COMMERZBANK

Press release

For business desks
7 August 2014

Commerzbank: Operating profit of EUR 581 m in the first half of 2014

- **Net profit increased to EUR 300 m (first half of 2013: EUR minus 58 m);**
  Net profit in the second quarter increased to EUR 100 m (second quarter of 2013: EUR 40 m)
- **Revenues before loan loss provisions in the Group in the first half of the year at EUR 4.50 bn (first half of 2013: EUR 4.77 bn)**
- **Revenues in the Private Customers, Mittelstandsbank and Central & Eastern Europe segments lifted further thanks to successful growth strategies**
- **Lending volume for the Core Bank in the first six months up by 7% versus same period of the previous year**
- **NCA portfolio reduced by nearly a third versus the first half of 2013 to EUR 92 bn**
- **Sale of commercial real estate portfolios in Spain and Japan wrapped up**
- **Basel 3 ratios: CET 1 ratio taking into account the transitional regulations increased to 11.7% (end of March: 11.3%) and with full application significantly to 9.4% (end of March: 9.0%)**
- **Blessing: "We generated a good result in the first half of the year: In the operating segments we expanded business volumes, increased the number of new customers, and raised revenues. We significantly improved our operating profit."**

Commerzbank increased its net profit in the first half of 2014 compared to the previous year and improved the capital ratios significantly. The **operating profit** in the Group climbed to EUR 581 million during this period (first half of 2013: EUR 538 million). In the second quarter of 2014, the operating profit improved to EUR 257 million (second quarter of 2013: EUR 74 million). In the Core Bank, which encompasses the strategically important customer-centric business, revenues before loan loss provisions were improved in the second quarter compared to the prior year. The successful portfolio reduction in the Non-Core Assets (NCA) segment was noticeable at Group level in the first half of 2014 in particular: Here revenues fell due to portfolio sales and in unison with the reduced portfolio holdings, but at the same time the loan loss provisions also declined significantly. In total, Commerzbank boosted its **net profit** over the previous year to EUR 300 million (first half of 2013: EUR minus 58 million).

"In the second quarter, we increased revenues in the Core Bank over the previous year, in the operating segments we expanded business volume and raised the number of new customers. All in all, we improved the operating profit in the Group, reduced risks further, and significantly increased our capital ratios in the

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first half of the year. We generated a good result overall," said Martin Blessing, Chairman of the Board of Managing Directors of Commerzbank.

Stable revenue trend influenced by success in reducing NCA

Revenues before loan loss provisions at the Core Bank were stable in the first half of the year at EUR 4.49 billion (first half of 2013: EUR 4.54 billion). In the second quarter of 2014 revenues before loan loss provisions increased to EUR 2.28 billion compared to the previous year (second quarter of 2013: EUR 2.25 billion). In the first half of 2014, revenues improved in the Private Customers, Mittelstandsbank and Central & Eastern Europe segments as a result of the successful growth strategies. Lending volume for the Core Bank in the first six months rose by 7% versus the same period of the previous year. In contrast, revenues before loan loss provisions for the Group fell in the first half of 2014 to EUR 4.50 billion (first half of 2013: EUR 4.77 billion); this was mostly consistent with the reduction in portfolio holdings in the NCA segment. The Group's **loan loss provisions** declined significantly in the first six months compared to the same period of the previous year to EUR 495 million as a result of the drop in loan loss provisions for NCA (first half of 2013: EUR 804 million). **Operating expenses** at EUR 3.4 billion were stable compared to the first half of 2013. This performance is evidence of the ongoing strict cost management, as regulatory costs for carrying out the Asset Quality Review by the European Central Bank, for example, or for the implementation of the FATCA tax agreement, have climbed substantially versus the previous year.

Pre-tax profit in the first half of the year was EUR 581 million, thereby significantly exceeding the previous year's figure (first half of 2013: EUR 45 million). In the prior-year period, we incurred restructuring expenses of EUR 493 million. Even adjusted for this one-off effect, the Bank boosted its pre-tax profit by 8% over the previous year. Pre-tax profit rose in the second quarter to EUR 257 million (second quarter of 2013: EUR 74 million). Net profit in this period improved to EUR 100 million (second quarter of 2013: EUR 40 million). This figure includes tax effects from other periods.

Key capital ratios improved further, Common Equity Tier 1 ratio with full application of Basel 3 increased to 9.4%

Risk-weighted assets (RWA) rose over the end of 2013 to EUR 217 billion as at the end of June 2014 as a consequence of the conversion effects with the coming into effect of Basel 3 in January 2014 (end of December 2013: EUR 191 billion). Compared to the end of the first quarter of 2014, however, RWA declined slightly by EUR 1.2 billion. **Total assets** for the Group as at the end of June 2014 rose to EUR 583 billion (end of December 2013: EUR 550 billion). Taking into account the transitional regulations of Basel 3, the **Common Equity Tier 1 ratio** rose to 11.7% as at the end of June 2014, which is still a comfortable level (end of March 2014: 11.3%). With full application of Basel 3, this ratio as at the end of June improved substantially to 9.4% (end of March 2014: 9.0%). The **leverage ratio** pursuant to the current known calculation logic of the EU's Capital Requirements Directive (CRD 4) and taking into consideration the

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transitional regulations of Basel 3 was stable at 4.1% as at the end of June 2014 (end of March 2014: 4.1%). The leverage ratio with the full application of Basel 3 was unchanged at 3.3% (end of March 2014: 3.3%).

Core Bank: solid development in the Private Customers, Mittelstandsbank and Central & Eastern Europe segments

The **Private Customers** segment posted a good operating result in the first six months of 2014. At EUR 227 million, it was 85% above the previous year's figure (first half of 2013: EUR 123 million). In the second quarter of 2014 alone, an operating profit of EUR 115 million was generated. Revenues before loan loss provisions climbed to EUR 1,719 million (first half of 2013: EUR 1,697 million). The higher net interest income was enough to more than offset the decline in net commission income. This increase was a result of the improved revenues, both from deposits and loans. The segment reduced its operating expenses again by 5% to EUR 1,440 million in the first half of 2014 by lowering personnel expenses (first half of 2013: EUR 1,512 million). Loan loss provisions fell to EUR 52 million in the first six months of 2014 (first half of 2013: EUR 62 million). Overall, this shows the progress made in implementing the new Private Customers strategy within the strategic agenda. The segment successfully continued on a growth path in the first half of 2014. The number of net new customers, for example, rose by 95,000 in the second quarter after rising 43,000 in the first quarter. New business in residential mortgage financing grew by 25% in the first six months of 2014 to EUR 5.0 billion, while the volume of managed accounts and the newly introduced premium accounts improved by 50% over the same period of last year to more than EUR 25 billion.

Mittelstandsbank boosted its operating profit by 12% compared to the first six months of 2013 to EUR 604 million (first half of 2013: EUR 540 million). Of this, EUR 267 million was generated in the second quarter of 2014. The increase was supported in the first half of 2014 by improved revenues and reduced costs, as well as by lower loan loss provisions. Revenues before loan loss provisions climbed by 2% to EUR 1,455 million (first half of 2013: EUR 1,422 million). Stable net interest income and slightly lower net commission income stood in contrast to a higher net trading income and increased net investment income. Loan loss provisions fell to EUR 199 million in the first six months of 2014 (first half of 2013: EUR 225 million). Operating expenses fell modestly by 1% to EUR 652 million versus the first half of 2013 (EUR 657 million). Mittelstandsbank is also making progress on its growth path. Mittelstandsbank increased the loan volume in the second quarter of 2014 by 9% over the previous year.

The **Central & Eastern Europe** segment achieved a very good operating profit of EUR 182 million in the first half of 2014. This is 41% more than in the year prior (first half of 2013: EUR 129 million). Of the first six month' operating profit, the second quarter of 2014 was responsible for EUR 84 million. The main reason for the rise in the first six months was the 21% higher revenues before loan loss provisions at EUR 458 million (first half of 2013: EUR 380 million). This reflects the successful implementation of the "One Bank" strategy of mBank. Loan loss provisions rose to EUR 59 million (first half of 2013: EUR 42 million). Operating expenses climbed by 4% in the first six months of 2014 to EUR 217 million, largely as a result of the higher

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investment in the “One Bank” strategy and the organic growth associated with it (first half of 2013: EUR 209 million). In the first half of 2014 mBank has further improved its strong position in the Polish market and has surpassed the mark of 4.5 million customers.

Corporates & Markets benefited from its diversified business model in the first six months. The first-half operating profit adjusted for the OCS effect and corrections for counterparty risks in the derivatives business declined by 21% compared to the strong first half of 2013 to a figure of EUR 398 million (first half of 2013: EUR 505 million). The second quarter of 2014 accounted for EUR 194 million of this figure. The drop in the first half of the year was primarily due to the business with fixed-income securities, which performed in unison with the weak market environment. However, this was in part compensated by the favourable development in equities sales & trading. In total, revenues before loan loss provisions in Corporates & Markets fell by 9% to EUR 1,048 million (first half of 2013: EUR 1,153 million). Net reversals in loan loss provisions were again booked in the first half of 2014, but at EUR 14 million they were lower than during the same period of the previous year (first half of 2013: EUR 45 million). Operating expenses fell by 2% to EUR 660 million versus the first half of 2013 (EUR 672 million).

NCA: further portfolio reduction reduces risks faster than expected

In the first half of 2014 the operating loss in the **NCA** segment was reduced by 25% versus the same period of the year prior to EUR minus 355 million (first half of 2013: EUR minus 473 million). The second quarter of 2014 was responsible for EUR minus 183 million of this amount. The improved result over the previous year was primarily attributable to the significantly lower loan loss provisions also as a result of the Commercial Real Estate (CRE) portfolio sales, while revenues before loan loss provisions were lower due to the CRE portfolio sales and the ongoing reduction of the portfolio. At EUR 8 million in the first six months of 2014, this was well below the prior-year period (first half of 2013: EUR 227 million). Loan loss provisions decreased by 62% compared to the previous year to EUR 199 million (first half of 2013: EUR 522 million). Operating expenses were reduced by 8% to EUR 164 million versus the first half of 2013.

The Bank also maintained the pace of portfolio reduction in the first half of 2014: The exposure at default (EaD) was reduced across all areas versus the fourth quarter of 2013. In particular, Commerzbank sold its CRE portfolios in Spain and Japan as well as the non-performing CRE loan portfolio in Portugal, including the relevant interest rate hedging derivatives. The transactions included commercial real estate loans totalling EUR 5.1 billion. The Bank assessed EUR 1.4 billion of this amount as non-performing loans (Spain: EUR 1.1 billion, Portugal: EUR 0.3 billion). These sales had a negative impact on the result for the Bank of EUR 71 million in the second quarter of 2014. These transactions led to a positive net capital effect of more than EUR 200 million. With these transactions, the risk profile of the CRE loan portfolio has improved significantly as well. The portfolio of loans with a higher risk cluster rating by the Bank in the area of CRE has been almost entirely reduced, thanks to the sales.

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The EaD of the NCA segment at the end of June 2014 was EUR 92 billion; this is 21% below the figure from the end of 2013 and 32% lower than at the first half of 2013 (fourth quarter 2013: EUR 116 billion, first half of 2013: EUR 136 billion). The original NCA reduction target of EUR 93 billion for 2016 was therefore already reached this year in all NCA areas.

The EaD in the CRE segment as at the end of June 2014 was EUR 24 billion. This is 31% less than at the end of the year and 49% less than in the same quarter of the previous year (second quarter of 2013: EUR 48 billion). In the area of ship finance, the Bank reduced its portfolio in the first half of 2014 by EUR 1.5 billion compared to the end of 2013. At the end of June 2014 it was EUR 13 billion. This is 24% less than in the year prior (second quarter of 2013: EUR 17 billion). The portfolio of public finance assets in the NCA segment declined to EUR 55 billion as at the end of June 2014 (fourth quarter of 2013: EUR 66 billion, second quarter of 2013: EUR 71 billion).

Outlook

“We will continue along our growth path in the Core Bank as announced, and we will do so with a particular focus on the lending volume in the Private Customers and Mittelstandsbank segments. At the same time, we will continue with our successful value-preserving run-down strategy in the Non-Core Assets segment. Given the faster than planned progress of reduction, we have raised our current reduction target of EUR 75 billion for 2016 once again. By value preserving accelerated run-down the portfolios in the areas of CRE and ship finance together should be reduced to approximately EUR 20 billion. The public finance portfolios will decrease to EUR 47 billion according to natural maturities,” said Stephan Engels, Chief Financial Officer of Commerzbank. The Bank is also maintaining its cost target: Operating expenses for the full year should not exceed EUR 7.0 billion. The additional investments for the implementation of the strategic agenda, and in particular increasing regulatory costs, will be financed through ongoing cost measures. Expectations in terms of loan loss provisions for 2014 are being adjusted and in the current year should now be well below the total figure for 2013. Commerzbank is maintaining its target of increasing the Common Equity Tier 1 ratio with full application of Basel 3 to over 10% by 2016.

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Excerpt from the consolidated profit and loss statement

In EUR m	**H1 2014**	**Q2 2014**	**Q1 2014**	**H1 2013**	**Q2 2013**
Net interest income	2,736	1,606	1,130	2,992	1,633
Provisions for loan losses	–495	–257	–238	–804	–537
Net commission income	1,597	782	815	1,649	805
Net trading income	228	–180	408	297	–15
Net investment income	3	41	–38	–126	–120
Current income on companies accounted for at equity	23	10	13	19	11
Other income	–86	–18	–68	–66	–4
Revenues before loan loss provisions	4,501	2,241	2,260	4,765	2,310
Operating expenses	3,425	1,727	1,698	3,423	1,699
Operating profit or loss	581	257	324	538	74
Impairments of Goodwill	-	-	-	-	-
Restructuring expenses	-	-	-	493	-
Net gain or loss from sale of disposal groups	-	-	-	-	-
Pre-tax profit or loss	581	257	324	45	74
Taxes	227	132	95	55	11
Consolidated profit or loss attributable to Commerzbank shareholders	300	100	200	–58	40
Cost/income ratio in operating business (%)	76.1	77.1	75.1	71.8	73.5

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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/q2en

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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 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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