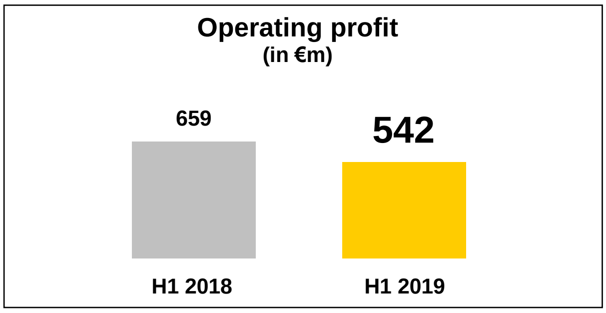
COMMERZBANK

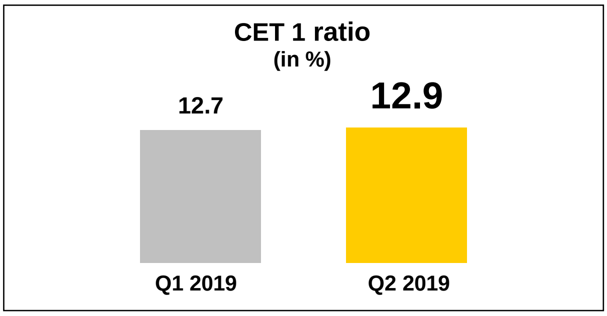
IR release

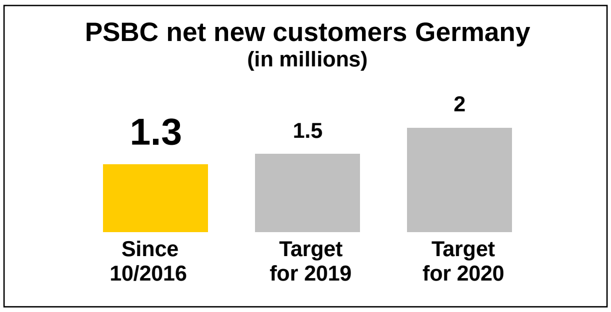
7 August 2019

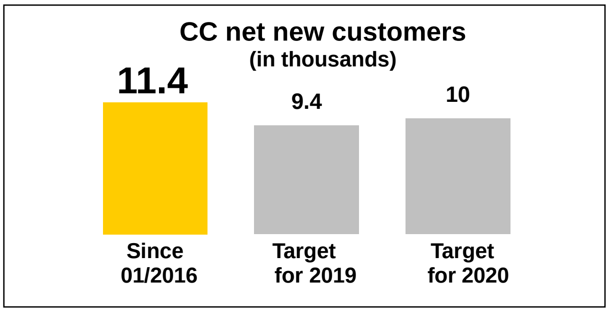
Commerzbank: Net profit of €391m in the first half of 2019

- **Continued growth: a net 232,000 new private customers gained in Germany in H1, Assets under Control up by €32bn to €413bn; 11,400 corporate clients gained since 2016**
- **Customer business profiting from growth initiatives, but underlying revenues down overall year-on-year at €4.3bn (H1 2018: €4.4bn) due to lower fair value result**
- **Operating expenses including compulsory contributions reduced to €3.5bn (H1 2018: €3.6bn)**
- **Risk result mainly due to single cases in Q2 and lower write-backs of provisions in H1 at minus €256m (H1 2018: minus €160m) – NPL ratio at a low 0.8% (H1 2018: 0.9%)**
- **Lower operating profit of €542m (H1 2018: €659m) reflects fair value result and risk result**
- **Run-off segment ACR dissolved as of 1 July following successful portfolio run-down**
- **CET 1 ratio at 12.9% (end of March 2019: 12.7%)**









"We are continuing on our growth path and are making significant progress. Despite all the successes, challenges continue to increase."

Martin Zielke, CEO

"We were able to further strengthen our common equity ratio as business continued to grow. This means that we are well prepared for expected regulatory burdens."

Stephan Engels, CFO

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In the first half of 2019, Commerzbank continued growth in customers and assets. In a very challenging environment, the Bank increased its net interest income by 9% thanks to the additional business in the core segments and generated higher underlying revenues in the customer business. Here, the contributions of new customers again played an important role in mitigating the headwind from negative interest rates, tight margins, and regulatory requirements. However, the progress in the customer business was contrasted by a significantly lower fair value result in the Corporate Clients segment, especially in the second quarter. This led to lower revenues overall. In addition, the drag from the risk result was higher due to single cases in the second quarter and lower write-backs of provisions in the first half of the year. The non-performing loan (NPL) ratio was a low 0.8% (H1 2018: 0.9%). Operating costs have been reduced by 4% through active cost management and more selective strategic investments in growth and digitalisation. In addition to the continued growth in customers and assets, two other strategic milestones were reached. The run-off segment Asset & Capital Recovery (ACR) was dissolved with effect from 1 July 2019 thanks to the successful run-down of the non-strategic portfolios over the last few years. And the transformation of the headquarter has taken an important step forward. Since 1 July, IT and product areas have been working closely together under the name "Campus 2.0".

“We are continuing on our growth path and are making significant progress in our customer business. Despite all the successes we have made, challenges continue to increase for the industry and for us,” said Martin Zielke, Chairman of the Board of Managing Directors of Commerzbank. “This might require further investments. And this is exactly what we are examining and assessing in our current strategy process.”

Group revenues came to €4,285 million in the first half of 2019 (H1 2018: €4,395 million). Also adjusted for one-off effects revenues stood at €4,285 million, which was below the previous year (H1 2018: €4,376 million). This development was primarily due to the marked drop in the fair value result mainly in the Corporate Clients segment which was adversely affected by valuation effects and the lack of contributions from legacy portfolios. Progress in customer business was reflected in net interest income which was increased thanks to continued loan growth and lower funding costs. Revenues for the second quarter amounted to €2,129 million (Q2 2018: €2,178 million). Adjusted for one-off effects, they stood at €2,095 million (Q2 2018: €2,160 million).

Operating expenses including compulsory contributions were reduced in the first half of 2019 and amounted to €3,487 million (H1 2018: €3,576 million). This development is based on operating costs which were reduced to €3,150 million (H1 2018: €3,274 million; Q2 2019: €1,581 million; Q2 2018: €1,636 million). This was mainly due to the prioritisation of strategic investments. Meanwhile, compulsory contributions rose again by almost 12% compared to the first half of 2018 to €337 million (H1 2018: €302 million). The figure for the second quarter was €72 million (Q2 2018: €58 million).

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The **risk result** was in line with expectations in the first half of the year and stood at minus €256 million (H1 2018: minus €160 million). The increase is attributable in particular to the second quarter which accounted for minus €178 million of this (Q2 2018: minus €82 million). The higher figures are due to single cases in the second quarter and lower write-backs of loan loss provisions in the first half of the year. Overall, the Bank's risk profile remains very healthy with a non-performing loan (NPL) ratio of 0.8%. This reflects the Bank's prudent lending standards and the resilient but generally weaker German economy.

In total, the Bank generated an **operating profit** of €542 million in the first six months (H1 2018: €659 million), including €298 million in the second quarter (Q2 2018: €401 million). Also in the second quarter, operating profit benefited from progress in the customer business and higher net interest income. Overall, the decrease was mainly due to the low fair value result and the higher risk result. The pre-tax profit came to €542 million (H1 2018: €689 million) in the first half of 2019. This was also impacted by the lower pre-tax profit for the discontinued business area Equity Markets & Commodities (EMC), which was around €30 million down on the previous year. Correspondingly, the **net result** attributable to Commerzbank shareholders stood at €391 million (H1 2018: €533 million). While the tax burden in the first quarter was comparatively high, the second quarter benefited from exceptionally low tax expenses of €20 million. In the second quarter, the net result stood at €271 million (Q2 2018: €272 million). **Earnings per share** came in at €0.31 in the first half (H1 2018: €0.43). The **net return on tangible equity** remained unchanged at 4.3% in the second quarter (Q2 2018: 4.3%).

Common Equity Tier 1 ratio rises to 12.9%

The Bank strengthened its capital position despite continued growth in the second quarter. The **Common Equity Tier 1 ratio** (CET 1) rose to 12.9% at the end of June (end of March 2019: 12.7%). The ratio already includes a dividend accrual in line with the pay-out ratio for 2018. At the beginning of July 2019, the Bank also successfully optimised its capital structure and further strengthened its total capital with the issue of its inaugural additional tier 1 bond with a volume of US$1 billion. **Risk-weighted assets (RWA)** were almost unchanged in the second quarter at €187 billion (end of March 2019: €185 billion). Risk-weighted assets for credit risks also remained at the same level as in the first quarter of 2019 despite increased lending volumes in the core business. This was mainly due to RWA management and lower currency effects. The **leverage ratio** still stood at a comfortable 4.5% at the end of June (end of March 2019: 4.5%). **Total assets** came to €518 billion (end of June 2018: €488 billion).

"In the second quarter, we were able to further strengthen our common equity ratio as business growth continued. This means that we are well prepared for the expected regulatory burdens like TRIM," said Stephan Engels, Chief Financial Officer of Commerzbank. "At the beginning of July, we also optimised our capital structure and further strengthened our total capital by issuing our first AT 1 bond which was significantly oversubscribed."

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Development of the segments

The **Private and Small Business Customers** (PSBC) segment continued its growth in Germany and gained a net 232,000 new customers overall in the first half of the year (H1 2018: 145,000). In the second quarter, 108,000 net new customers joined the Bank. The segment therefore remained on track in terms of customer growth. The new customers provided additional business. Assets under Control in Germany rose by a further €32 billion in the first half of the year (increase in Q2 2019: €11 billion) to €413 billion (end of 2018: €381 billion). Hence, assets have risen by €77 billion since the end of 2016 and were therefore above the target of more than €400 billion for 2020. The loan book now amounts to over €100 billion. This forms a good basis for a further increase in net interest income. The portfolio volume in the mortgage lending business rose by a further €3.0 billion in the first half of 2019 (Q2: €1.6 billion) to €78.1 billion.

Following its continued growth, the segment increased its net interest income by more than 7% in the first six months of 2019 and thus compensated the sustained margin pressure. Revenues after adjustment for exceptional items improved slightly to €2,464 million (H1: €2,436 million). In the second quarter, underlying revenues rose year-on-year to €1,244 million (Q2 2018: €1,225 million).

Furthermore, the segment made progress on the cost side in the first half of the year despite higher compulsory contributions. The operating costs were reduced by €56 million to €1,743 million (H1 2018: €1,800 million). This more than compensated for the increase in compulsory contributions. The risk result improved slightly in the first half of the year to minus €100 million (H1 2018: minus €115 million), underlining the healthy risk profile. In sum, the segment improved its operating profit by 4.1% to €392 million (H1 2018: €377 million). The second quarter contributed €239 million (Q2 2018: €174 million) to this.

The **Corporate Clients** segment gained additional new corporate clients in what remained a difficult market environment. The segment has already brought 11,400 new clients on board since the beginning of 2016. Loan volumes increased by €6 billion in the first six months to €88 billion. Hence, the segment has already achieved its customer and loan growth targets for the end of 2020.

In the Corporate Clients segment, adjusted income increased in Mittelstand, International Corporates, and Financial Institutions and hence in all the directly customer-facing business areas. By contrast, Others was adversely affected by a lower result from hedging activities and portfolio management as well as the lack of revenues from legacy portfolios particularly in the second quarter of 2019. In addition, this area had benefited from a large individual transaction in the previous year. Consequently, the segment's underlying revenues were down overall in the first half at €1,668 million (H1 €1,775 million). The figure for the second quarter was €799 million (Q2 2018: €909 million).

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While the segment's operating expenses were reduced to €1,238 million in the first six months (H1 2018: €1,282 million), the burdens from the risk result increased. The risk result came out at minus €155 million in the first half of the year (H1 2018: minus €60 million), in particular due to single cases in the second quarter and lower write-backs of provisions in the first half of the year. In total, the segment generated an operating profit of €142 million in the first half (H1 2018: €315 million). The figure for the second quarter was €22 million (Q2 2018: €218 million).

With the non-strategic portfolios successfully run-down, the Bank dissolved the **Asset & Capital Recovery** (ACR) segment with effect from 1 July 2019. The remaining portfolio volume of €4.5 billion – including the segment's ship finance portfolio of now only around €200 million – was transferred to the Others & Consolidation segment. ACR recorded revenues of €79 million (H1 2018: €106 million) and generated an operating profit of €31 million in its last first half (H1 2018: €76 million).

Outlook

The Bank will continue its growth strategy in 2019 and is expecting higher underlying revenues than in the previous year. Overall, the Bank expects a slight year-on-year increase in consolidated net income for the 2019 financial year, although this target has become significantly more ambitious given the earnings development in the first half of the year, the noticeable worsening of the macroeconomic situation, and the increasingly uncertain geopolitical situation. The Bank is targeting a Common Equity Tier 1 ratio of at least 12.75% by the end of 2019. The cost base should remain below €6.8 billion in 2019, while the drag from the risk result is expected to be at least €550 million. The Bank is planning to maintain a pay-out ratio for financial year 2019 at a level comparable to 2018.

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Financial figures at a glance

in €m	H1 19	H1 18	H1/19 vs H1/18 in %	Q2 19	Q2 18	Q2/19 vs Q2/18 in %	Q1 19
Net interest income	2,505	2,288	9.5	1,274	1,190	7.1	1,231
Net commission income	1,507	1,565	-3.7	739	763	-3.2	768
Net fair value*	113	403	-72.0	28	200	-85.8	85
Other income	160	139	15.1	88	25	254.3	73
Income before risk result	4,285	4,395	-2.5	2,129	2,178	-2.2	2,156
Revenues excl. exceptional items	4,285	4,376	-2.1	2,095	2,160	-3.0	2,190
Operating expenses	3,150	3,274	-3.8	1,581	1,636	-3.4	1,569
Compulsory contributions	337	302	11.5	72	58	24.0	265
Risk result	-256	-160	-60.3	-178	-82	-115.6	-78
Operating profit or loss	542	659	-17.7	298	401	-25.5	244
Current pre-tax profit or loss (discontinued operations)	-0	30	-99.1	19	-12	260.9	-19
Pre-tax profit or loss (Group)	542	689	-21.3	318	389	-18.2	225
Taxes	111	99	12.3	20	94	-78.7	91
Minorities	41	57	-28.6	27	23	16.5	14
Consolidated profit or loss attributable to Commerzbank shareholders	391	533	-26.7	271	272	-0.3	120
Earnings per share (€)	0.31	0.43		0.22	0.22		0.10
Cost/income ratio in operating business excl. compulsory contributions (%)	73.5	74.5		74.2	75.1		72.8
Cost/income ratio in operating business incl. compulsory contributions (%)	81.4	81.4		77.6	77.8		85.1
Operating RoTE (%)	4.1	5.1		4.5	6.1		3.7
Net RoTE (%)	3.1	4.3		4.3	4.3		1.9
Net RoE (%)	2.8	3.8		3.9	3.9		1.7
CET 1 ratio, Basel 3 fully loaded (%)	12.9	13.0		12.9	13.0		12.7
Leverage Ratio, Basel 3 fully loaded (%)	4.5	4.5		4.5	4.5		4.5
Total assets (€bn)	518	488		518	488		503

* Net income from financial assets and liabilities measured at fair value through profit and loss

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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 and Corporate Clients, the Bank offers a comprehensive portfolio of financial services which is precisely aligned to its clients' needs. Commerzbank finances approximately 30% of Germany's foreign trade and is the leading finance provider 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 18 million private and small business customers, as well as more than 70,000 corporate clients, multinationals, financial service providers, and institutional clients worldwide. In 2018, it generated gross revenues of €8.6 billion with approximately 49,000 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, 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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