COMMERZBANK

Press release

For business desks
7 May 2014

Commerzbank: Operating profit of EUR 324 m in the first quarter of 2014

- **Operating profit in the Core Bank EUR 496 m (first quarter of 2013: EUR 550 m)**
- **Revenues before loan loss provisions in the Group EUR 2.26 bn (first quarter of 2013: EUR 2.46 bn), operating expenses stable at EUR 1.7 bn**
- **Net profit increased to EUR 200 m (first quarter of 2013: EUR minus 98 m)**
- **NCA portfolio reduced year-on-year by 29 % to EUR 102 bn**
- **Bulk of commercial real-estate loans sold in the USA, Hypothekenbank Frankfurt withdraws from USA**
- **Basel 3 regulations effective: CET 1 ratio taking into account the transitional regulations 11.3 % and with full application 9.0 %**
- **Blessing: "In the first quarter of 2014 we have, as announced, seen further growth at the Core Bank in terms of customers, the loan volume, and assets under management. In the strategic customer-centric business we have attained a robust result. This shows that we are on the right course."**

In the first quarter of 2014 Commerzbank increased the net profit over the previous year and made further progress with the reduction of non-strategic portfolios. The **operating profit** in the Group in the first three months of 2014 was EUR 324 million (first quarter of 2013: EUR 464 million). Overall, the portfolio reduction in the Non-Core Assets (NCA) segment led to declining revenues. This outweighed the positive development in loan loss provisions and costs. In the Core Bank, which encompasses the strategically important customer-centric business, Commerzbank attained an operating profit of EUR 496 million (first quarter of 2013: EUR 550 million). All respective business segments increased their operating result in a quarter-on-quarter comparison (fourth quarter of 2013: EUR 419 million). Compared to the previous year, the revenues remained on a comparable level in the Core Bank despite a clear decrease in deposit margins and in spite of the difficult environment for capital market-related business. All in all, Commerzbank increased its **net profit** over the previous year to EUR 200 million (first quarter of 2013: EUR minus 98 million).

"In the first quarter of 2014 we have, as announced, seen further growth at the Core Bank in terms of customers, the loan volume, and assets under management. In the strategic customer-centric business we have attained a robust result. This shows that we are on the right course," said Martin Blessing, Chairman of the Board of Managing Directors of Commerzbank.

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Stable revenues before loan loss provisions

The **revenues before loan loss provisions** saw a stable development in the first quarter of 2014. In the Group these were EUR 2.26 billion (first quarter of 2013: EUR 2.46 billion, fourth quarter of 2013: EUR 2.23 billion). In the Core Bank revenues before loan loss provisions of EUR 2.22 billion were generated in the first quarter, following EUR 2.28 billion in the first quarter 2013 and EUR 2.15 billion in the fourth quarter of 2013. In comparison to the previous year, revenues were tangibly increased in the Private Customers and Central & Eastern Europe segments as a consequence of the growth strategies. Compared to the fourth quarter of 2013, the Bank increased revenues in all business segments. As expected the **loan loss provisions** in the Group in the first quarter of 2014 were at a low level which was comparable with the previous year. They stood at EUR 238 million (first quarter of 2013: EUR 267 million). The **operating expenses**, at nearly EUR 1.7 billion, remained stable at the level seen in previous quarters. This development is testimony to ongoing strict cost management as regulatory costs, for example for the conduct of the Asset Quality Review of the European Central Bank, have increased considerably over the previous year.

Key capital ratios remain at a comfortable level

As of the end of March 2014 **risk-weighted assets (RWA)** increased significantly over the end of 2013 to EUR 218 billion as a consequence of the conversion effects with the coming into effect of the Basel 3 regulations as of 1 January 2014 (end of December 2013: EUR 191 billion). The Basel 3 effect has thus materialised to the extent expected by the Bank. The **balance sheet total** in the Group increased as of the end of March 2014 to EUR 574 billion (end of December 2013: EUR 550 billion). Taking into account the transitional regulations of Basel 3, the **Common Equity Tier 1 ratio** as of the end of March 2014 was 11.3 %. This is as a result of the gradual introduction of the regulations as of January 2014. The ratio thus remained at a comfortable level. With the full application of Basel 3, the ratio as of the end of March would have been stable at 9.0 %. As of the end of March 2014, the **leverage ratio** pursuant to the current known calculation logic of the EU's Capital Requirements Directive (CRD 4) and taking into account the **transitional regulations** of Basel 3 was 4.1 % (end of December 2013: 4.3 %). The leverage ratio with full application of Basel 3 remained stable at 3.3 % (end of December 2013: 3.3 %).

Core Bank: encouraging development in the Private Customers and Central & Eastern Europe segments, revenues in capital market-related areas under pressure

In the **Private Customers segment** operating profit saw a pleasing development in the first quarter of 2014. At EUR 112 million it was 62 % higher in a year-on-year comparison (first quarter of 2013: EUR 69 million). The decisive factors here were the increase in revenues before loan loss provisions and successful cost management. Thus revenues increased to EUR 874 million (first quarter of 2013: EUR 858 million). In this

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respect the share of recurring revenues in the securities business, and thus revenue quality, improved. The Bank reduced operating expenses again, from EUR 754 million in the first quarter 2013 to EUR 726 million in the first quarter of 2014. In the first quarter of 2013 loan loss provisions were EUR 36 million and therefore at a similar level to that seen in the previous year (first quarter of 2013: EUR 35 million). All this shows that the Private Customers strategy and the business reorganisation which continued in the past year are bearing fruit. Furthermore, the segment has continued its growth path in the first quarter of 2014. The number of net new customers increased in this period by nearly 43,000. New business in residential mortgage financing rose by 30 % to EUR 2.3 billion in the first quarter of 2014, the assets in premium and managed accounts increased in a year-on-year comparison by nearly 50 %, to approximately EUR 24 billion.

Mittelstandsbank increased its operating profit by 4 % to EUR 337 million compared to the same quarter of the previous year (first quarter of 2013: EUR 325 million). The revenues before loan loss provisions decreased slightly to EUR 715 million as a consequence of the low level of interest rates and lower customer activity in the current market environment. The loan loss provisions in the first quarter of 2014 were, at EUR 57 million, significantly lower than the level seen in the previous year, however (first quarter of 2013: EUR 78 million). Thanks to strict cost management, operating expenses remained stable over the first quarter of 2013 at EUR 321 million. Mittelstandsbank is also making progress on its growth path. The Bank increased the loan volume in the first quarter of 2014 over the previous year by EUR 4.5 billion. Of this sum approximately EUR 2.6 billion was accounted for by loans to Germany's Mittelstand.

The **Central & Eastern Europe** segment attained a very good operating profit of EUR 98 million. This is approximately 30 % more than in the previous year (first quarter of 2013: EUR 75 million). The key factor here was the significantly higher revenues before loan loss provisions (up 21 % to EUR 224 million). This development already reflects the successful implementation of the "One Bank" strategy of mBank. Loan loss provisions increased to EUR 21 million (first quarter of 2013: EUR 6 million). In spite of the investments in the "One Bank" strategy and the organic growth of mBank, it was possible to maintain operating expenses at a stable level of EUR 105 million (first quarter of 2013: EUR 104 million). Customers also continue to find mBank attractive: in the first quarter of 2014 the Bank acquired nearly 60,000 net new customers.

In the **Corporates & Markets** segment operating profit declined year-on-year to EUR 215 million (first quarter of 2013: EUR 272 million). The key factor for this development was the fall in fixed income and currencies sales and trading, which suffered from the challenging market environment. This could only be partially compensated for by the favourable development in equities sales & trading. Revenues before loan loss provisions in Corporates & Markets declined by 7 %, to EUR 542 million (first quarter of 2013: EUR 584 million). Net reversals in loan loss provisions were again booked in the first quarter of 2014 at EUR 9 million However, they were lower than in the same quarter of the previous year (EUR 26 million). The operating expenses remained flat at EUR 336 million (first quarter of 2013: EUR 338 million) with a number of cost initiatives compensating for the cost burden stemming from increased regulation.

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NCA: portfolio reduction in Public Finance supported by transfer of high-quality securities and bonds to the liquidity portfolio in the Core Bank

The **NCA** segment posted an operating loss of EUR minus 172 million in the first quarter of 2014 (first quarter of 2013: EUR minus 86 million, fourth quarter of 2013: EUR minus 329 million). The main reason for the year-on-year downturn was lower revenues before loan loss provisions as a result of the ongoing portfolio run-down. In the first quarter these were considerably lower than in the previous year and amounted to EUR 44 million (first quarter of 2013: EUR 172 million). The loan loss provisions declined over the previous year to EUR 134 million (first quarter of 2013: EUR 175 million). The operating expenses were reduced slightly compared to the first quarter of 2013 to EUR 82 million.

The Bank also maintained the pace of portfolio reduction in the first quarter of 2014: The Exposure at Default (EaD) was reduced across all areas in a year-on-year comparison. The capital-accretive run-down amounted to EUR 5 billion. Furthermore, the portfolio reduction in Public Finance was supported by the transfer of high-quality securities and bonds from the NCA portfolio to the liquidity portfolio in the Core Bank. These securities and bonds will predominantly mature before the end of 2016. Therefore, this transaction does not change the Bank's assumptions regarding the NCA reduction target for the year 2016 of approximately EUR 75 billion. The transferred securities and bonds correspond to the high regulatory requirements placed on the liquidity portfolio. Without a transfer, the Bank would have had to acquire equivalent instruments for the liquidity portfolio externally. The transferred portfolio has a volume of approximately EUR 9 billion. Thus, as of the end of March 2014 the EaD of the NCA segment was EUR 102 billion – and therefore 12 % lower than the previous quarter and 29 % lower compared to the same quarter of the previous year (fourth quarter of 2013: EUR 116 billion, first quarter of 2013: EUR 143 billion).

As of the end of March 2014 the EaD in CRE was EUR 32 billion. This is 37 % lower than in the same quarter of the previous year (first quarter of 2013: EUR 51 billion). The Ship Finance portfolio was reduced by EUR 900 million in the first quarter of 2014 compared to the previous quarter to EUR 13.5 billion. This is 26 % less than in the previous year (first quarter of 2013: EUR 18 billion). The EaD in Public Finance declined as of the end of March 2014 to EUR 56 billion (end of December 2013: EUR 66 billion).

The Bank recently sold the bulk of its commercial real-estate loans in the USA with a total volume of EUR 830 million to various American financial investors. Following these transactions, the New York branch of Hypothekenbank Frankfurt was closed as of the end of March 2014. It was agreed that confidentiality be maintained on further details of the transactions. Approximately EUR 700 million of the sold portfolios are already included in the portfolio run-down for the first quarter. In the first quarter of 2014 these transactions led to a minor charge on revenues. As a consequence of the reduction of risk-weighted assets by EUR 390 million as a result of the portfolio sales, there is a positive net capital release effect of approximately EUR 20 million for Commerzbank.

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Outlook

“We will continue along our growth path in the Core Bank as announced – despite weak demand for loans, customer reticence, and the low interest-rate environment. At the same time we will continue with our successful, value-preserving run-down strategy in the Non-Core Assets segment,” said Stephan Engels, Chief Financial Officer of Commerzbank. The Bank is also maintaining its cost target: in the year as a whole operating expenses are not to exceed EUR 7.0 billion. The additional investments for the implementation of the strategic agenda and increasing regulatory costs will be financed through cost measures. The loan loss provisions in 2014 are to be lower than the total figure for 2013. Commerzbank sticks to its target and plans to increase the Common Equity Tier 1 ratio with the full application of Basel 3 to more than 10 % by 2016.

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Excerpt from the consolidated profit and loss statement

In EUR m	Q1 2014	Q1 2013	Q4 2013	2013	2012
Net interest income	1,130	1,359	1,683	6,161	6,487
Provisions for loan losses	–238	–267	451	1,747	1,660
Net commission income	815	844	773	3,206	3,249
Net trading income	408	312	–302	–82	73
Net investment income	–38	–6	7	17	81
Current income on companies accounted for at equity	13	8	10	60	46
Other income	–68	–62	58	–87	–77
Revenues before loan loss provisions	2,260	2,455	2,229	9,275	9,859
Operating expenses	1,698	1,724	1,688	6,797	7,029
Operating profit or loss	324	464	90	731	1,170
Impairments of Goodwill	-	-	-	-	-
Restructuring expenses	-	493	-	493	43
Net gain or loss from sale of disposal groups	-	-	-	-	–268
Pre-tax profit or loss	324	–29	90	238	859
Taxes	95	44	7	66	803
Consolidated profit or loss attributable to Commerzbank shareholders	200	–98	64	81	–47
Cost/income ratio in operating business (%)	75.1	70.2	75.7	73.3	71.3

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

The videos can be viewed directly using mobile end devices: http://www.media-hoster.com/commerzbank/q1en

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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, 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 Poland, elsewhere in Europe 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, potential defaults of borrowers or trading counterparties, the implementation of its strategic initiatives to improve its business model, particularly to reduce its public finance portfolio in Private Customers, 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 periodically 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.