Commerzbank 4.0
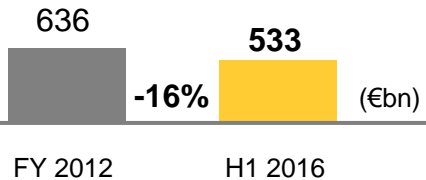
Capital Markets Day

Martin Zielke, CEO / Stephan Engels, CFO | London | 4 October 2016

We have made Commerzbank more stable – and less risky
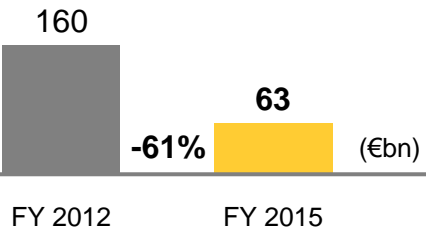
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Balance sheet	Total assets down by **16%**	

636 | 533
-16% | (€bn)
FY 2012 | H1 2016

Risk	**€97 bn** reduction of non-core assets	

160 | 63
-61% | (€bn)
FY 2012 | FY 2015

Capital	CET1 capital increased by **28%**	

18 | 23
+28% | (€bn)
FY 2012 | H1 2016
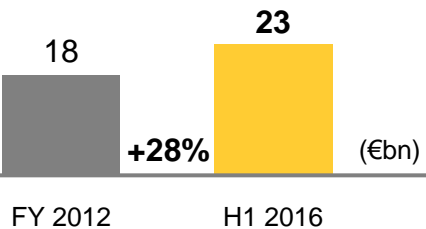
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Banks are facing major challenges

1 | **Interest rate environment**

The low interest rate environment is burdening the entire banking sector – with **no relief in sight**

2 | **Regulation**

Regulatory initiatives and further expanded compliance requirements involve further investments for banks

Mounting pressure on profitability – affecting income as well as costs

3 | **Intensity of competition**

Technology-savy players exert **added pressure** on the **low-margin** German banking market

4 | **Digitalisation**

Digitalisation requires significant **investment** – plus new **competitors** have entered the market

Commerzbank 4.0 – a strategic programme with three cornerstones

1 **Focussed business model**

We will focus on businesses where we have clear competitive advantages, discontinuing non-core activities

2 **Digital enterprise**

We will transform the Bank into a digital enterprise

3 **Enhancing efficiency**

We will simplify the Bank, creating efficiency

Higher profitability, and enhanced competitiveness
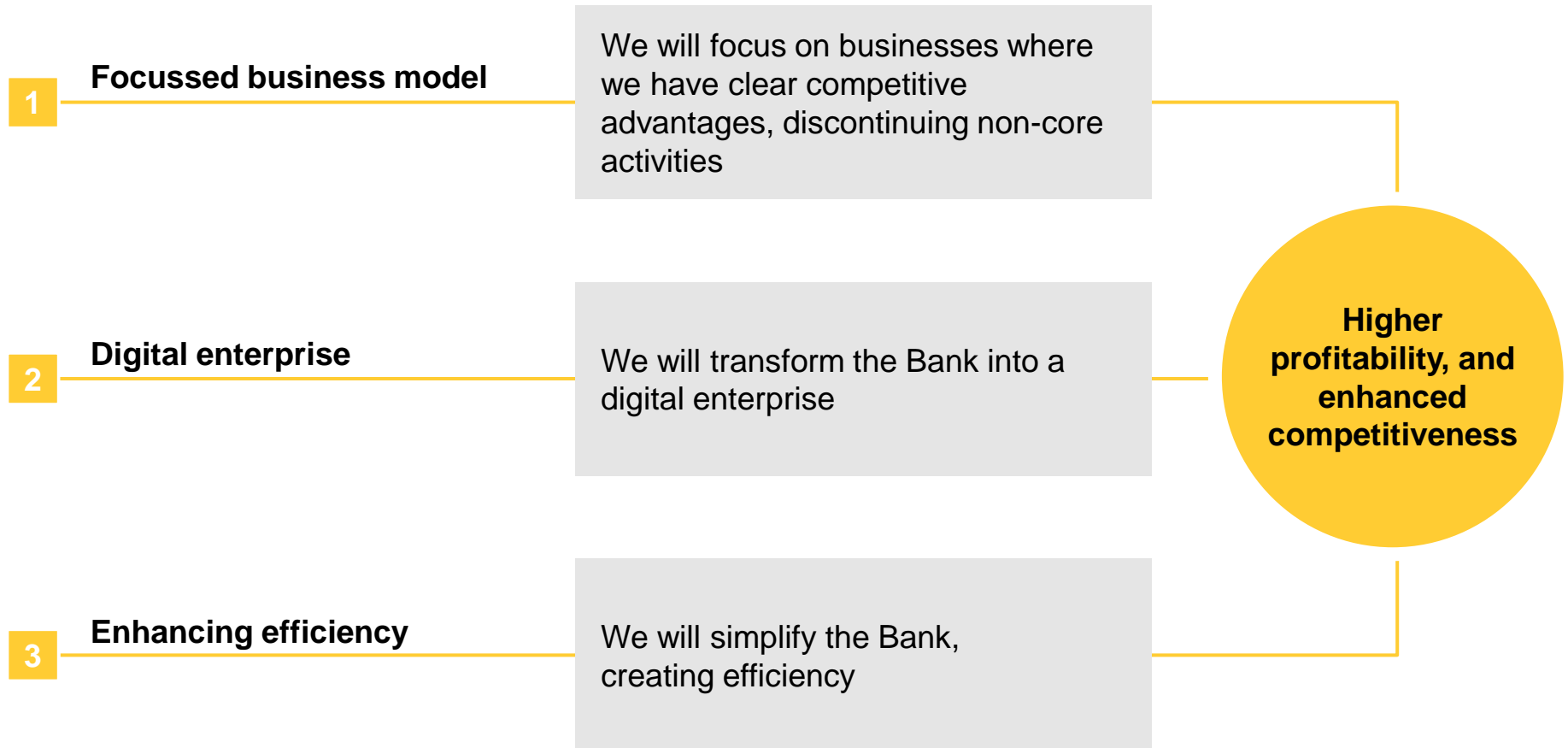
Commerzbank will have two strong customer segments going forward

PC

CEE

MSB

C&M

Private and Small Business Customers

Corporate Clients

Separation/ Reduction

2016

Commerzbank 4.0

› Private Customers, Small Business Customers, comdirect, Commerz Real, mBank

› All corporate clients, institutional clients, Corporate Finance and FICC

› EMC and parts of FIC
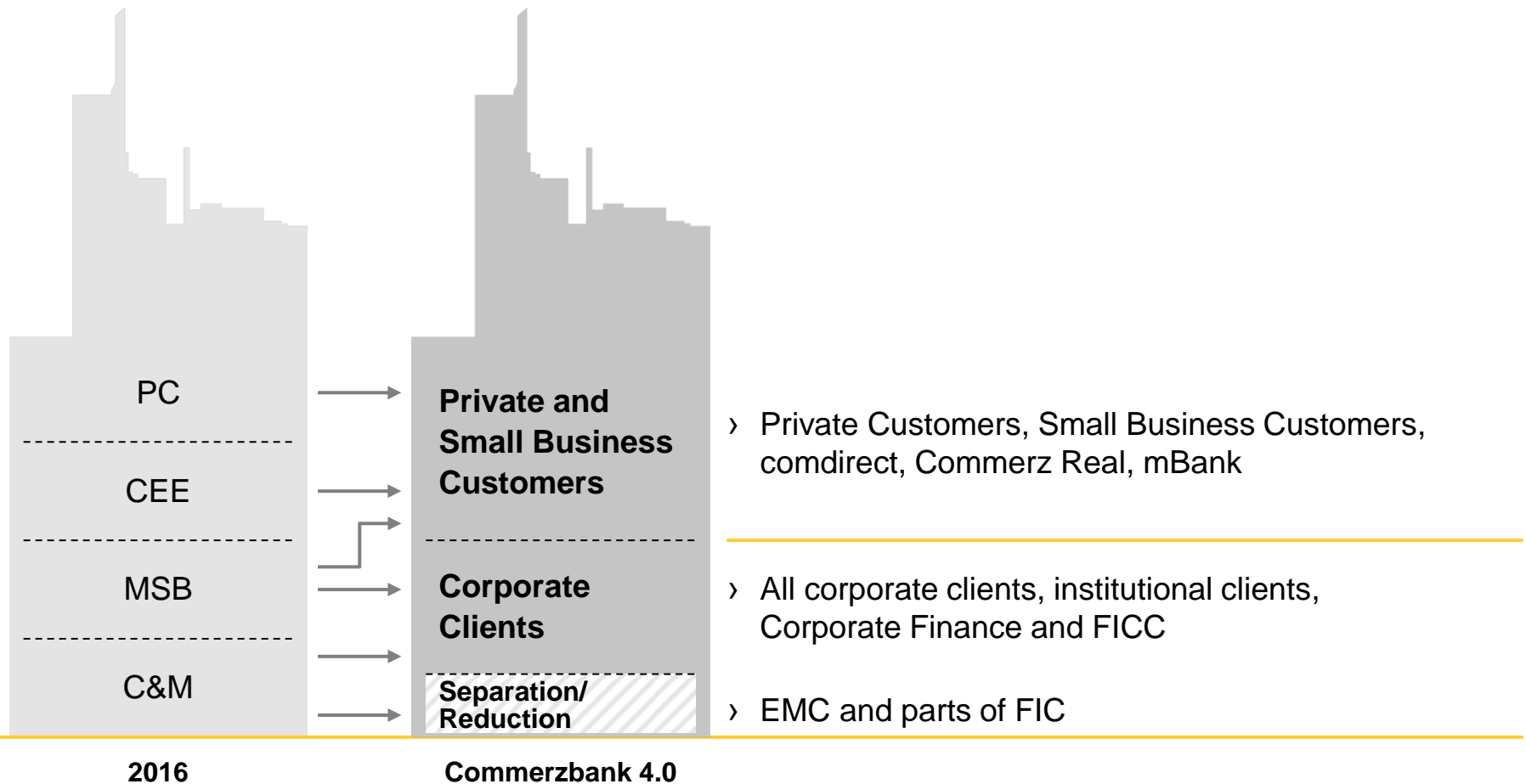
Private Customers: successful business model in the challenging German market

› Private Customers business is already profitable (> 20% RoTE), and growing

› Profit contribution has tripled since 2012 (FY 2015: €701m)

› One million net new customers by the end of 2016 accomplished

**Target: 2 million net new customers in the German market by 2020**

Private Customers: achieving faster growth by combining digital platform strategy with modern branch formats

City branch

City branch

City branch

City branch

City branch

Flagship branch

+

"One": single platform for all channels
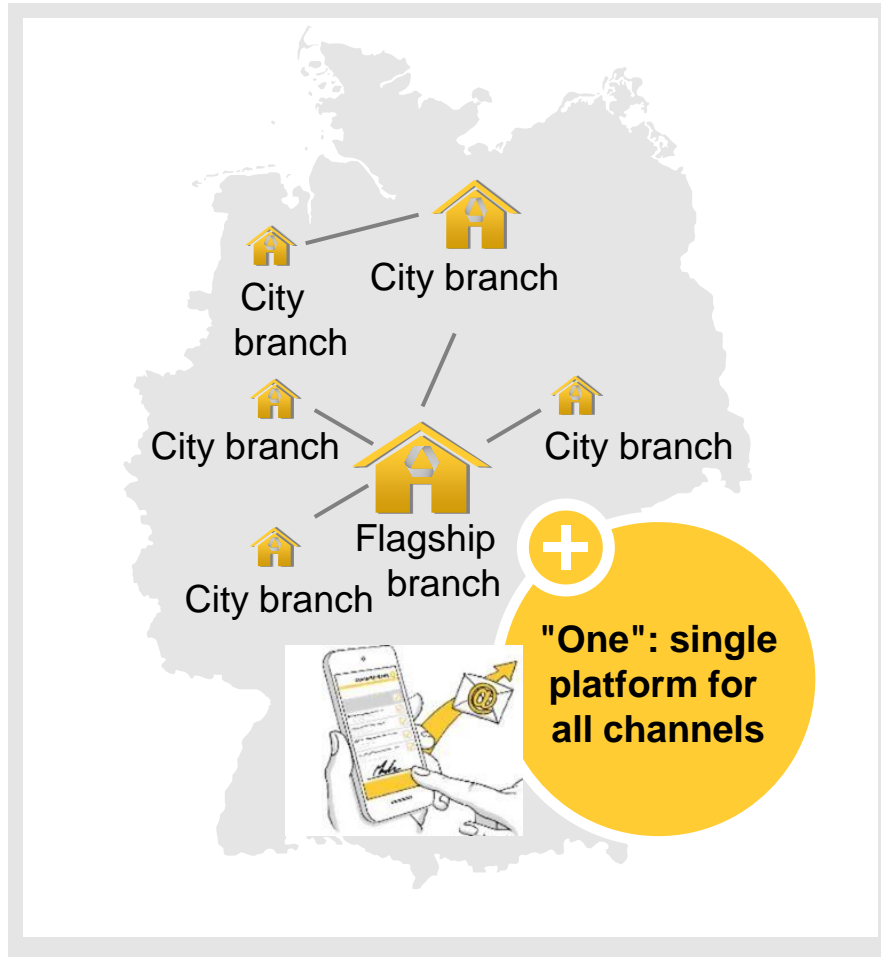
Digital and personal

› **Multi-channel bank** "One" is the IT platform for all channels and all customers

› **Two branch formats** provide for broad market coverage at approximately 1,000 locations

› **Flagship branches** with focus on advisory services

› **City branches** deliver efficient customer services, with reduced infrastructure and operating costs

Private Customers: accelerated growth through attractive products and partnerships
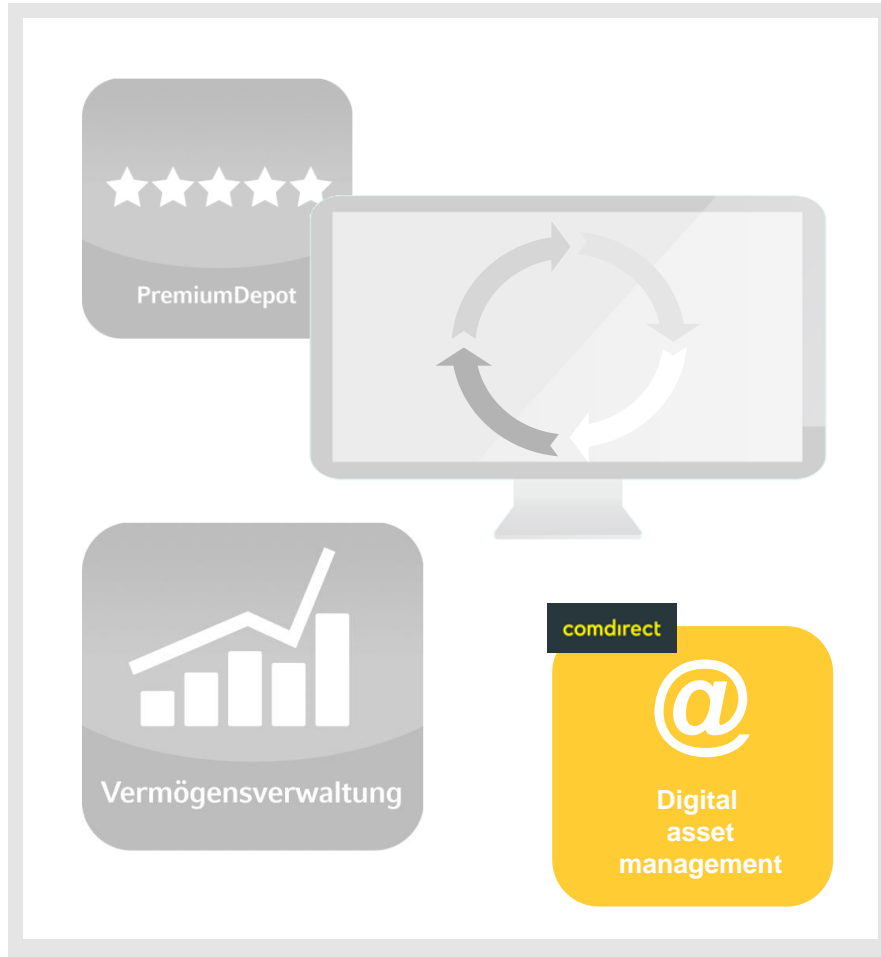
Digital and personal

› **Digital instalment loans:** high-margin product on own platform, and on the Bank's own loan book

› **Digital asset management: Robo Advice** and digital asset management via comdirect

› **Partnership Banking:** acquiring new customers through cooperations (Tchibo, Amazon, Lufthansa)

› **Simplified product portfolio**

Small Business Customers: growth through regional proximity and digital advantage

"One": a single platform for all channels

Digital and personal

› **Competitive advantages** by combining the strengths of PC (efficiency) and MSB (loans)

› **Digital offers and strong nationwide presence**

  – Customers have 24/7 access to small business customers offer, via online, mobile, and video advisory services

  – Physical **proximity** and regional **accessibility**: small business customers advisors able to reach ~80% of all customers within 30 minutes

› **Tailor-made offering:** business and private product offers from a single source

Target: Raise market share from 5% to 8%

Corporate Clients: focus on core business – integration of investment bank

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Mittelstandsbank

Persistent market leadership in German corporate banking

Financing more than 30% of German foreign trade

Strong international presence

Corporates & Markets

Leverage of unrivalled sector expertise

Leading provider of hedging products for corporate clients

Rolling-out our Debt House No. 1 position to Europe

Focus on efficiency and leveraging of strengths

Our evolution into a digital enterprise

2016

2020

Reduction of complexity
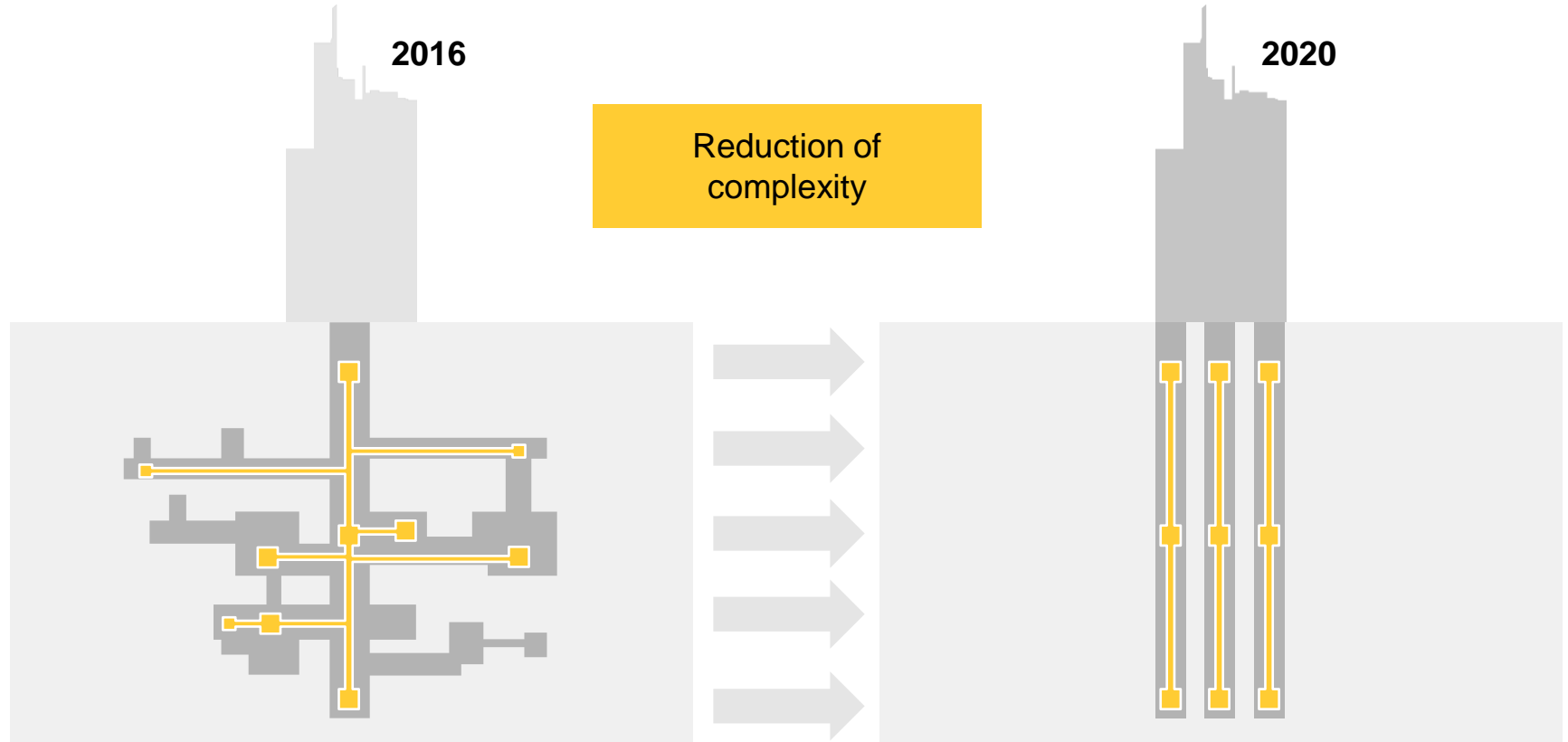
Target: 80% of all relevant processes are digital

Digital Campus as engine of transformation

Digital transformation

E2E: Management Board responsibility

Business and IT experts working together in one place

All experts will commit 100% of their capacity

Priority for internal resources

Agile working methods

Shortening of implementation cycle
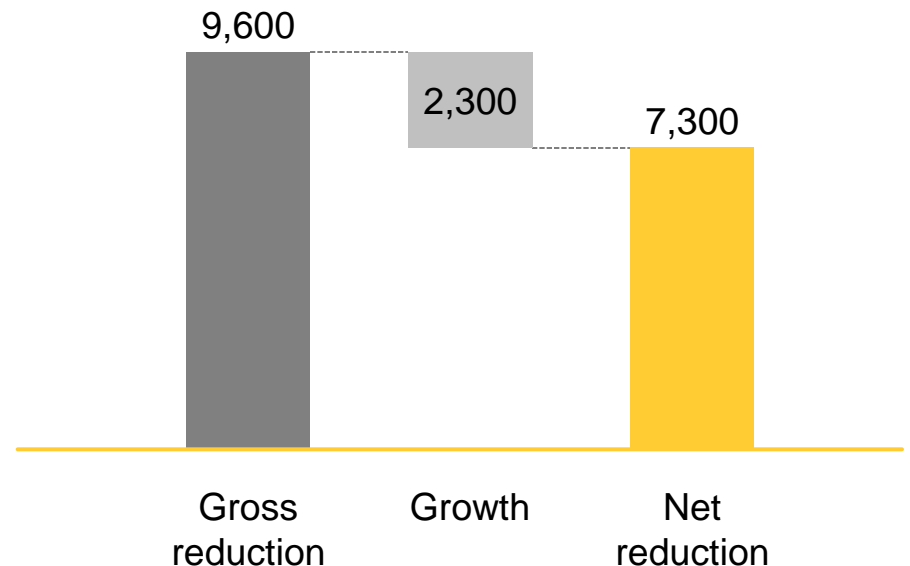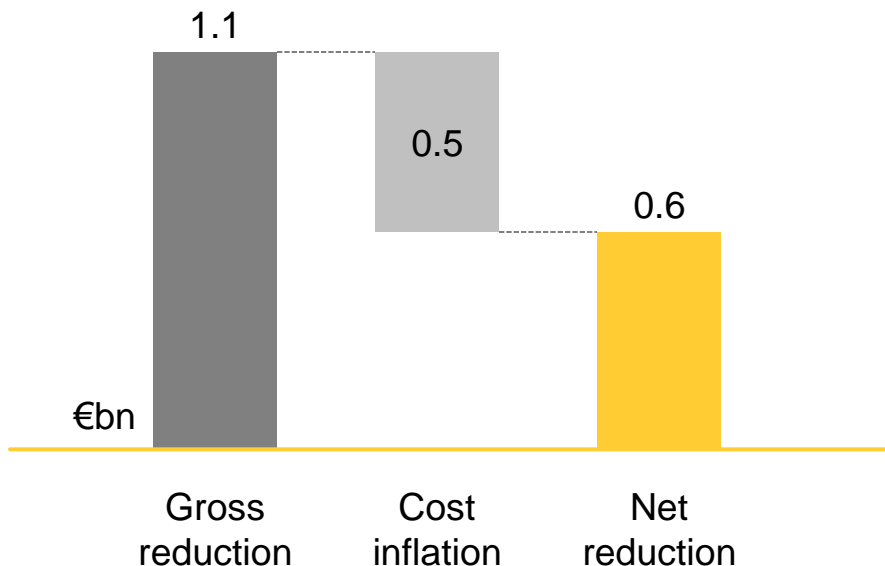
'Fail fast' principle

Speed in digitalisation will secure competitive advantages

![Commerzbank logo]

Significant cost savings and FTE reduction through digitalisation and reduction of complexity

Cost reduction until 2020

FTE reduction until 2020

Cost reduction chart (€bn):
- Gross reduction: 1.1
- Cost inflation: 0.5
- Net reduction: 0.6

FTE reduction chart:
- Gross reduction: 9,600
- Growth: 2,300
- Net reduction: 7,300

Targets 2020 of new strategy Commerzbank 4.0

	Current rates	Rising rates
Revenues (€bn)	9.8-10.3	11.3
Costs (€bn)	6.5	6.5
CIR (%)	<66	~60
Net RoTE (%)	>6	>8
CET1 (%)	>13	>13

Commerzbank 4.0

simple – digital – efficient

Simulation H1 2016 of new customer segments

PC	Private and Small Business Customers
CEE	
MSB	Corporate Clients
C&M	Exit
O&C	O&C	*unchanged*
ACR	ACR	*unchanged*

Private and Small Business Customers:
- Revenues: 2.4
- LLP: 0.1
- Costs: 1.8
- Operating result: 0.6
- RWA: 38
- Assets: 116
- €bn

Corporate Clients:
- Revenues: 2.0
- LLP: 0.1
- Costs: 1.3
- Operating result: 0.5
- RWA: 108
- Assets: 263
- €bn
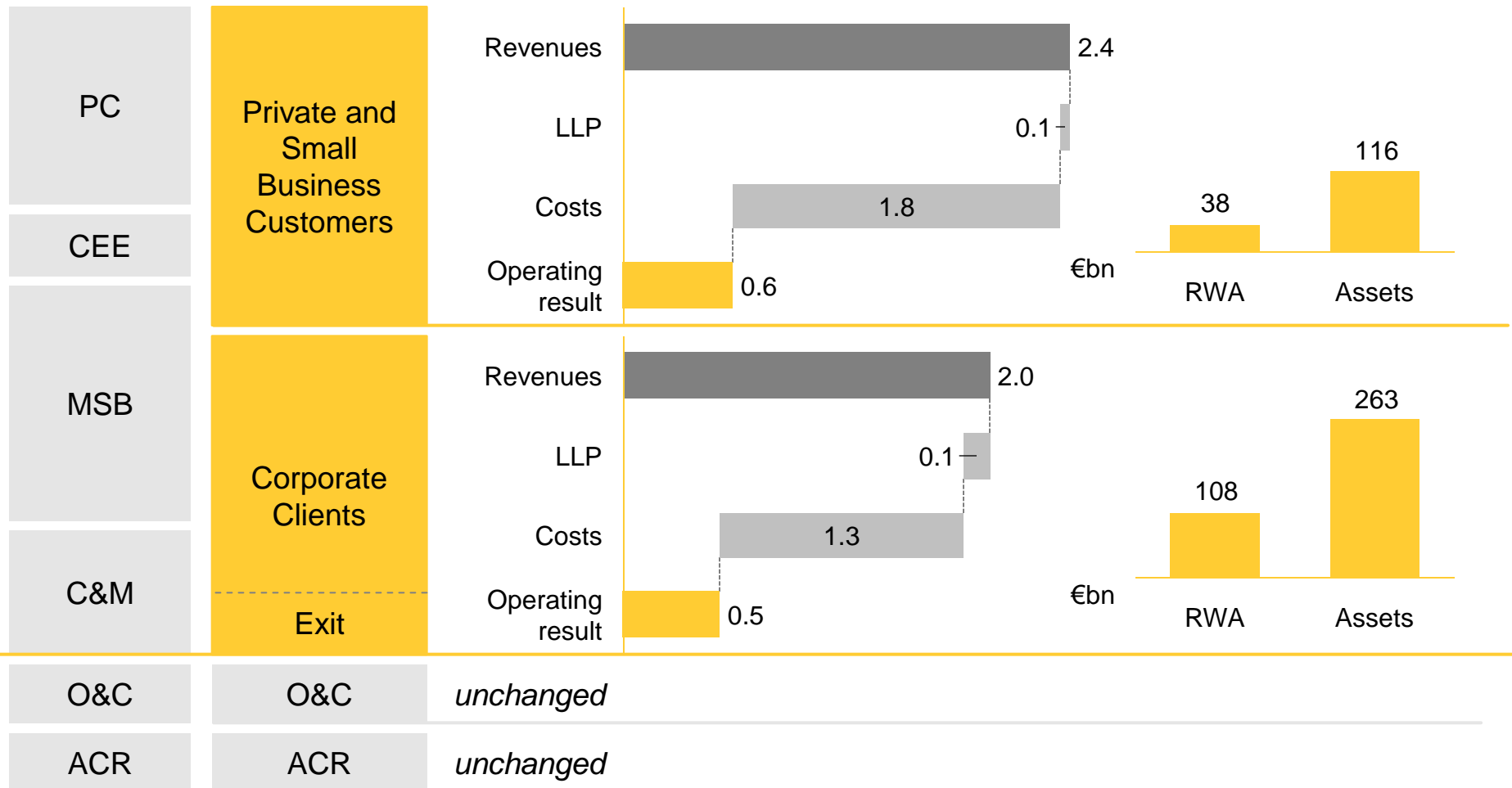
Specific growth measures and significant cost savings lead to CIR <66% and RoTE >6%

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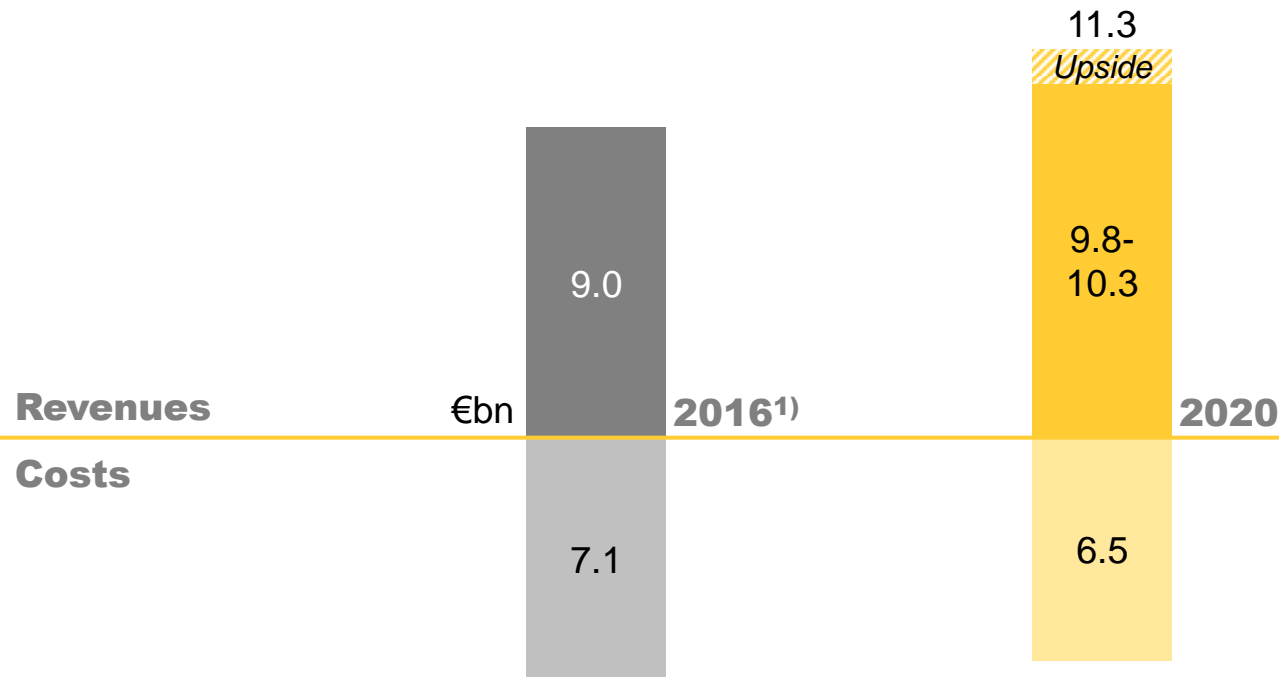
		2016[1]	2020
Revenues	€bn	9.0	11.3 (Upside) / 9.8-10.3
Costs		7.1	6.5
CIR		79%	<66% (~60% Upside)
RoTE		3%	>6% (>8% Upside)

Substantial revenue increase from growth – revenues >€9.8bn in 2020 even in current interest rate environment

1 Ongoing negative interest rate environment anticipated – upside case if rates increase

2 ACR run-down and reduction of trading activities

3 Growth in Private and Small Business Customers segment (incl. mBank)

4 Growth in Corporate Clients segment

Upside
1.0

9.0

0.1   0.5   1.1-
1.4   0.3-
0.5   11.3

9.8-
10.3

Revenues
€bn

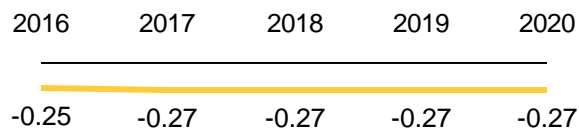2016[1]   **1**   **2**   **3**   **4**   2020
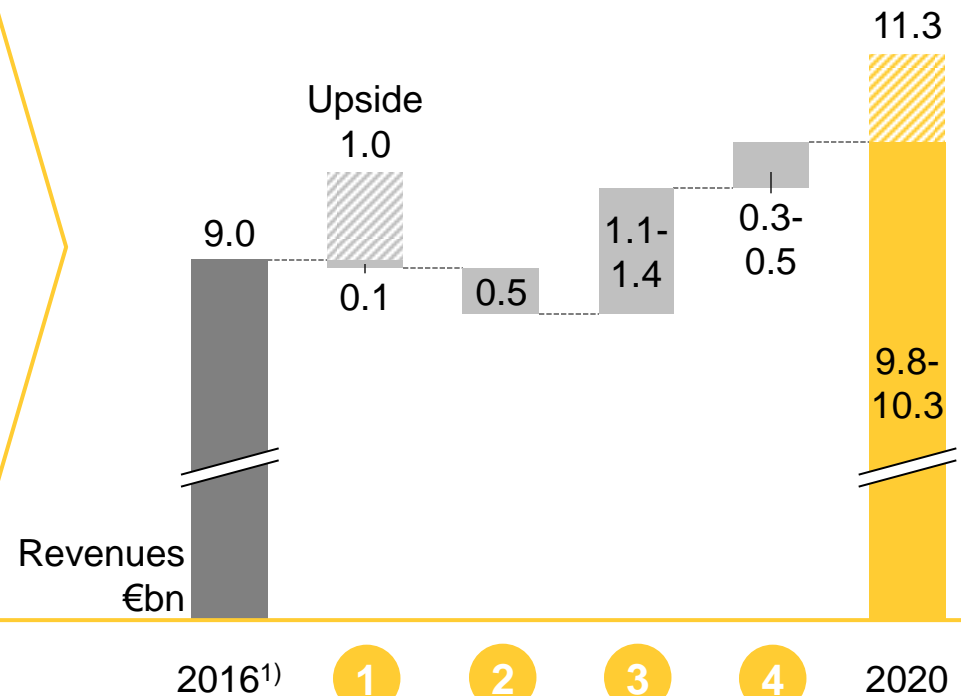
→ **Revenue growth in core business in accordance with strict compliance and risk criteria**

Specific growth and pricing measures compensate for adverse effects from current interest rate environment

In current rate environment

3M-Euribor (avg. p.a. in %)

2016	2017	2018	2019	2020
-0.25	-0.27	-0.27	-0.27	-0.27

› Expected gross revenue decline under current interest rate conditions by 2020: ~€300m vs. 2016

› Revenue loss will be reduced to ~€100m by …
  › growth initiative in residential mortgage lending
  › specific pricing measures in corporate clients business

In rising rate environment

3M-Euribor (avg. p.a. in %)

2016	2017	2018	2019	2020
-0.25	-0.19	0.10	0.50	0.85
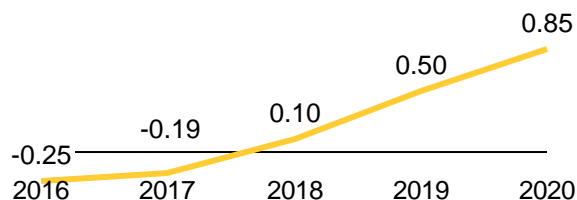
› Higher interest income up to €1.0bn due to …
  › return to positive rates on central bank deposits
  › high share of non-interest bearing customer deposits
  › higher returns from reinvestment of excess deposits

>€1.1bn additional revenues from Private and Small Business Customers

Private and Small Business Customers

Private Customers

€450-550m

› Expansion of customer base by ~2m

› Build-up of own consumer lending platform

› Rise in net commission income in particular in securities and payment transaction businesses

Small Business Customers

€350-450m

› Increasing sales of innovative and digital (incl. attacker) products as well as expansion of customer base

› Significant growth in credit & payment transaction business

› Dedicated and taylor-made services for specific target groups

mBank

€300-400m

› Further development of successful mobile banking strategy

› Ongoing significant growth in net new customers

› Continued efficiency gains, e.g. by optimising balance sheet structure, rigorous implementation of „paperless" principle

>€300m additional revenues from Corporate Clients business

Corporate Clients

Customer growth & pricing

€185-270m

› Customer growth in particular in Mittelstand clients segment

› Continuous development of product portfolio and launch of new digital products and services

› Implementation of data driven pricing models

Trade Finance

€40-60m

› Growth focus on most important trade corridors for German and European corporate clients

› Leading compliance culture

› Increasing cross-selling in relevant product categories

Specific sector expertise

€75-125m

› Leveraging of our in-depth German C&M expertise into selected international key industry sectors

› Expansion of customer base in European focus sectors

Reduction of trading activities releases capital

Reduction of trading activities

Revenue loss

~€400m

› Exit of exotic derivatives business in interest-rates trading, significant right-sizing of credit trading and exit of market services business

› Separation of structured equity business with less connectivity to core client business

› Revenue loss of ~€400m is partly offset by cost reduction of ~€200m

Net capital relief

~€500m

› RWA release of €6bn and prevention of additional RWA through FRTB of €8bn

› Capital deductions reduced by €75m (Prudent Valuation)

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Further value preserving run-down of ACR
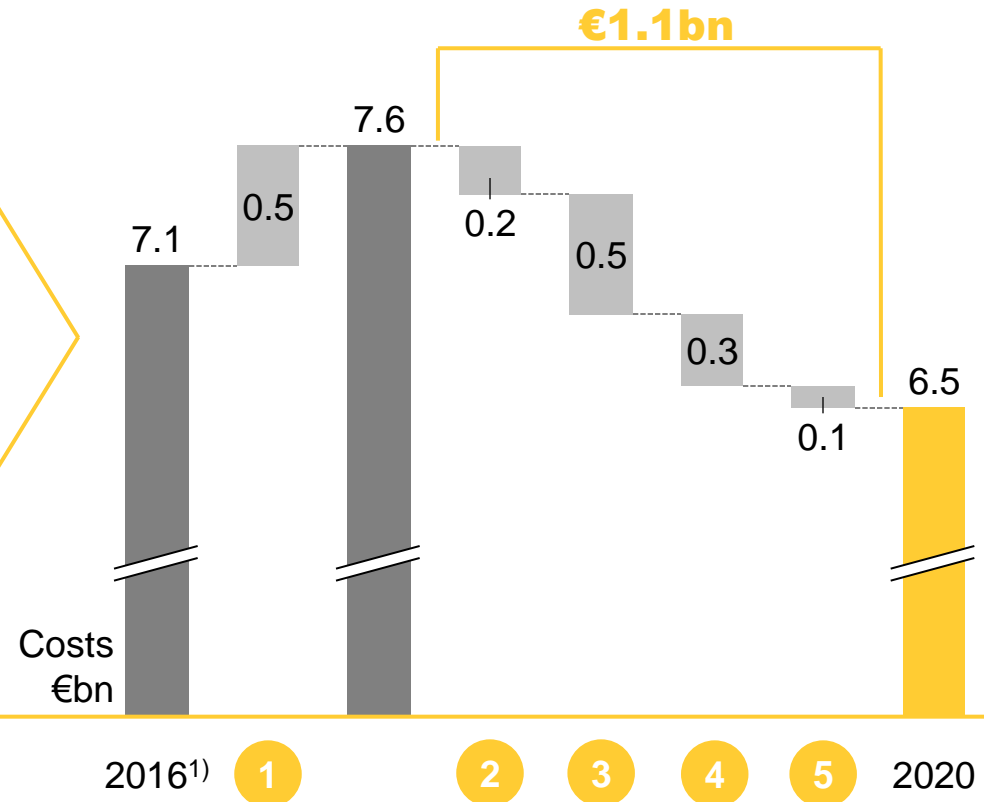
Run-down ACR

Revenue loss

~€100m

› Further run-down of CRE portfolio and PF assets (held to maturity)

› Shipping market deterioration increases cost of risk

› Expected cumulative operating loss of ~€1.1bn for 2017-2020

› RWA reduction of ~€9bn leads to gross capital relief of €1.4bn until 2020

Net capital relief

~€300m

Significant cost savings through digitalisation and reduction of complexity

1 Inflation, regulatory costs and depreciation

2 Cost reduction through run-down ACR and reduction of trading activities

3 Savings through digitalisation and automatisation of processes

4 Reduction of complexity in business model

5 Benefits of sourcing initiatives

€1.1bn

7.6

7.1   0.5

0.2

0.5

0.3

6.5

0.1

Costs
€bn

2016[1]   **1**   **2**   **3**   **4**   **5**   2020

Detailed action plan to deliver €1.1bn in cost savings until 2020

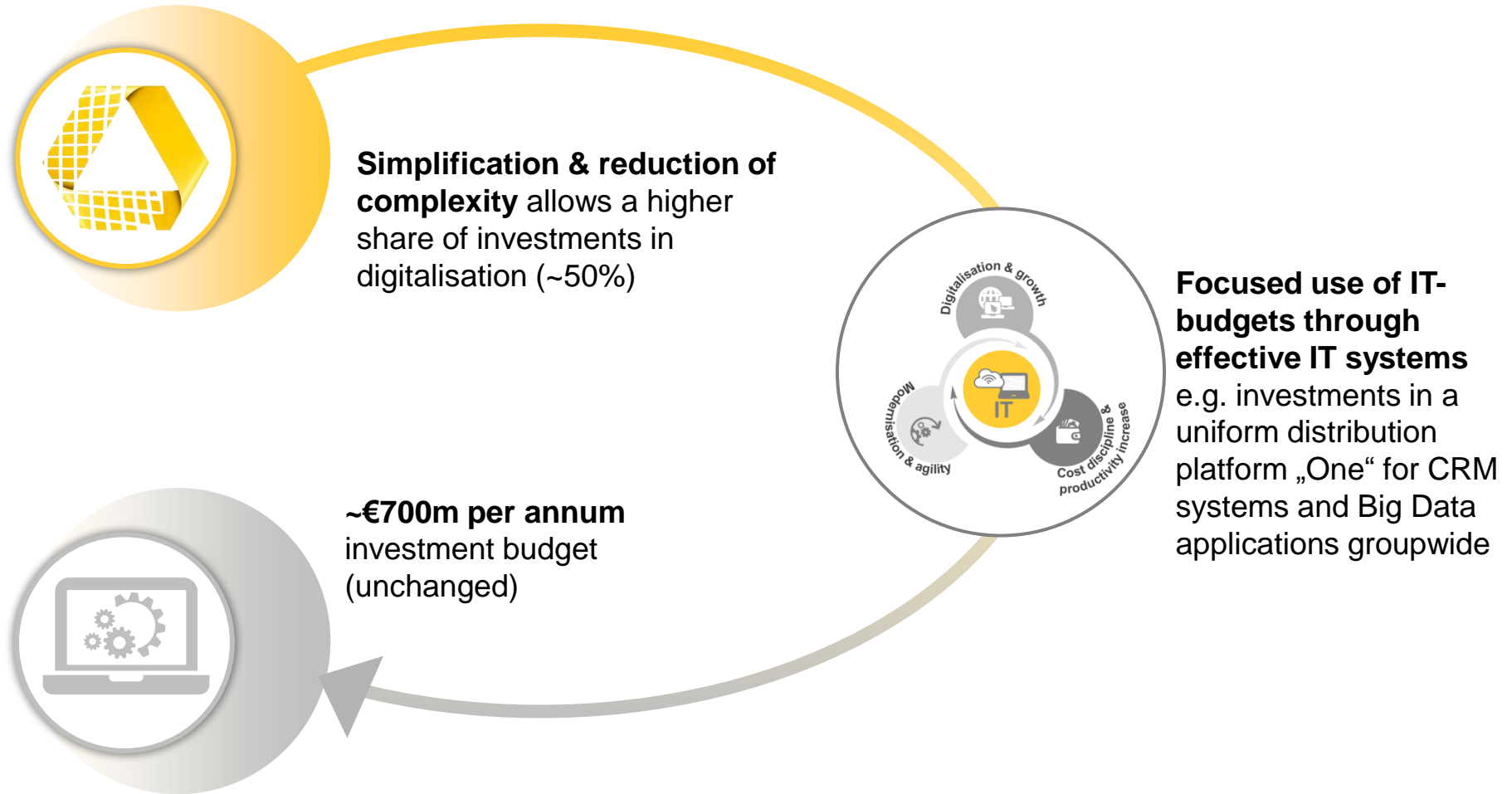|	Cost savings	
Run-down ACR and reduction of trading activities	**€0.2bn**	› Significant cost reduction in front office activites and administrative functions › Further run-down of ACR
Digitalisation	**€0.5bn**	› Digitalisation and automatisation of processes › 80% of relevant processes will be digitised until 2020
Reduction of complexity	**€0.3bn**	› Strict simplification of IT infrastructure and limiting of redundancies › Downsizing of product portfolio
Benefits of sourcing initiatives	**€0.1bn**	› Specific use of internal subsidiaries to optimise cost structure

Simplification and reduction of complexity allows to increase investments in digitalisation

Simplification & reduction of complexity allows a higher share of investments in digitalisation (~50%)

Focused use of IT-budgets through effective IT systems e.g. investments in a uniform distribution platform „One" for CRM systems and Big Data applications groupwide

~€700m per annum investment budget (unchanged)

Transformation requires two years with low profitability
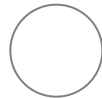
Group RWA remain stable – ongoing portfolio optimisation

Pro forma H1 2016	RWA (€bn)	Path 2020	
Private & Small Business Customers	38	⬆	Significant growth in capital efficient lending business with private and small business customers
Corporate Clients	102	➡	Overall stable RWA development due to further portfolio optimisation gains used as source of funds for our growth initiatives
Others & Consolidation	29	➘	Tight RWA management in Group Treasury
Asset & Capital Recovery	23	➘	RWA relief as a result of further non-strategic assets run-down
Reduction of trading activities	6	⬇	RWA relief and avoidance of additional RWA through FRTB of €8bn

Focus on client business leads to an improved balance sheet structure
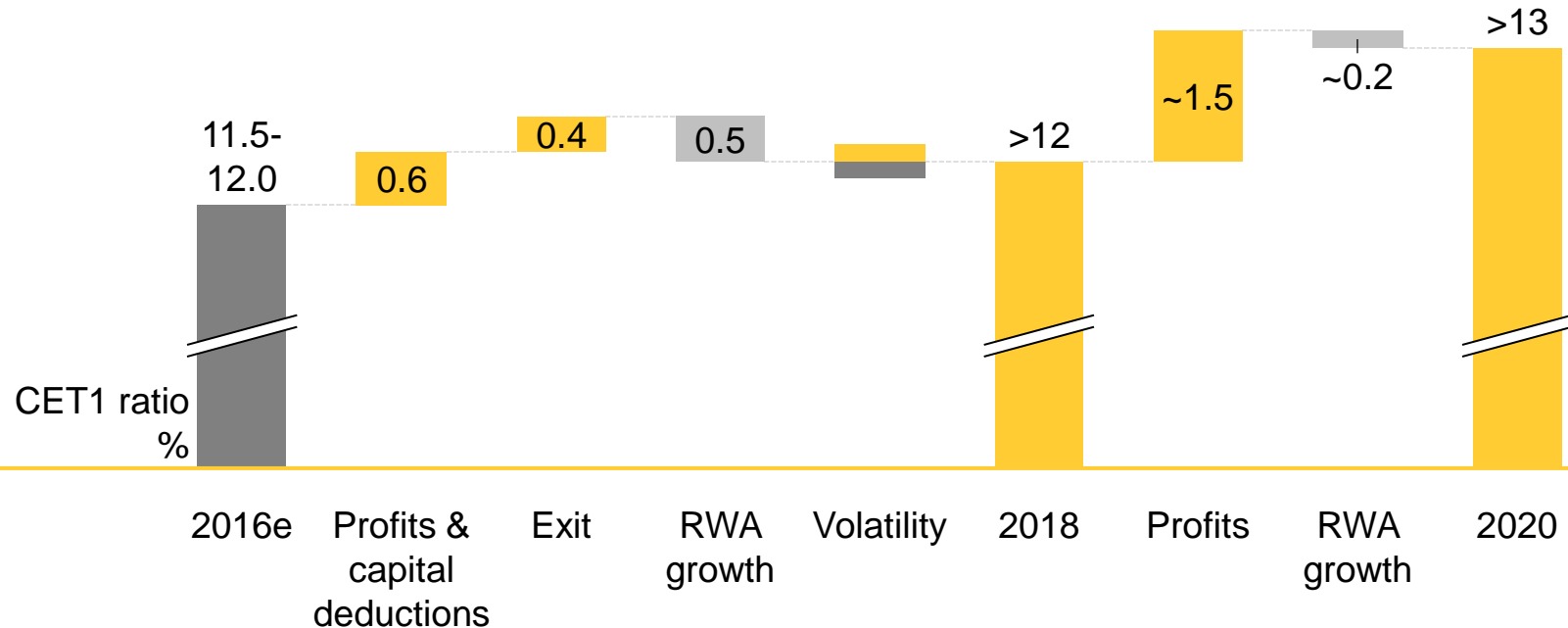
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1 Loans to customers significantly increased – further growth until 2020

2 ACR portfolio minimised

3 Trading assets will be significantly downsized due to reduction of trading activities

100%   100%   100%

1 29%   40%   45%-50%

2 24%   3%   2%

3 24%   22%   13%-17%

Balance sheet (Assets[1])

2012   2015   2020

Stephan Engels, CFO | London | 4 October 2016

[1] Breakdown by Cash, Loans to banks, Loans to customers (excl. ACR), Loans to customers (ACR), Trading assets, Financial assets, Others

31
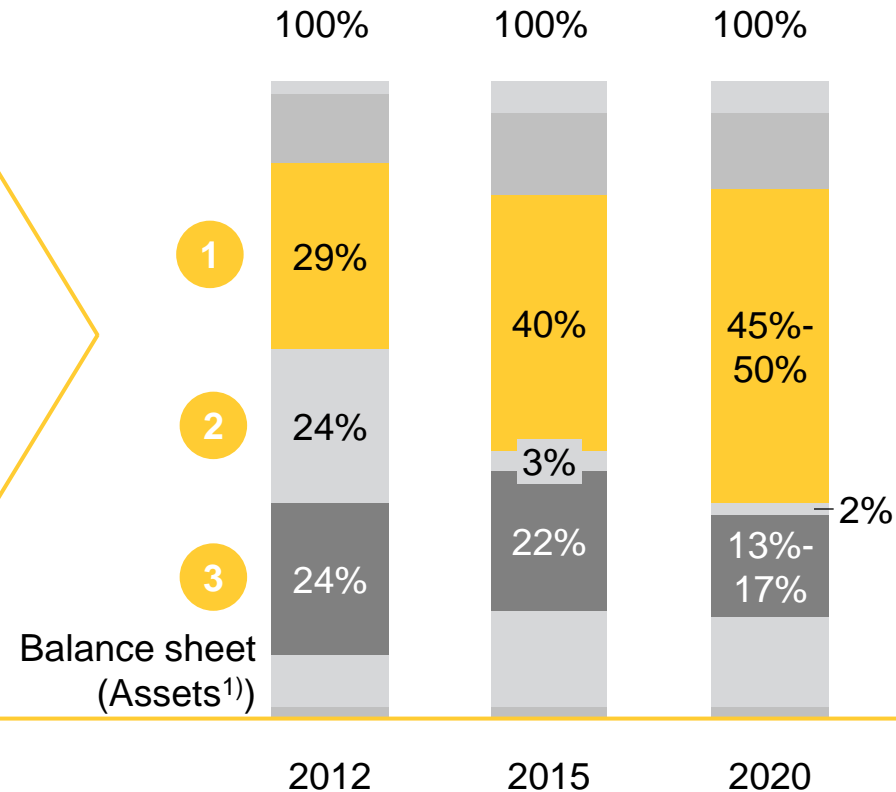
CET1 to be at ~12% during the transition period

CET1 ratio
%

11.5-12.0	0.6	0.4	0.5		>12	~1.5	~0.2	>13
2016e	Profits & capital deductions	Exit	RWA growth	Volatility	2018	Profits	RWA growth	2020

› Suspension of dividend payments to cover restructuring costs

› Comfortable capital position including buffers against potential IFRS 9 / Basel IV effects

› Additional potential of >100bps in case of higher interest rates in 2020
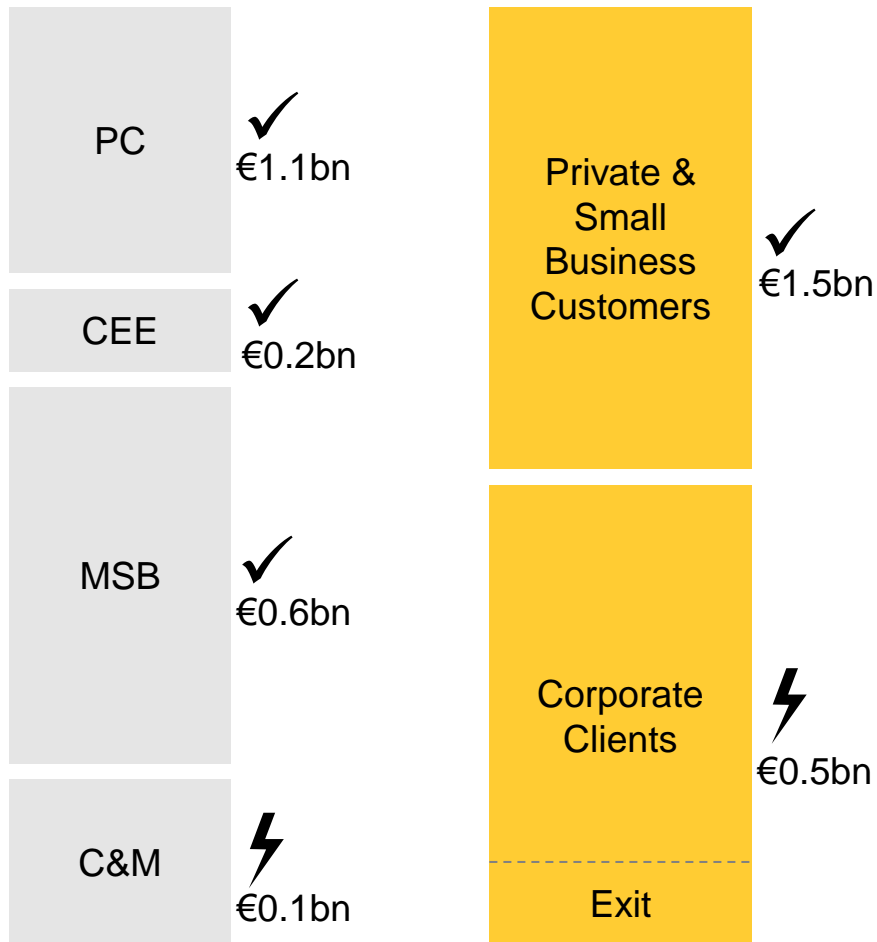
Comprehensive set of CET1 capital measures

Capital	Efficiency	**RWA**	Efficiency
› **Prudential Valuation** Consistent steering of derivatives business towards capital efficiency		› **RWA efficiency** Focus on business growth with high RWA efficiency	
› **Expected Loss Shortfall** RWA efficiency measures with positive impact on expected loss		› **Securitisations** Securitisations as toolkit to transfer credit risks if needed	
› **Revaluation reserve** Positive impact via pull-to-par-effects – hedging possible		› **Reduction of trading activities** Reduction of market RWAs and avoidance of future regulatory burdens	
› **FX reserve** FX hedging possible to reduce volatility (USD, GBP & PLN)		› **Collateral management** Continued collateral management to reduce credit RWAs	
› **Pension liabilities** No management action, but positive impacts if rates increase		› **Hedging** Micro and macro hedging to improve credit RWAs	

Transformation of Commerzbank 4.0 requires capital neutral goodwill impairments in the third quarter 2016

PC ✓ €1.1bn

CEE ✓ €0.2bn

MSB ✓ €0.6bn

C&M ⚡ €0.1bn

Private & Small Business Customers ✓ €1.5bn

Corporate Clients ⚡ €0.5bn

Exit

Expected goodwill impact

~€170m

Goodwill allocations and intangible assets in C&M see full impairments of ~€170m

~€530m

As a consequence of these goodwill impairments in C&M, a goodwill impairment is also required in the new corporate clients segment („inheritance effect")

Outlook on the third quarter 2016

Q3 2016

- We expect revenues in the third quarter to be flat compared to the preceding quarter

- LLPs should be significantly above the two preceding quarters in 2016 due to sustained weakness within shipping market

- We expect third-quarter operating profit to be lower than both the first and the second quarter

- As a consequence of goodwill impairments net result in Q3 2016 should be negative

- We expect CET1 ratio to be higher than in the second quarter 2016

Outlook FY 2016

FY 2016

● Despite goodwill impairments in Q3 2016, we expect a small net profit for the full year 2016

● We expect the CET1 ratio to stand at almost 12% at year-end 2016, provided no significant market distortions occur

● To refinance our restructuring costs, dividend payments will be suspended

Targets 2020 of new strategy Commerzbank 4.0

	Current rates	Rising rates
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Costs (€bn)	**6.5**	6.5
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CET1 (%)	**>13**	>13

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