

COMMERZBANK

The bank at your side



Disclosure Report as at 31 March

2020

in accordance with the Capital Requirements Regulation (CRR)



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Introduction

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. The Bank serves more than 11 million private and small business customers nationwide and over 70,000 corporate clients, multinationals, financial service providers, and institutional clients worldwide. Its Polish subsidiary mBank S.A. has around 5.7 million private and corporate customers, predominantly in Poland, but also in the Czech Republic and Slovakia.

A detailed description of Commerzbank Group is given in the Annual Report 2019 and in the Interim Report as at 31 March 2020.

The massive global spread of the coronavirus pandemic has led to drastic measures such as curfews, business closures and production stops in various countries since mid-March. Public life has largely come to a standstill. The negative effects on the economy were already selectively felt in the first quarter, and there are signs these are spreading. For the most part, this negative trend is not yet perceptible in the risk figures, as it will only become noticeable here with a time lag over the course of the year.

Objective of the Disclosure Report

In this report Commerzbank Aktiengesellschaft as the ultimate parent company of the regulated banking group is complying with the disclosure requirements of Articles 431 – 455 of regulation (EU) No. 575/2013 – the Capital Requirements Regulation (CRR) – and the guidelines on the disclosure requirements under Part Eight of Regulation (EU) No. 575/2013 – EBA/GL/2016/11 – as at 31 March 2020. The tables defined according to the EBA guidelines and integrated into the report are indicated by the table names provided with the prefix EU.

Scope

This Disclosure Report is based on the group of companies consolidated for regulatory purposes. The companies consolidated for regulatory purposes only include those carrying out banking and other financial business. The consolidated group consists of a domestic parent company and its affiliated companies. The aim of regulatory consolidation is to prevent multiple use of capital that in fact exists only once by subsidiary companies in the financial sector. The companies consolidated under IFRS, by contrast, comprise all the companies controlled by the ultimate parent company.

Commerzbank is one of the largest institutions in Germany and with its consolidated balance sheet total it is regularly well above the 30 billion euro limit relevant for the quarterly disclosure obligation. Hence, independent of the criteria in Article 433 CRR, Commerzbank has implemented the reporting requirements during the period from Q2 2015 on and discloses the quarterly and semi-annually required information as appropriate.¹

¹ See EBA/GL/2014/14, title V (18) and EBA/GL/2016/11 No. 46.

Equity capital, capital requirement and risk-weighted assets (RWA)

Capital structure

The composition of the regulatory capital and the capital ratios are given in the following table.

CAP1: Equity structure (basis: EU 1423/2013)

€m Line	31.03.2020	31.12.2019
Common Equity Tier 1 capital: instruments and reserves		
6 Common Equity Tier 1 (CET1) capital before regulatory adjustments	29,266	28,832
28 Total regulatory adjustments to Common Equity Tier 1 (CET1) capital	-5,054	-4,466
29 CET1 capital	24,211	24,366
36 Additional Tier 1 (AT1) capital before regulatory adjustments	1,451	1,649
43 Total regulatory adjustments to Additional Tier 1 (AT1) capital	0	0
44 Additional Tier 1 (AT1) capital	1,451	1,649
45 Tier 1 capital (T1 = CET1 + AT1)	25,663	26,015
51 Tier 2 capital before regulatory adjustments	4,608	4,663
57 Total regulatory adjustments to Tier 2 capital	-80	-80
58 Tier 2 capital	4,528	4,583
59 Total capital (TC = Tier 1 + Tier 2)	30,191	30,598
60 Total risk-weighted assets	183,792	181,765
Capital ratios		
61 Common Equity Tier 1 ratio (as a percentage of total risk exposure amount)	13.2	13.4
62 Tier 1 ratio (as a percentage of total risk exposure amount)	14.0	14.3
63 Total capital ratio (as a percentage of total risk exposure amount)	16.4	16.8

More details on the composition of Commerzbank's equity capital can be found in the Disclosure Report 2019 as well as in the „Statement of changes in equity” section and in Note 40 (Regulatory capital requirements) of the Interim Report as at 31 March 2020.

Regarding the disclosure of leverage ratio information pursuant to article 451 CRR, we refer to Note 41 (Leverage ratio) of the Interim Report as at 31 March 2020, which is published on our website.

Commerzbank does not apply the transitional arrangements set out in article 473a CRR. Information on capital, capital ratios and leverage ratio reflect the full impact of the IFRS 9 introduction.

Information on liquidity risk and the liquidity coverage ratio (LCR) according to the guideline on LCR disclosure – EBA/GL/2017/01 – can be found in the Interim Report as at 31 March 2020 in the “Funding and liquidity” and “Liquidity risk” sections as well as in Note 42 (Liquidity coverage ratio).

Capital requirement and RWA

The capital requirements set out below relate to the Commerzbank Group and the figures are the same with regard to content as in the capital adequacy reports submitted to the Deutsche Bundesbank under Basel 3 Pillar 1.

Capital requirements by risk type

Of the overall capital requirement 76% relates to credit risk positions (excluding counterparty credit risk). Further 7.2% of the overall capital requirement relates to counterparty credit risk. Based on the EBA requirements, credit value adjustments (CVAs) are also assigned to this credit risk category.

Securitised positions in the banking book are also shown as a separate credit risk category subject to a capital requirement in the table EU OV1 below, accounting for 2.2% of total capital requirement. Commerzbank treats these according to the recognition hierarchy in accordance with the change in own funds requirements (Regulation (EU) No 2017/2401) since January 2020.

Capital deduction items of securitisations directly reduce the equity capital and thus are not included in the capital requirements.

As at 31 March 2020, capital requirements for market risks are 3.9% of total requirements. Commerzbank generally uses an internal market risk model to calculate the regulatory capital requirement; the standardised approaches are applied for smaller units in Commerzbank Group in accordance with the partial use option.

To calculate the capital adequacy requirement for operational risks, Commerzbank uses the advanced measurement approach (AMA). This risk category accounts for 9.9% of the total capital requirements.

Risk-weighted assets were €183.8bn as at 31 March 2020, €2.0bn higher than as at 31 December 2019. The increase was due, on the one hand, to higher market risk weighted assets from the regulatory VaR due to strong market movements resulting from the Corona

pandemic and, on the other hand, to higher risk weighted assets from securitisations related to the move to the new securitisation framework.

EU OV1: Overview of RWAs

€m		Risk-weighted assets (RWAs)		Capital requirements	
Article in CRR		31.03.2020	31.12.2019	31.03.2020	
	1	Credit risk (excluding CCR)	140,426	140,214	11,234
438 (c) (d)	2	Of which the standardised approach	19,987	21,348	1,599
438 (c) (d)	3	Of which the foundation IRB (FIRB) approach	0	0	0
438 (c) (d)	4	Of which the advanced IRB (AIRB) approach	120,438	118,866	9,635
438 (d)	5	Of which equity IRB under the simple risk-weighted approach or the IMA	0	0	0
107, 438 (c) (d)	6	CCR (counterparty credit risk)	13,261	13,188	1,061
438 (c) (d)	7	Of which mark to market	2,180	1,539	174
438 (c) (d)	8	Of which original exposure	0	0	0
	9	Of which the standardised approach	0	0	0
	10	Of which internal model method (IMM)	6,748	5,952	540
438 (c) (d)	11	Of which risk exposure amount for contributions to the default fund of a CCP	21	242	2
438 (c) (d)	12	Of which CVA	4,311	5,455	345
438 (e)	13	Settlement risk	28	7	2
449 (o) (i)	14	Securitisation exposures in the banking book (after the cap)	4,096	3,378	328
	15	Of which securitisation positions IRB approach (Basel III)	-	576	-
	16	Of which IRB supervisory formula approach (SFA)	-	244	-
	17	Of which internal assessment approach (IAA)	-	18	-
	18	Of which rating based approach	-	314	-
	19	Of which securitisation positions SA approach (Basel III)	-	850	-
	20	Of which risk weighted positions for credit risk: securitisation positions (revised securitisation rules; Basel 3.5)	4,096	1,951	328
	21	Of which internal rating-based approach (SEC-IRBA)	1,532	825	123
	22	Of which the standardised approach (SEC-SA)	706	872	56
	23	Of which approach based on external ratings (SEC-ERBA)	1,859	254	149
	24	Of which internal assessment approach (IAA)	0	0	0
438 (e)	25	Market risk	7,207	5,679	577
	26	Of which the standardised approach	966	1,006	77
	27	Of which IMA	6,242	4,673	499
438 (e)	28	Large exposures	0	0	0
438 (f)	29	Operational risk	18,178	18,728	1,454
	30	Of which basic indicator approach	0	0	0
	31	Of which the standardised approach	0	0	0
	32	Of which advanced measurement approach	18,178	18,728	1,454
437 (2), 48, 60	33	Amounts below the thresholds for deduction (subject to 250% risk weight)	596	571	48
	Total		183,792	181,765	14,703

The following table EU CR8 shows the RWA development of credit risk exposures in the IRBA portfolio of Commerzbank Group between 31 December 2019 and 31 March 2020. The increase in RWA in the first quarter of 2020 was mainly attributable to an increased volume (“Asset size”) and slight changes of the portfolio

quality (“Asset quality” and “Collateral effects”). Contrary effects mainly due to “Foreign exchange movements” as well as a RWA reduction due to the regular expiry of residual terms (“Duration effects”) reduce the RWA increase in the period under review.

EU CR8: RWA flow statements of credit risk exposures under the IRB approach

€m	a	b
	Risk-weighted assets (RWAs)	Capital requirements
1 RWAs at previous quarter end	118,866	9,509
2 Asset size	2,465	197
3 Asset quality	445	36
4 Model updates	-163	-13
5 Methodology and policy	0	0
6 Acquisitions and disposals	0	0
7 Foreign exchange movements	-572	-46
8 Collateral effects	440	35
9 Duration effects	-1,142	-91
10 Others	99	8
11 RWAs at the end of the reporting period	120,438	9,635

The following table EU CCR7 shows the development of RWAs by main drivers for counterparty credit risk exposures under the IMM

in the first quarter of 2020. The increase of RWA was mainly caused by new business.

EU CCR7: RWA flow statements of CCR exposures under the Internal Model Method (IMM)

€m	a	b
	Risk-weighted assets (RWAs)	Capital requirements
1 RWAs at previous quarter end	5,952	476
2 Asset size	859	69
3 Credit quality of counterparties	64	5
4 Model updates	15	1
5 Methodology and policy	0	0
6 Acquisitions and disposals	0	0
7 Foreign exchange movements	-141	-11
8 Others	0	0
9 RWAs at the end of the reporting period	6,748	540

The following table EU MR2-B shows the development of RWAs by main drivers for market risk exposures under the Internal Model Approach (IMA) in the first quarter of 2020.

EU MR2-B: RWA flow statements of market risk exposures under the Internal Model Approach (IMA)

€m	a	b	c	d	e	f	g
	VaR	SVaR	IRC	Comprehensive risk measure	Others	Total RWAs	Total capital requirements
1 RWAs at previous quarter end	782	3,504	387	0	0	4,673	374
1a Regulatory adjustment	0	0	0	0	0	0	0
1b RWAs at the previous quarter-end (end of the day)	782	3,504	387	0	0	4,673	374
2 Movement in risk levels	862	473	234	0	0	1,569	126
3 Model updates/changes	0	0	0	0	0	0	0
4 Methodology and policy	0	0	0	0	0	0	0
5 Acquisitions and disposals	0	0	0	0	0	0	0
6 Foreign exchange movements ¹	0	0	0	0	0	0	0
7 Others	0	0	0	0	0	0	0
8a RWAs at the end of the reporting period (end of the day)	1,644	3,977	621	0	0	6,242	499
8b Regulatory adjustment	0	0	0	0	0	0	0
8 RWAs at the end of the reporting period	1,644	3,977	621	0	0	6,242	499

¹ Changes of RWA which are due to foreign exchange movements are reported under „Movement in risk levels“.

The increased total Market Risk RWA of about €1.6bn primarily resulted from the regulatory VaR mainly due to strong market movements resulting from the Corona pandemic. The RWA increase in the stressed VaR and IRC was mainly due to position changes in the Corporate Clients segment and in Treasury.

Appendix

APP1: Supplement to equity structure (CAP1)

Line	(B) Reference to article in the regulation (EU) Nr. 575/2013
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61	92 (2) (a)
62	92 (2) (b)
63	92 (2) (c)

List of abbreviations

AMA	Advanced Measurement Approach
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CVA	Credit Valuation Adjustments
EBA	European Banking Authority
IRC	Incremental Risk Charge
IFRS	International Financial Reporting Standards
IMA	Internal Model Approach
IMM	Internal Model Method
IRBA	Internal Ratings Based Approach
LCR	Liquidity Coverage Ratio
RWA	Risk-weighted Assets
SACR	Standard Approach to Credit Risk
sVaR	stressed Value at Risk
VaR	Value at Risk

Disclaimer

Commerzbank's internal risk measurement methods and models which form the basis for the calculation of the figures shown in this report are state-of-the-art and based on banking sector practice. The risk models produce results appropriate to the management of the Bank. The measurement approaches are regularly reviewed by risk control and internal audit as well as by German and European supervisory authorities. Despite being carefully developed and regularly checked, models cannot cover all the influencing factors that have an impact in reality or illustrate their complex behaviour and interactions. These limits to risk modelling apply in particular in extreme situations. Supplementary stress tests and scenario analyses can only show examples of the risks to which a portfolio may be exposed in extreme market situations. However, stress-testing all imaginable scenarios is not feasible. Stress tests cannot offer a final estimate of the maximum loss should an extreme event occur.

The interpretations with regard to CRR/CRD IV rules are still ongoing. Therefore requirements for adjustment may occur due, for example, to modified interpretations in the course of the Q&A-process with EBA or due to new binding Technical Standards or guidelines. Against this background we will continue to refine our methods and models in line with the interpretation of the rules. Thus, our measures may not be comparable with previously published measures and our competitors' measures published may differ from ours.

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