be in a range of €450 million to €600 million.

Financial figures at a glance

in € m	2016	2015	Q4 2016	Q3 2016	Q4 2015
Net interest and trading income	5,397	6,221	1,277	1,505	1,270
Provisions for loan losses	-900	-696	-290	-275	-112
Net commission income	3,212	3,430	825	781	835
Net investment income	344	-7	87	94	99
Current income on companies accounted for at equity	150	82	8	79	36
Other income	296	69	202	-22	-
Revenues before loan loss provisions	9,399	9,795	2,399	2,437	2,240
Operating expenses	7,100	7,157	1,772	1,733	1,744
Operating profit or loss	1,399	1,942	337	429	384
Impairments of Goodwill	627	-	-	627	-
Restructuring expenses	129	114	32	57	20
Pre-tax profit or loss	643	1,828	305	-255	364
Taxes	261	629	100	14	140
Consolidated profit or loss attributable to Commerzbank shareholders	279	1,084	183	-288	193
Earnings per share (€)	0.22	0.90	0.15	-0.23	0.15
Cost/income ratio in operating business (%)	75.5	73.1	73.9	71.1	77.9
Operating RoTE (%)	5.3	7.5	5.0	6.5	5.8
Net RoTE (%)	1.1	4.3	2.8	-4.5	3.0
Net RoE (%)	1.0	3.9	2.6	-4.0	2.7
CET 1 ratio B3, fully phased-in (%)	12.3	12.0	12.3	11.8	12.0
Leverage Ratio, B3 fully phased-in (%)	4.8	4.5	4.8	4.5	4.5
Total assets (€ bn)	480	533	480	514	533

2016 figures published in this press release are preliminary and unaudited.

From approximately 7 am onwards you can find broadcast-ready video material with statements by Martin Zielke and Stephan Engels at <http://mediathek.commerzbank.de/>.

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About Commerzbank

Commerzbank is a leading international commercial bank with branches and offices in almost 50 countries. In the two business segments Private and Small Business Customers, as well as Corporate Clients, the Bank offers a comprehensive portfolio of financial services which is precisely aligned to the clients' needs. Commerzbank finances 30% of Germany's foreign trade and is leading in financing for corporate clients in Germany. Due to its in-depth sector know-how in the German economy, the Bank is a leading provider of capital market products. Its subsidiaries Comdirect in Germany and mBank in Poland are two of the world's most innovative online banks. With approximately 1,000 branches, Commerzbank has one of the densest branch networks among German private banks. In total, Commerzbank serves more than 17.5 million private and small business customers, as well as more than 60,000 corporate clients, multinationals, financial service providers, and institutional clients. The Bank, which was founded in 1870, is represented at all the world's major stock exchanges. In 2016, it generated gross revenues of €9.4 billion with approximately 49,900 employees.

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, 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.