COMMERZBANK

Press release

For business desks
13 February 2014

Commerzbank: solid operating profit of EUR 725 million in 2013 – important successes in implementation of strategic agenda

- **Core Bank attains operating profit of EUR 1.8 billion in difficult market environment – operating return on equity of 9.5%**
- **Successful cost management continued: operating expenses in Group again reduced in 2013 to just less than EUR 6.8 billion**
- **NCA portfolio lowered in 2013 by 23% to EUR 116 billion – annual target clearly surpassed**
- **Net profit in 2013 increased to EUR 78 million – despite charges from restructuring expenses of EUR 493 million**
- **Target for 2014 already achieved: core capital ratio CET 1 improved to 9.0% as of 31 December 2013 with full application of Basel 3**
- **Silent participations of SoFFin and Allianz repaid in full**
- **Blessing: "In the year of transition 2013 we have attained a solid operating profit and achieved important successes in the implementation of our strategic agenda."**

In the 2013 business year, Commerzbank has increased net profit, further reduced risks, and increased the relevant equity ratios more quickly than planned. Despite a difficult market environment, a solid **operating profit** of EUR 725 million (2012: EUR 1,170 million) was attained. The **revenues before loan loss provisions** were lower, above all, as a consequence of the weaker interest rate environment, declining to EUR 9.3 billion (2012: EUR 9.9 billion). The **loan loss provisions** increased as expected to EUR 1,747 million (2012: EUR 1,660 million). Despite additional investments, the **operating expenses** were lowered to EUR 6.8 billion (2012: EUR 7.0 billion) thanks to active cost management. The **net profit** improved to EUR 78 million (2012: minus EUR 47 million); this sum includes restructuring expenses of EUR 493 million.

In the Core Bank an operating profit of EUR 1.8 billion was attained in a challenging environment in 2013 (2012: EUR 2.5 billion). The downturn was due not only to the weaker market environment, but above all to the increase in loan loss provisions at Mittelstandsbank. The operating return on equity in the Core Bank was 9.5%.

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“In the year of transition 2013, we have attained a solid operating profit in both the Group and the Core Bank, also seeing important successes in the implementation of our strategic agenda. As announced, we have invested in our growth and, at the same time, further lowered our costs. We have been able to implement as scheduled what we had planned for 2013. We have even overachieved with two targets: In the reduction of the NCA portfolio we have made progress considerably more quickly, and we have increased the core capital ratio pursuant to Basel 3 to 9% one year earlier than planned,” said Martin Blessing, Chairman of the Board of Managing Directors of Commerzbank AG. “In addition, we have repaid in full the silent participations of the German government and Allianz, and further strengthened the capital base of the Bank. The growth measures initiated are taking effect, the amendment of the Private Customers segment is moving ahead more quickly than planned. In the Core Bank we saw growth with loans and customers in 2013 and, on the whole, have increased the revenues in the operating segments.”

In the Private Customers segment the new strategy has already delivered initial results in terms of customers, accounts and assets. Despite the low interest rate environment the operating profit was stable at the same level seen in the previous year. At Mittelstandsbank the operating profit was lower due to higher loan loss provisions. The credit volume provided to clients from the German Mittelstand was again increased. The Central & Eastern Europe segment saw continued high customer growth, and it was possible to increase the operating profit in a year-on-year comparison. In 2013, Corporates & Markets posted its best operating profit since 2010.

The net profit in the fourth quarter of 2013 was EUR 64 million (Q4 2012: minus EUR 726 million). Significantly lower loan loss provisions of EUR 451 million (Q4 2012: EUR 614 million) also contributed to this increase. In addition, the net profit in the same quarter of the previous year had seen significant charges from one-off effects.

Scheduled implementation of the strategic agenda

Commerzbank made further progress with the implementation of its strategic agenda in 2013. In the Core Bank numerous growth initiatives were started and measures implemented. The Private Customers segment, for example, opened its first pilot branch and successfully launched new custody account models. Mittelstandsbank has initiated the opening of five new offices in Switzerland as part of the expansion of its international network. In the CEE segment BRE Bank was rebranded as mBank and an innovative mobile banking platform was launched. Corporates & Markets started “TradeCycle”, an integrated platform for OTC derivatives. As a consequence of these initial growth initiatives, especially the number of customers and the business volume were increased within the Group in 2013. In the Core Bank the good portfolio quality was maintained: the ratio of non-performing loans was lower than 2%. The non-performing loans in the NCA reduction segment were lowered significantly, namely by EUR 2.6 billion.

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Costs further reduced, loan loss provisions increase as expected

In the 2013 business year, the **operating expenses** were once again lowered, by approximately EUR 230 million to EUR 6,797 million (2012: EUR 7,029 million). The additional growth investments were compensated for by active cost management.

The **loan loss provisions** increased as expected in 2013, amounting to EUR 1,747 million (2012: EUR 1,660 million). The main reasons for this were the higher loan loss provisions in Mittelstandsbank after considerable reversals of loan loss provisions at Mittelstandsbank in 2012.

Risks further reduced, Common Equity Tier 1 ratio increased to 9% one year earlier than planned

In 2013, Commerzbank again improved its stability through the continued reduction of risks and the strengthening of the capital resources. The **risk-weighted assets** were further reduced by 8.4% to EUR 191 billion (2012: EUR 208 billion). The **total assets** declined year-on-year by 13.6% to EUR 550 billion (2012: EUR 636 billion), and thus for the first time since 2006 were again lower than EUR 600 billion. Together with the successful capital increase of EUR 2.5 billion, this led to a consolidation of the **core equity ratios**. The Common Equity Tier 1 ratio taking into account the transitional regulations of Basel 3 was 11.6% as of the end of December (previous year: 10.2%). With the full application of Basel 3 the Common Equity Tier 1 ratio as of the end of December would have been 9.0%, following on from 7.6% at the end of 2012. The Bank was also able to improve the **leverage ratio**. As of the end of 2013 this was, in accordance with the currently known calculation logic of the EU's Capital Requirements Directive (CRD 4) and taking into account the transitional regulations of Basel 3, 4.3% (end of December 2012: 4.1%). The leverage ratio with the full application of Basel 3 amounted to 3.3% (end of December 2012: 2.9%).

"In 2013, we have further reduced the operating expenses and the risks. In particular in our reduction segment we were able to lower the risk-weighted assets to a greater degree than planned. As a consequence of this we have also attained our target for the Common Equity Tier 1 ratio one year earlier than planned. Thanks to the ongoing risk reduction and the continued consolidation of our capital base we were, on the whole, able to further increase the stability of the Bank in 2013," said Stephan Engels, Chief Financial Officer of Commerzbank.

Comfortable refinancing position, new forms of funding

Given the ongoing reduction of portfolios and the good deposit base, Commerzbank continues to enjoy a very comfortable funding position. In the framework of covering the needs in the Commerzbank branch network and for further diversification of the funding base the Bank has, however, the flexibility to utilise the

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capital market for funding on an opportunist basis. The funds from the three-year tenders of the European Central Bank (LTRO I and II) had already been repaid in full by Commerzbank in the first quarter of 2013.

As part of its collateralised funding, Commerzbank issued public Pfandbriefe and mortgage Pfandbriefe for the first time ever in 2013. Moreover, in 2013, the Bank issued the first SME Structured Covered Bond. This new instrument is a contractual construction that is similar to a Pfandbrief and which is collateralised by a high-quality portfolio of selected Mittelstand loans. Thanks to these additional capital market instruments the Bank has expanded its long-term funding options.

Silent participations of SoFFin and Allianz repaid in full

Within the framework of a capital increase in 2013 Commerzbank raised approximately EUR 2.5 billion, using this to repay in full and ahead of schedule the silent participations of the Financial Market Stabilisation Fund (SoFFin) and of Allianz. Thus Commerzbank has repaid all the elements of state aid which it may redeem itself. At the same time SoFFin reduced its stake in the Bank within the framework of the transaction from 25% to approximately 17%. The successful conclusion of the capital increase thus marks the start of the government's exit from Commerzbank. Through this measure Commerzbank also further strengthened its capital structure.

The preliminary individual financial statements of Commerzbank AG pursuant to the provisions of the German Commercial Code (HGB) show a net profit of EUR 166 million for 2013. This includes distributions on the following capital instruments: profit participation certificates of Commerzbank AG and Class B Preferred Securities of Commerzbank Capital Funding LLCs I, II and III. It's not planned to propose a dividend payment out of the HGB result for 2013.

Development of the segments

In 2013, the **Private Customers** segment attained an operating profit of EUR 225 million, and thus approximately the same sum seen in the previous year (2012: EUR 227 million). The revenues before loan loss provisions remained stable. It was possible to compensate for the lower level of interest rates in the market through, among other things, higher revenues from the securities business. This shows that the amendment of the business model is beginning to take effect. The loan loss provisions increased in a year-on-year comparison to EUR 108 million (2012: EUR 95 million). In spite of increased investment, the operating expenses remained – at EUR 3.0 billion – at the level seen in the previous year (2012: EUR 3.0 billion). Higher material expenses were compensated for by the lower capacity-related personnel expenses, among other things. In the fourth quarter the segment attained an operating profit of EUR 60 million (2012: EUR 25 million).

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In 2013, **Mittelstandsbank** posted a downturn in its operating profit to EUR 1,107 million (2012: EUR 1,642 million). Despite the ongoing low interest rate environment, it was possible to maintain the revenues before loan loss provisions at a virtually stable level, however. The loan loss provisions stood at EUR 470 million. A normalisation took place in 2013, after the loan loss provisions in 2012 had amounted to only EUR 30 million as a result of high reversals. The operating expenses in 2013 amounted to EUR 1.3 billion and were thus at the same level seen in the previous year (2012: EUR 1.3 billion). In the fourth quarter of 2013 the operating profit was EUR 220 million (2012: EUR 377 million).

The **Central & Eastern Europe** segment increased its operating profit in a year-on-year comparison to EUR 254 million (2012: EUR 240 million). The revenues before loan loss provisions decreased slightly to EUR 802 million (2012: EUR 818 million). The loan loss provisions increased to EUR 119 million (2012: EUR 105 million). Thanks in particular to the sale of Bank Forum in 2012 it was possible to reduce the operating expenses by 9%, to EUR 429 million (2012: EUR 473 million). In the fourth quarter the operating profit in the segment amounted to EUR 64 million (2012: EUR 42 million).

In 2013, **Corporates & Markets** attained an operating profit of EUR 778 million (2012: EUR 202 million) – its best result since 2010. Even without taking into consideration the positive effect as a consequence of the lower market valuation of Commerzbank's own liabilities ("Own Credit Spread" – OCS), the operating profit would have improved considerably in a year-on-year comparison. The revenues before loan loss provisions increased significantly to EUR 2,080 million (2012: EUR 1,601 million). With the loan loss provisions, there were net reversals of EUR 57 million, after 2012 had seen loan loss provisions of EUR 52 million. The operating expenses increased slightly to EUR 1,359 million (2012: EUR 1,347 million). In this respect it is to be borne in mind that the bulk of the former portfolio of the Portfolio Restructuring Unit (PRU) in 2012 was not transferred to the segment until the middle of the year, but was included in the operating expenses throughout the whole of 2013. In the fourth quarter of 2013 the segment attained an operating profit of EUR 166 million, adjusted for the OCS effect and adjustments concerning counterparty risks in the derivatives business EUR 98 million (2012: minus EUR 70 million, adjusted for the OCS effect and adjustments concerning counterparty risks in the derivatives business EUR 70 million).

In 2013, the **Non-Core Assets** (NCA) segment again achieved a significantly improved operating profit of minus EUR 1,073 million (2012: minus EUR 1,533 million). The revenues before loan loss provisions increased to EUR 360 million (2012: EUR 220 million). The loan loss provisions declined in line with the reduction strategy, and in 2013 amounted to EUR 1,082 million (2012: EUR 1,374 million). The operating expenses also declined to EUR 351 million (2012: EUR 379 million). In the fourth quarter of 2013 the operating profit of NCA was minus EUR 329 million (2012: minus EUR 448 million).

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The portfolio reduction in the NCA segment has proceeded more quickly than planned as attractive market conditions have been utilised. In 2013, it was possible to reduce the Exposure at Default (EaD) by EUR 35 billion, to EUR 116 billion, while preserving value; thus the annual target of a reduction to EUR 125 billion was significantly overachieved. The Commercial Real Estate (CRE) division accounted for approximately EUR 36 billion of the EaD as of the end of 2013; this corresponds to a downturn of EUR 19 billion, or approximately 35%, over 2012. A major contribution to this was made by the sale of the CRE portfolio in Great Britain. In 2013, the shipping portfolio was reduced by EUR 4.5 billion or approximately 24%, to EUR 14 billion. Thus the reduction target of EUR 14 billion for 2016 for the shipping portfolio has already been attained by the end of 2013. In Public Finance the portfolio declined over 2012 by 14% to approximately EUR 66 billion. The successful portfolio reduction led to a net capital release of EUR 205 million in the NCA segment in 2013.

The Exposure at Default (EaD) in those areas of CRE and Ship Finance which the Bank assesses as being associated with a greater risk ("higher risk cluster") was reduced by 48% in 2013. Thus as of the end of 2013, the "higher risk cluster" in the entire NCA segment still encompassed a portfolio of EUR 7.4 billion (end of December 2012: EUR 14.3 billion).

Outlook: further growth in the Core Bank – new targets with NCA reduction and capital ratio

Commerzbank will further increase the business volume in the Core Bank in 2014. The revenues will still probably be impacted as a consequence of the low interest-rate environment and the low level of investment activity on the part of companies, however. In 2014, the loan loss provisions should be lower than the overall figure for 2013. In this respect the ongoing normalisation in the Core Bank is likely to be more than compensated for by lower loan loss provisions in the Commercial Real Estate division. The operating expenses in the year as a whole should not exceed EUR 7.0 billion. The additional investments for the implementation of the strategic agenda will be financed through ongoing cost reductions.

"We intend to post additional growth in all operating segments of the Core Bank in 2014 – namely in terms of customers, market shares and assets. Thus we are establishing the foundation for a sustainable increase in revenues and profitability in the coming years. At the same time we are continuing with our successful, value-preserving reduction strategy in the NCA segment," said Martin Blessing. "After having already achieved major objectives of our strategic agenda ahead of schedule, we are now amending two objectives: we intend to reduce the NCA portfolio more quickly than originally planned if the favourable market environment continues beyond 2013. The new reduction target for the end of 2016 is now approximately EUR 75 billion, after our target had been under EUR 90 billion so far. In addition, we will further increase our core capital ratio: So far we have been aiming for a Common Equity Tier 1 ratio pursuant to the Basel 3 transitional regulations of more than 9%. We now intend to increase our Common Equity Tier 1 ratio to more than 10% by 2016 – namely with the full application of Basel 3."

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Excerpt from the consolidated profit and loss statement

In EUR m	2013*	2012	Q4 2013*	Q3 2013	Q4 2012
Net interest income	6,148	6,487	1,680	1,483	1,728
Provisions for loan losses	1,747	1,660	451	492	614
Net commission income	3,215	3,249	775	785	764
Net trading income	–82	73	–302	–77	–383
Net investment income	17	81	7	136	250
Current income on companies accounted for at equity	60	46	10	31	12
Other income	–89	–77	58	–80	–22
Income before loan loss provisions	**9,269**	**9,859**	**2,228**	**2,278**	**2,349**
Operating expenses	6,797	7,029	1,688	1,686	1,775
Operating profit or loss	**725**	**1,170**	**89**	**100**	–40
Impairments of Goodwill	-	-	-	-	-
Restructuring expenses	493	43	-	-	-
Net gain or loss from sale of disposal groups	-	–268	-	-	–185
Pre-tax profit or loss	**232**	**859**	**89**	**100**	**–225**
Taxes	65	803	7	3	477
Consolidated profit or loss attributable to Commerzbank shareholders	**78**	**–47**	**64**	**74**	**–726**
Cost/income ratio in operating business (%)	73.3	71.3	75.8	74.0	75.6

* Unaudited figures

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At www.media-hoster.com you will find broadcast-ready video and audio material with statements by Martin Blessing and Stephan Engels from approximately 7.00 a.m. onwards.

The videos can be viewed directly using mobile end devices.
Statements Martin Blessing: http://www.media-hoster.com/commerzbank/bpk2013mben
Statements Stephan Engels: http://www.media-hoster.com/commerzbank/bpk2013seen

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About Commerzbank

Commerzbank is a leading bank in Germany and Poland. It is also present worldwide in all markets for its customers as a partner to the business world. With the business areas Private Customers, Mittelstandsbank, Corporates & Markets and Central & Eastern Europe, it offers its private and corporate customers as well as institutional investors the banking and capital market services they need. With approximately 1,200 branches Commerzbank has one of the densest branch networks among German private banks and is on its way to become a modern multichannel bank. In total, Commerzbank boasts approximately 15 million private customers, as well as 1 million business and corporate customers. In 2013, it generated revenues of more than EUR 9 billion with approximately 54,000 employees on average.

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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,

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