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Commerzbank investor update H1 2019

Continued momentum in customer business in challenging environment

Fixed income investor presentation

GM – Investor Relations | GM – Treasury | September / October 2019

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Agenda

Q2 2019 results (audit review)

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Continued momentum in customer business in challenging environment

Highlights Q2 2019

Further growth in customers and assets

- In PSBC net new customers Germany increased by 108k bringing the total to 1.3m
- AuC in PSBC Germany up by €11bn in Q2 – loan volume surpasses €100bn
- In CC targets of >€85bn loan volume with corporates and >10k net new customers reached

YoY stable net result of €271m based on operating result of €298m – net RoTE 4.3%

- While NII increased by 7% YoY, overall revenues were 2% lower due to significantly decreased fair value result
- Risk result of -€178m driven by a few individual cases
- Operating expenses and compulsory contributions of €1.65bn in line with FY guidance

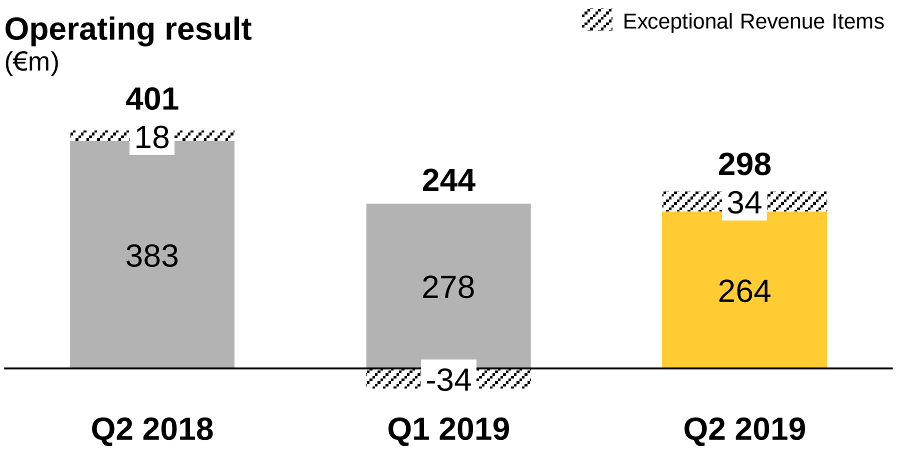
Clean balance sheet and healthy risk profile – further dividend accrual

- CET1 ratio increased to 12.9% – before TRIM impact expected in Q3
- Total capital strengthened by $1bn AT1 issuance in early July
- Group NPL ratio of 0.8% – ACR dissolved following successful run-down

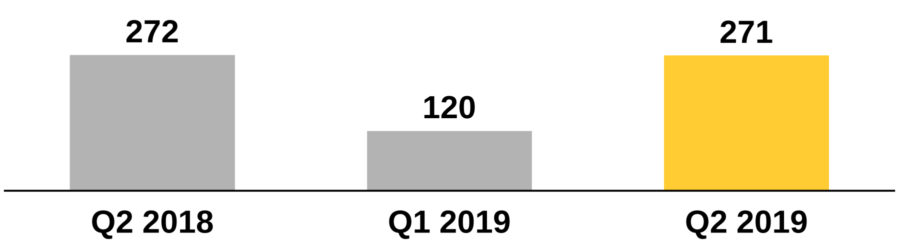
Key financial figures at a glance

Group Financial Results

Operating result
(€m)

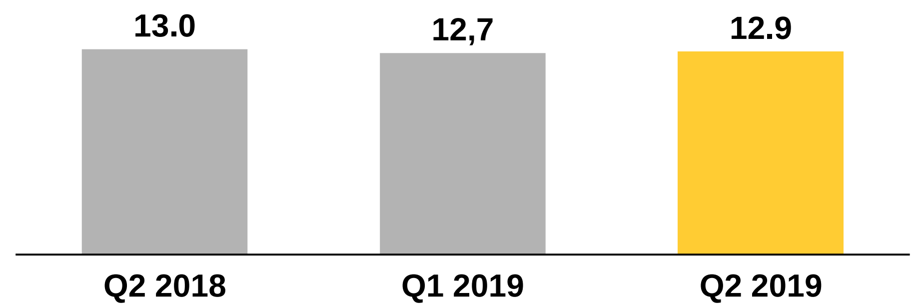


Net result[1]
(€m)

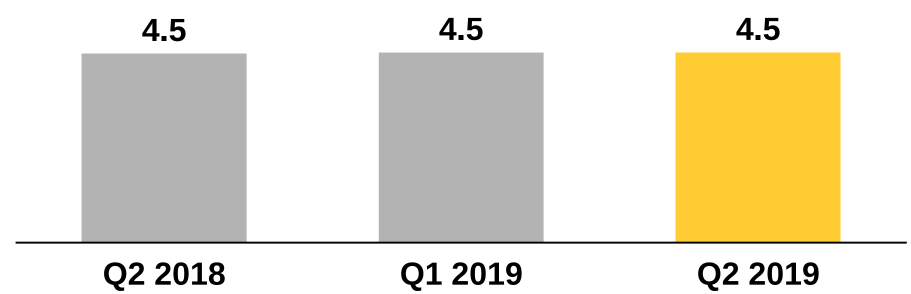


Group Capital[2]

CET1 ratio fully loaded
(%)



Leverage ratio fully loaded
(% end of period)



1) Consolidated result attributable to Commerzbank shareholders
2) Includes net results reduced by dividend accrual

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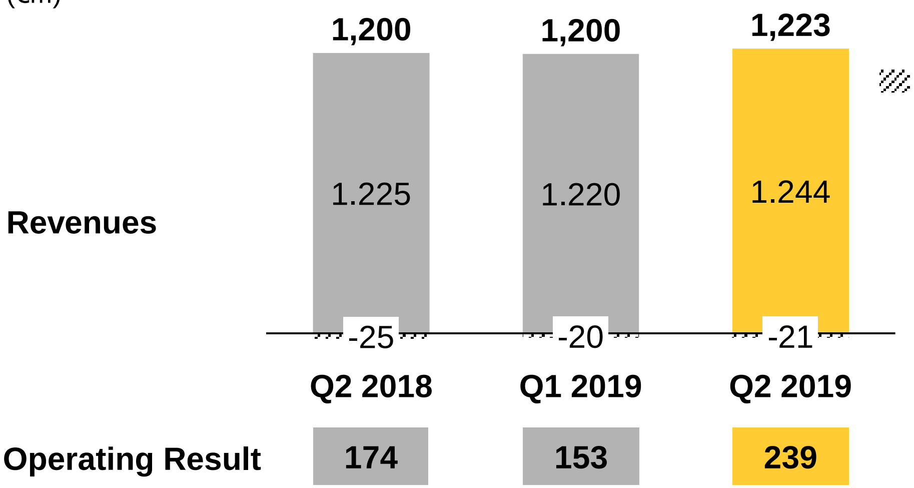
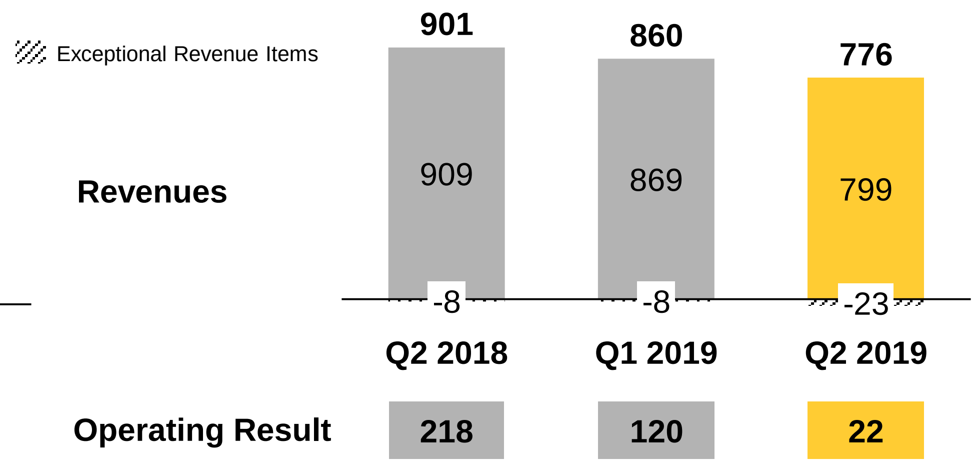
Revenues and operating results of Commerzbank divisions

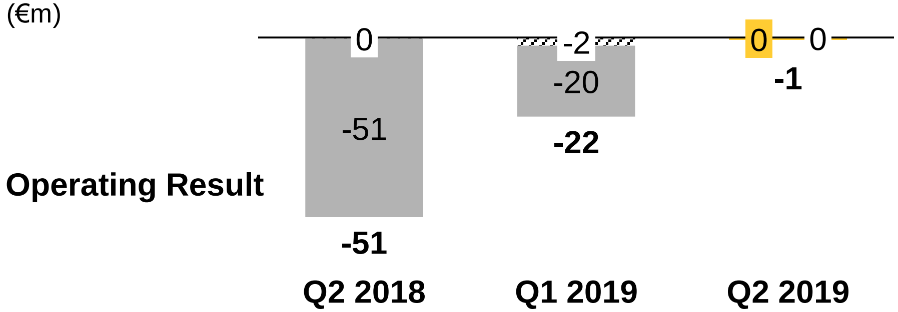
Private and Small Business Customers
(€m)



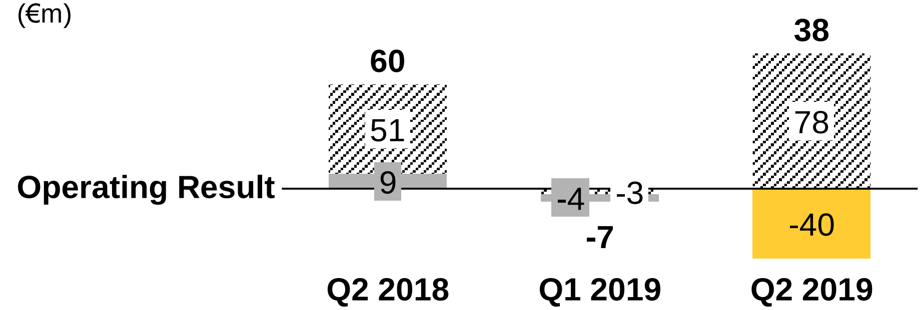
Corporate Clients
(€m)



Others & Consolidation
(€m)



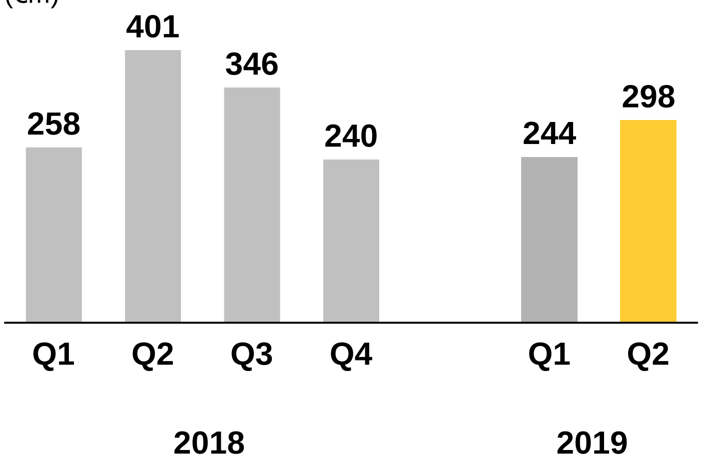
Asset & Capital Recovery (dissolved as of July 1st)
(€m)



Operating result reflects resilient customer business – but weak contribution from fair value result

Group operating result

(€m)



Group P&L

in €m	Q2 2018	Q1 2019	Q2 2019	H1 2018	H1 2019
Revenues	2,178	2,156	2,129	4,395	4,285
Exceptional items	18	-34	34	19	-
Revenues excl. exceptional items	***2,160***	***2,190***	***2,095***	***4,376***	***4,285***
o/w Net interest income	*1,207*	*1,253*	*1,291*	*2,331*	*2,544*
o/w Net commission income	*763*	*768*	*739*	*1,565*	*1,507*
o/w Net fair value result	*150*	*66*	*-1*	*340*	*65*
o/w Other income	*39*	*103*	*67*	*140*	*169*
Risk result	-82	-78	-178	-160	-256
Operating expenses	1,636	1,569	1,581	3,274	3,150
Compulsory contributions	58	265	72	302	337
Operating result	**401**	**244**	**298**	**659**	**542**
Pre-tax profit discontinued operations	**-12**	**-19**	**19**	**30**	**-**
Pre-tax profit Commerzbank Group	**389**	**225**	**318**	**689**	**542**
Taxes on income	94	91	20	99	111
Minority interests	23	14	27	57	41
Net result [1]	**272**	**120**	**271**	**533**	**391**
CIR (excl. compulsory contributions) (%)	75.1	72.8	74.2	74.5	73.5
CIR (incl. compulsory contributions) (%)	77.8	85.1	77.6	81.4	81.4
Net RoTE (%)	4.3	1.9	4.3	4.3	3.1
Operating RoCET (%)	7.1	4.2	5.0	5.8	4.6

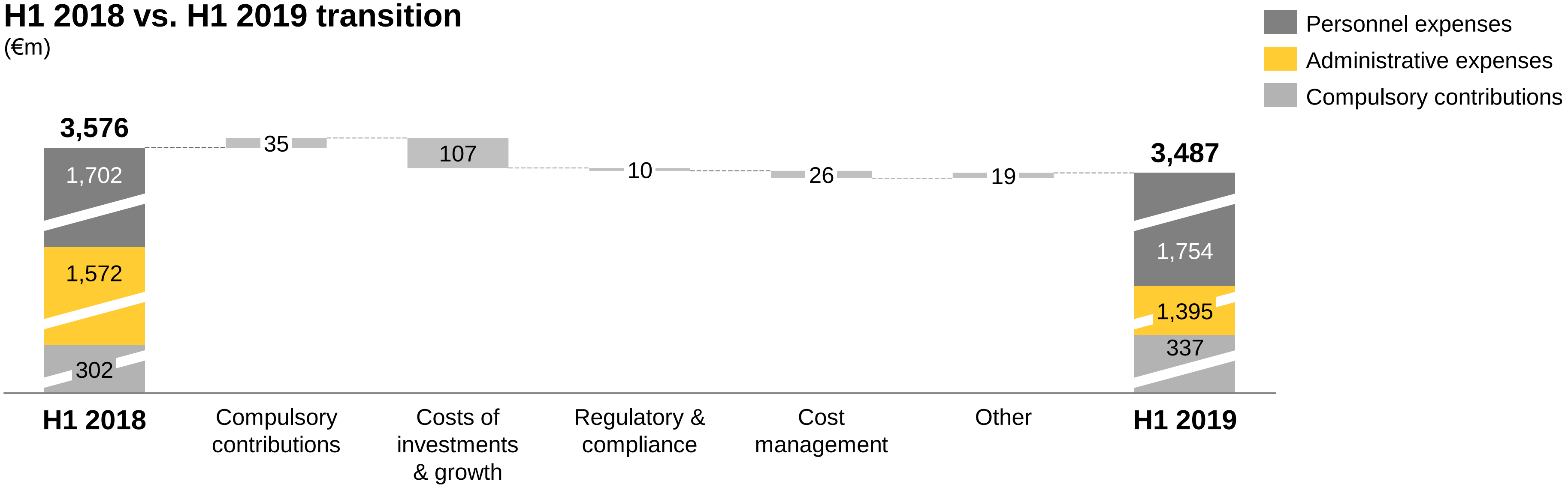
Highlights

- YoY stable net result of €271m supported by tax refunds – operating result decreased mainly due to fair value and risk results
- YoY 7% increase in NII based on growth in PSBC and CC but also on lower interest expenses from funding
- Lack of positive contributions from legacy portfolios and lower contributions from hedging and portfolio management led to significant decrease in fair value result – especially in Corporate Clients

1) Consolidated result attributable to Commerzbank shareholders

Cost development remains in line with FY guidance

H1 2018 vs. H1 2019 transition
(€m)



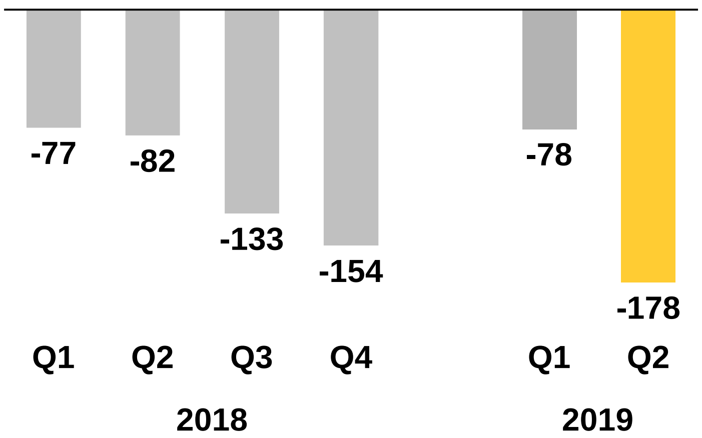
Highlights

- Prioritised investments in digitalisation and growth leading to considerably lower costs for external suppliers
- Timely and successful implementation of robust compliance framework comes with higher cost level to run regulatory and compliance operations
- Increase of personnel expenses due to new compensation model and ongoing internalisation – partially compensated by staff reduction

Risk result driven by single cases

Risk Result

(€m)



Risk Result divisional split

Risk Result in €m	Q2 2018	Q1 2019	Q2 2019	H1 2018	H1 2019
Private and Small Business Customers	-66	-52	-48	-115	-100
Corporate Clients	-35	-28	-127	-60	-155
Asset & Capital Recovery	16	-1	-23	14	-24
Others & Consolidation	3	2	21	2	23
Group	**-82**	**-78**	**-178**	**-160**	**-256**
NPL in €bn					
Private and Small Business Customers	1.8	1.7	1.8	1.8	1.8
Corporate Clients	1.9	1.7	1.7	1.9	1.7
Asset & Capital Recovery	0.2	0.4	0.3	0.2	0.3
Others & Consolidation	-	-	-	-	-
Group	**4.0**	**3.7**	**3.8**	**4.0**	**3.8**
Group NPL ratio (in %) [1]	0.9	0.9	0.8	0.9	0.8
Group CoR (bps) [2]	7	7	16	7	12

Highlights

› Risk result in CC higher due to single cases in Q2 and significantly lower write backs in the first half of the year

› PSBC and CC continue to reflect healthy risk profile with Group NPL ratio of 0.8% based on unchanged lending standards

› Despite the macro environment slightly loosing momentum, the risk indicators remain stable and only single names in specific industries are showing a slight impact so far

1) NPL ratio = Default volume loans held at Amortised Cost and Fair Value OCI / Exposure at Default
2) Cost of Risk (CoR) = Risk Result / Exposure at Default

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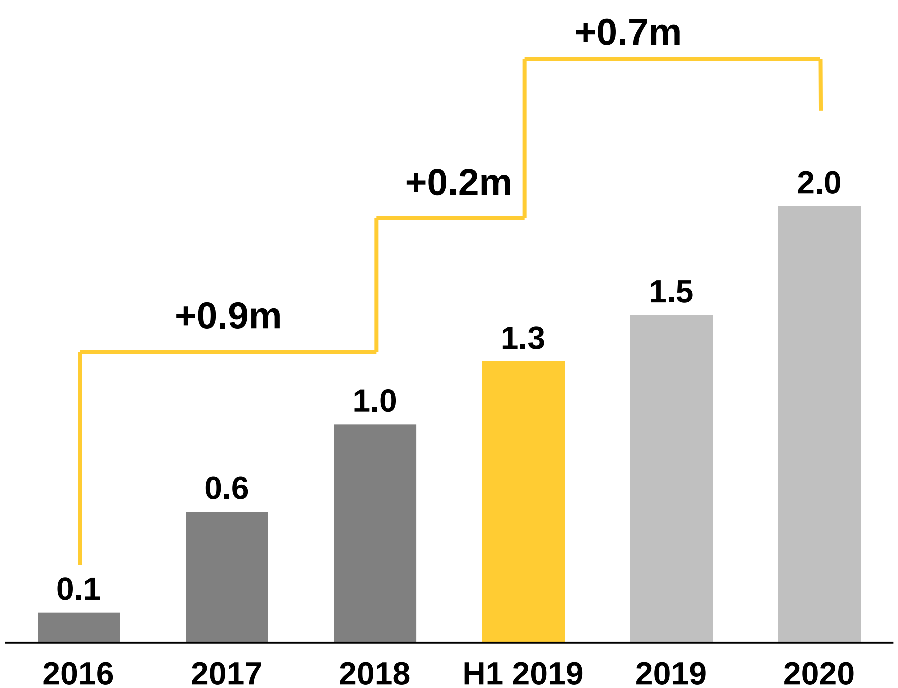
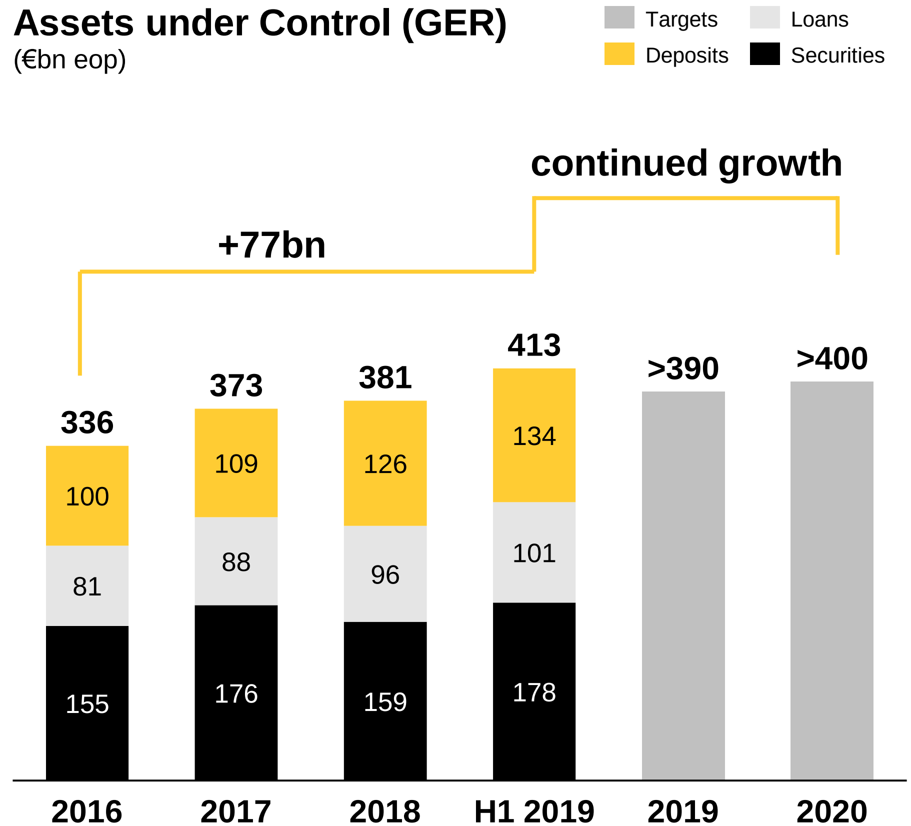
Private and Small Business Customers: net new customer acquisition on target – Assets under Control above €400bn

Net new customers (GER)
(m cumulative)



Assets under Control (GER)
(€bn eop)



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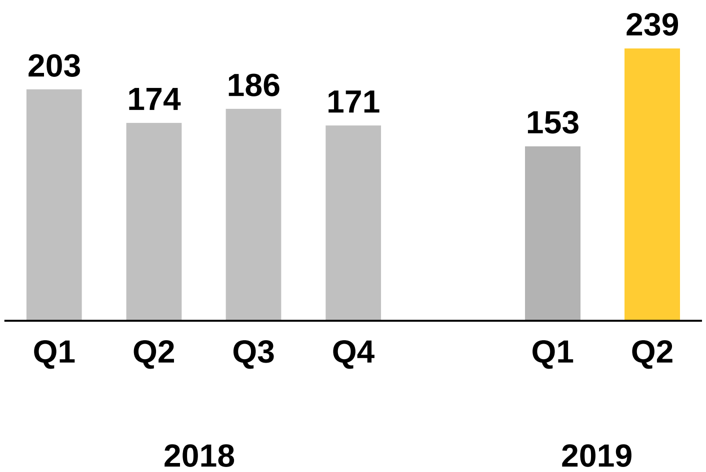
Private and Small Business Customers: progress in line with strategy

Operating result
(€m)



Segmental P&L

in €m	Q2 2018	Q1 2019	Q2 2019	H1 2018	H1 2019
Revenues	1,200	1,200	1,223	2,436	2,424
o/w Private Customers	599	589	598	1,196	1,187
o/w Small Business Customers	202	201	204	404	405
o/w mBank	265	274	294	518	568
o/w comdirect	94	96	100	199	196
o/w Commerz Real	65	60	47	119	108
o/w exceptional revenue items	-25	-20	-21	-	-41
Revenues excl. exceptional items	*1,225*	*1,220*	*1,244*	*2,436*	*2,464*
Risk result	-66	-52	-48	-115	-100
Operating expenses	912	870	873	1,800	1,743
Compulsory contributions	49	125	63	145	188
Operating result	**174**	**153**	**239**	**377**	**392**
RWA (end of period in €bn)	39.3	43.2	44.8	39.3	44.8
CIR (excl. compulsory contributions) (%)	76.0	72.5	71.4	73.9	71.9
CIR (incl. compulsory contributions) (%)	80.0	82.9	76.5	79.8	79.7
Operating return on equity (%)	14.9	12.0	18.2	16.2	15.2

Highlights

› Q2 operating result of €239m reflects slightly improved underlying revenues and reduced expenses

› Underlying revenues driven by YoY 6.0% higher NII from growth – offsetting lower margins

› German mortgages up €1.6bn to €78.1bn in Q2 – consumer finance book at €3.8bn (Q2 2018: €3.5bn)

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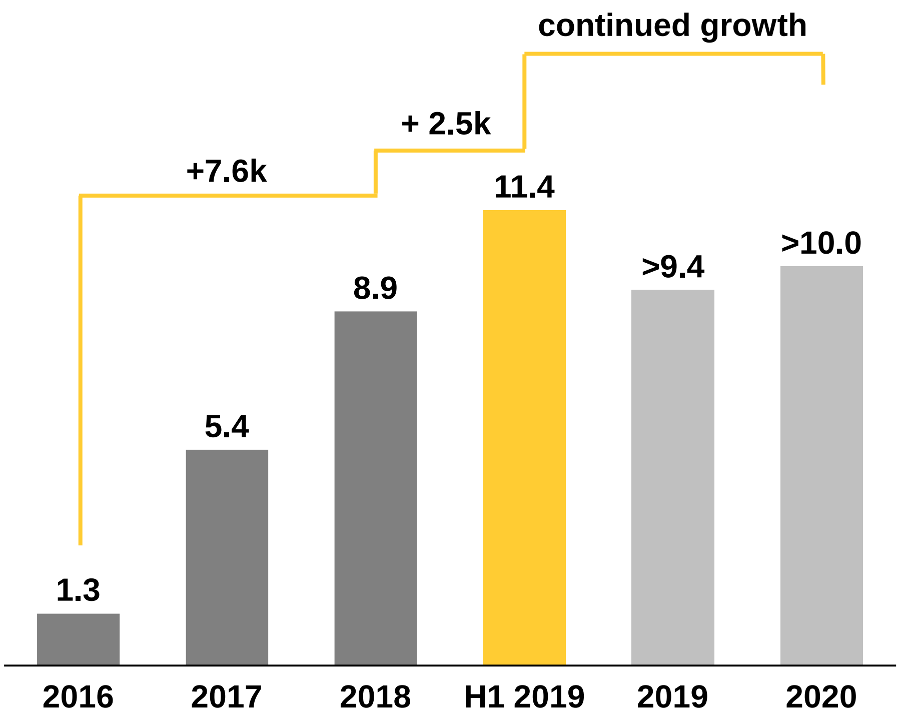
Corporate Clients: 2020 customer growth and loan volume targets reached

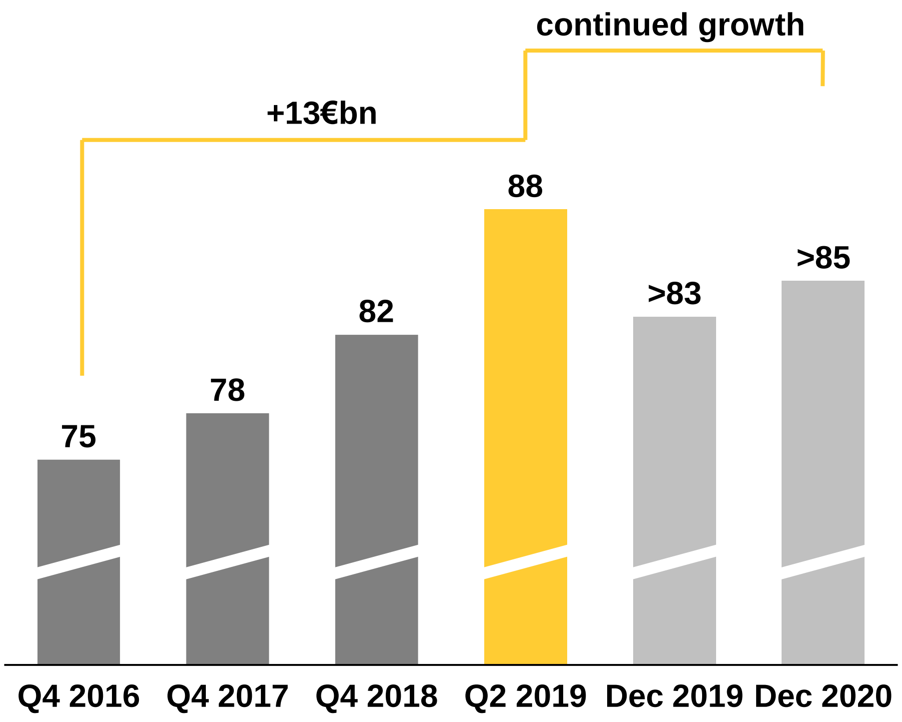
Net new customers

(k cumulative)



Loan Volume Corporates[1]

(€bn)



1) Volumes Mittelstand and International Corporates

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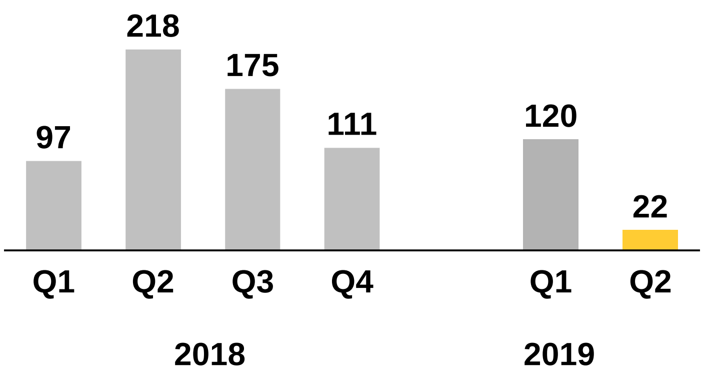
Corporate Clients: stable customer business but significantly lower fair value and increased risk result

Operating result

(€m)



Segmental P&L

in €m	Q2 2018	Q1 2019	Q2 2019	H1 2018	H1 2019
Revenues	901	860	776	1,765	1,636
o/w Mittelstand	429	452	437	858	889
o/w International Corporates	232	254	241	444	495
o/w Financial Institutions	109	126	124	236	250
o/w others	139	37	-3	237	34
o/w exceptional revenue items	-8	-8	-23	-9	-32
Revenues excl. exceptional items	*909*	*869*	*799*	*1,775*	*1,668*
Risk result	-35	-28	-127	-60	-155
Operating expenses	639	619	619	1,282	1,238
Compulsory contributions	9	93	8	108	101
Operating result	**218**	**120**	**22**	**315**	**142**
Pre-tax profit discontinued operations	**-12**	**-19**	**19**	**30**	**-**
RWA (end of period in €bn)	92.4	102.0	102.5	92.4	102.5
CIR (excl. compulsory contributions) (%)	71.0	71.9	79.7	72.6	75.6
CIR (incl. compulsory contributions) (%)	71.9	82.7	80.8	78.8	81.8
Operating return on equity (%)	8.3	4.1	0.7	6.0	2.4

Highlights

› Lower Q2 operating result driven by poor fair value result in “others” as well as higher risk result due to single cases

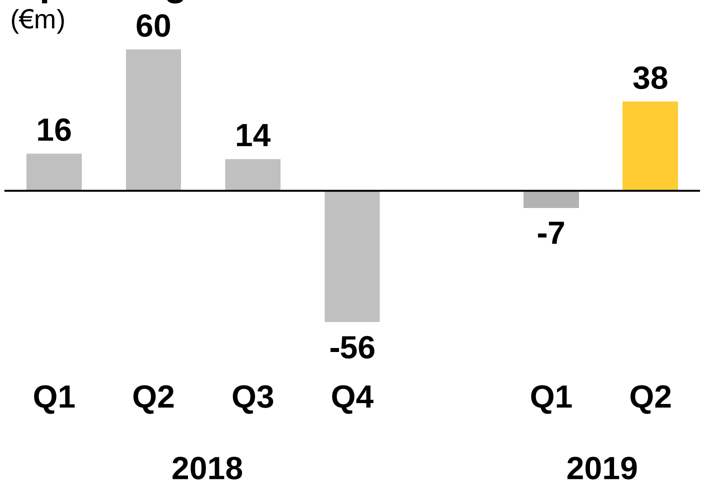
› YoY revenue growth in all client divisions Mittelstand, International Corporates and Financial Institutions

› “Others” reflects lack of positive contributions from legacy portfolios – Q2 2018 had in particular benefitted from a large transaction – as well as lower contributions from hedging and portfolio management

Asset & Capital Recovery: segment dissolved as of July 1st following successful portfolio run down

Operating result

(€m)



Segmental P&L

in €m	Q2 2018	Q1 2019	Q2 2019	H1 2018	H1 2019
Revenues	62	11	68	106	79
Revenues excl. exceptional items	*10*	*14*	*-11*	*78*	*3*
Risk result	16	-1	-23	14	-24
Operating expenses	17	9	7	34	15
Compulsory contributions	-	9	-	10	9
Operating result	**60**	**-7**	**38**	**76**	**31**
RWA (end of period in €bn)	14.4	10.5	10.8	14.4	10.8
CRE (EaD in €bn)	1.1	0.8	0.7	1.1	0.7
Ship Finance (EaD in €bn)	1.1	0.2	0.2	1.1	0.2
Public Finance (EaD in €bn)	7.7	3.6	3.5	7.7	3.5
Group Ship Finance (EaD in €bn)	1.4	0.3	0.3	1.4	0.3

Highlights

› De-risking and portfolio reduction largely finished – ship finance exposure in ACR at €200m

› Positive operating result of €38m in Q2 – driven by valuation effects

› The remaining €4.5bn exposures have been transferred to Others & Consolidation as of July 1st

ACR segment result will be frozen and carried forward to YE 2019

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Objectives and expectations for 2019

2019 – Outlook

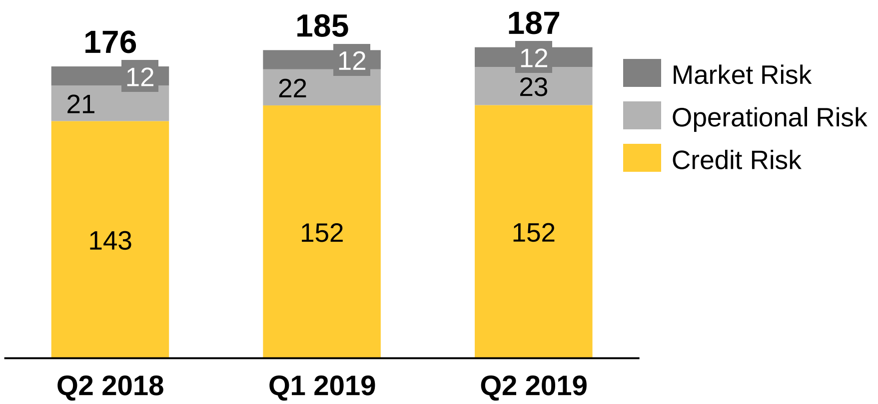
- We continue our growth strategy and expect higher underlying revenues
- We target a cost base below €6.8bn
- We expect a risk result not below €550m
- We plan to maintain a dividend pay-out ratio comparable to 2018
- We target a CET1 ratio ≥12.75%

Capital management and funding

Capital ratio increased to 12.9% on capital built

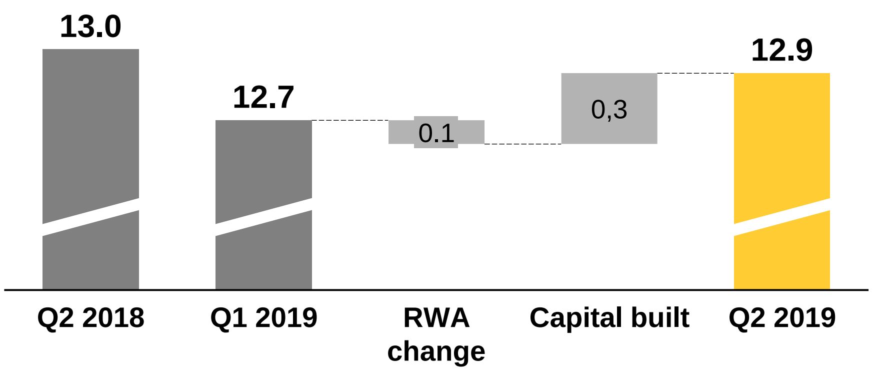
RWA development by RWA classification

(€bn eop)



Transition of CET1 ratio

(%)



Highlights

› CET1 ratio increased to 12.9% as the RWA increase was more than offset by capital built – before TRIM impact expected in Q3

› €1bn increase of Operational Risk RWA due to changes in the external loss database

› Market and Credit Risk RWA stable with higher Credit Risk RWA from loan growth offset by RWA management and FX effects

› Capital built mainly from retained earnings net of dividend accrual and lower regulatory capital deductions

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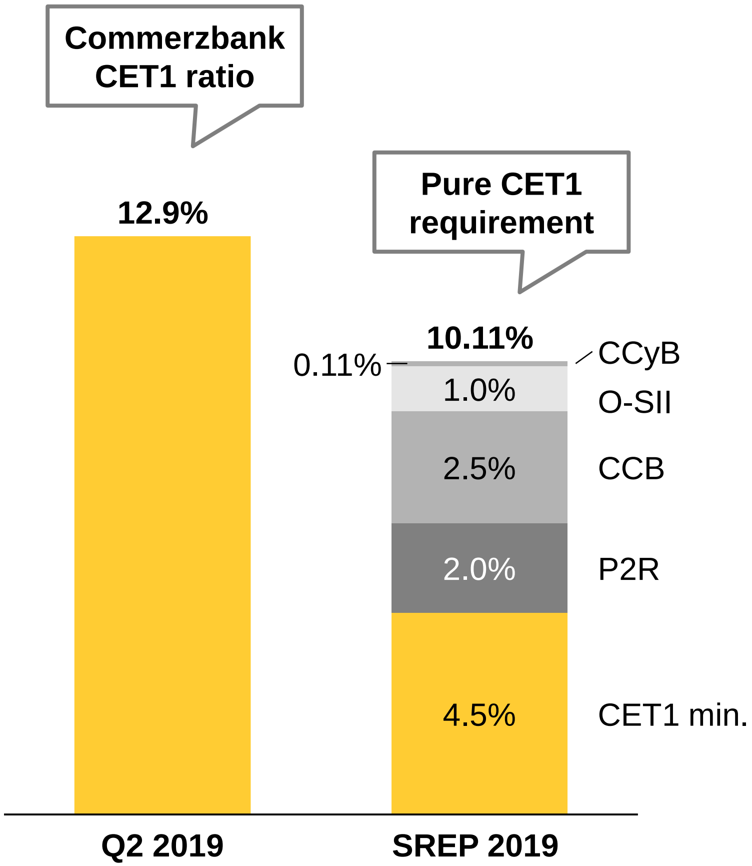
SREP 2019 – CET1 ratio well above requirement



- Commerzbank CET1 ratio of 12.9% well above SREP requirement
- SREP for 2019: Pure CET1 requirement at 10.11%
  - Pillar 2 Requirement (P2R):
    Reduction from 2.25% to 2.0% reflecting the progress made by Commerzbank in further risk reduction
  - Capital Conservation Buffer (CCB):
    Industry-wide Buffer of 2.5%
  - Other systematically important institution (O-SII):
    Increase from 1.0% to 1.5% has been postponed from 2019 to 2020
  - Countercyclical Buffer (CCyB):
    0.11% stemming from foreign exposure so far (German CCyB will apply from July 2020)

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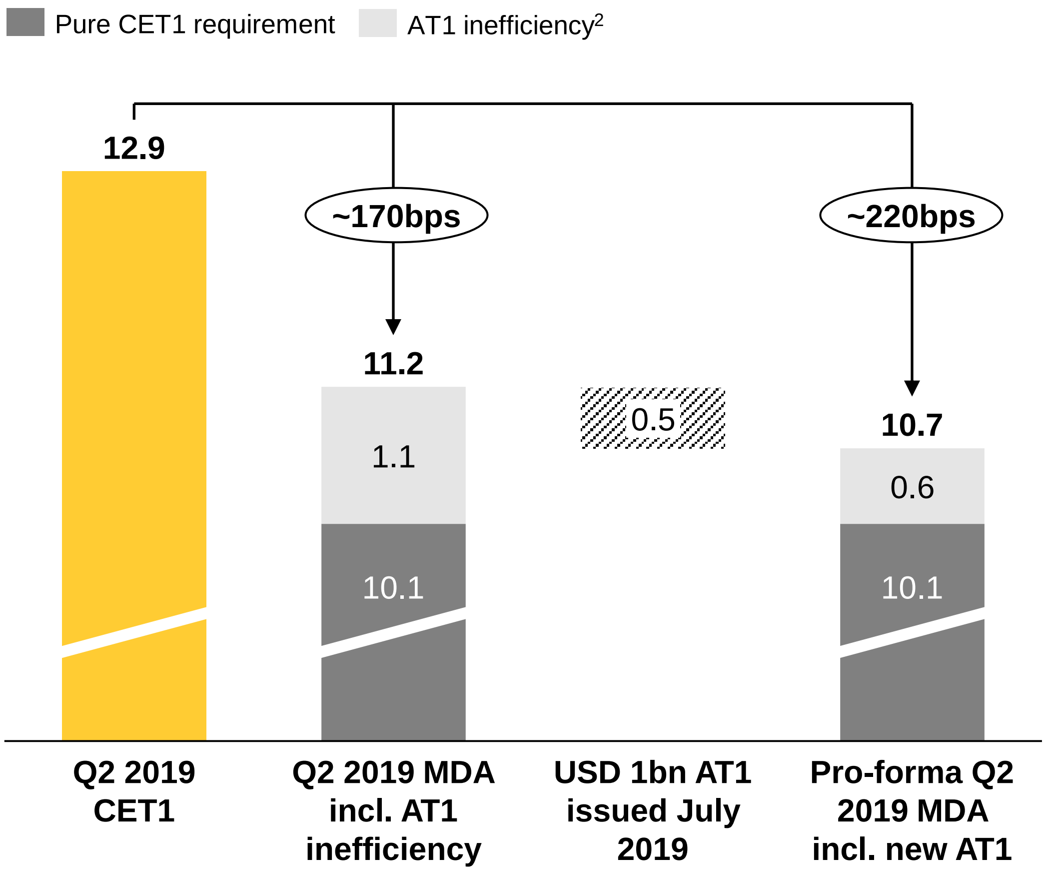
Distance to MDA strengthened by AT1 issuance

Distance to MDA – Status quo and pro-forma USD 1bn inaugural AT1 issue[1]

in %



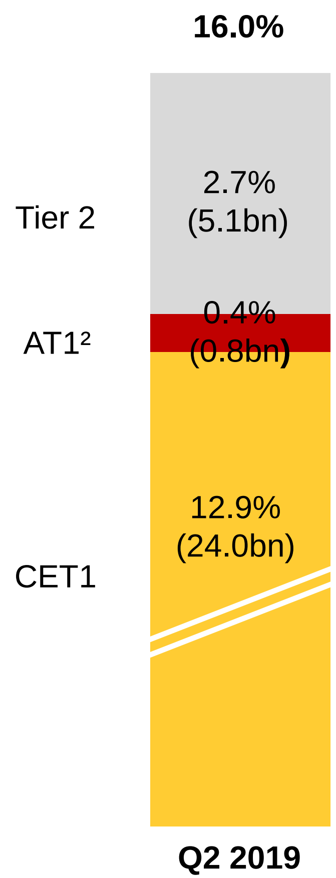
- Inaugural USD 1bn AT1 issue in July 2019 has increased distance to MDA by ~50 bps
- Pro-forma distance to MDA of ~220bps at Q2 2019
- Comfortable basis for expected increase of MDA in 2020 (D-SIB increase by 50 bps, introduction of CCyB in Germany) and further phase-out of legacy AT1
- Further AT1 issuance strategy to be considered in light of maintaining an appropriate distance to MDA and capital requirements

1) Based on RWAs of €187bn as of Q2 2019
2) Incl. legacy T1 instruments (0.4% of RWA in Q2 2019)

Total Capital – Development of Tier 2

Total Capital²

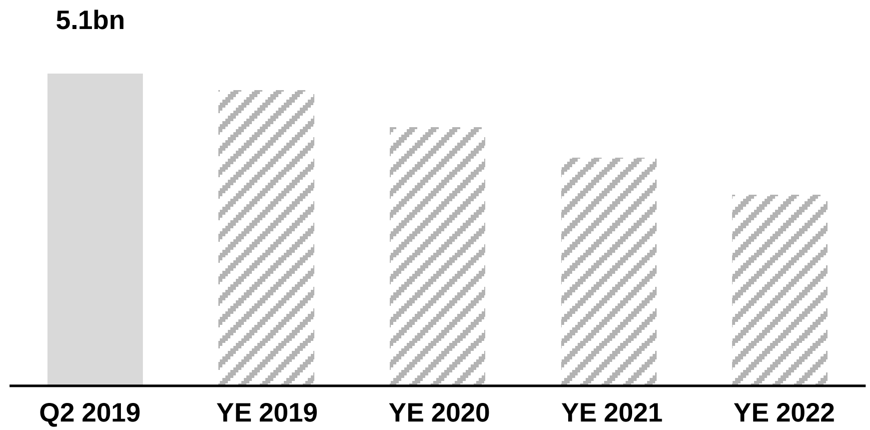
(%)



[2] USD 1bn 7% AT1 issuance as of July 2019 not yet reflected

Tier 2 roll-off profile¹

(€bn)



- Increase of capital efficiency via replacement of amortizing Tier 2 instruments.
- New supply will be limited and manageable aiming to a Tier 2 layer that remains comfortable above 2% of RWA.
- Broader market access which includes US market and potentially niche markets provides flexibility

1) Reflecting linear amortisation according to CRR Article 64

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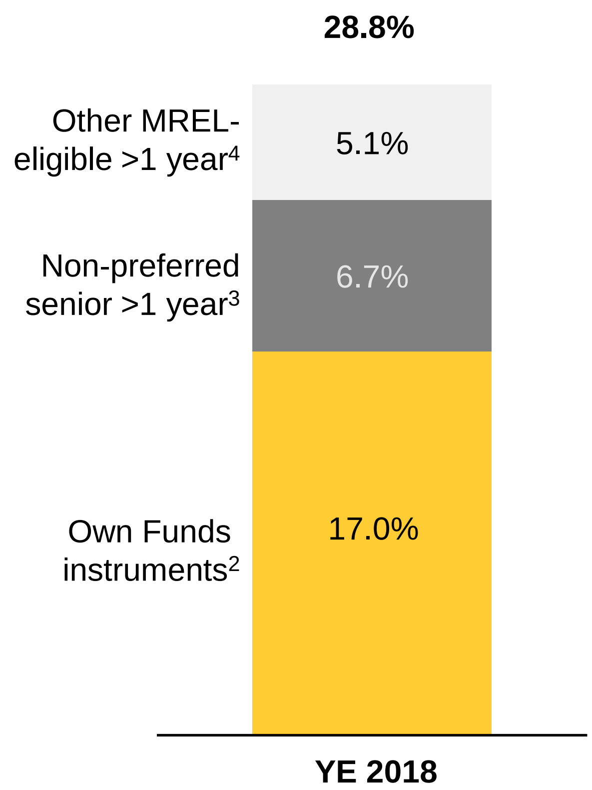
Commerzbank's issuance strategy consistent with MREL requirement

MREL requirement

- In June 2018, Commerzbank has received the formal MREL requirement on a consolidated basis calibrated based on data as of 31 December 2016
- The minimum requirement in terms of RWA is 27.27% [1] being in line with SRB's 2017 policy which was applicable at the time
- The MREL requirement contains a transitional period and is to be complied with after 30 June 2020
- As of 31 December 2018 Commerzbank fulfils the future MREL requirement with a MREL ratio of 28.8% of RWA
- Current issuance strategy consistent with the requirement
- A new minimum requirement is expected H2 2019. It will be based on the new methodology of the SRB's 2018 MREL policy

MREL ratio

(% of RWA)



1) The legally binding MREL requirement is defined as a percentage of total liabilities and own funds (TLOF) and stands at 12.78% based on data as of 31 December 2016

2) Includes amortized amount (regulatory) of Tier 2 instruments with maturity > 1 year
3) According to §46f KWG or Non-Preferred Senior by contract
4) Non-Covered / Non-Preferred deposits; Preferred Senior and mBank Senior Unsecured

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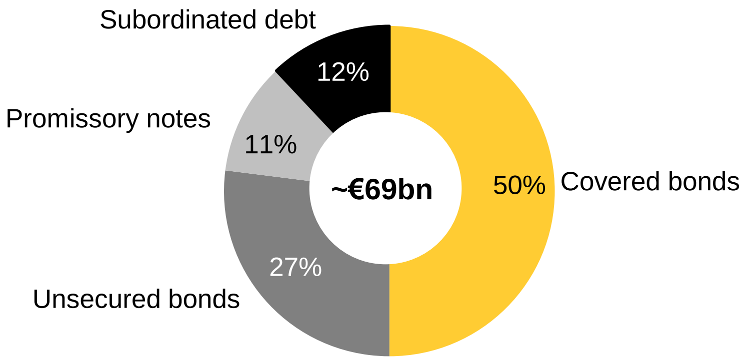
Capital markets funding activities in 2019

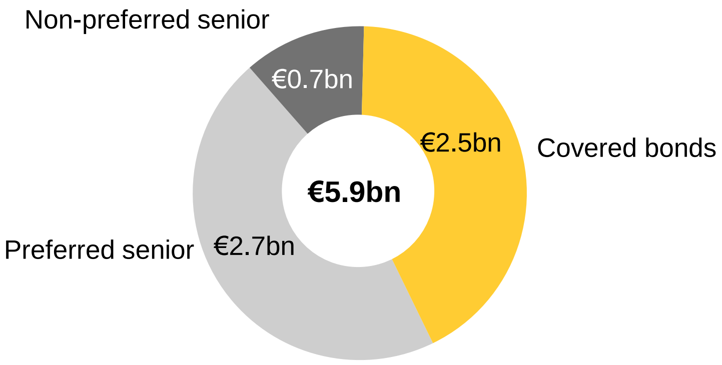
Funding structure[1]

(as of 30 June 2019)



Group Funding activities H1 2019[2]

(nominal values)



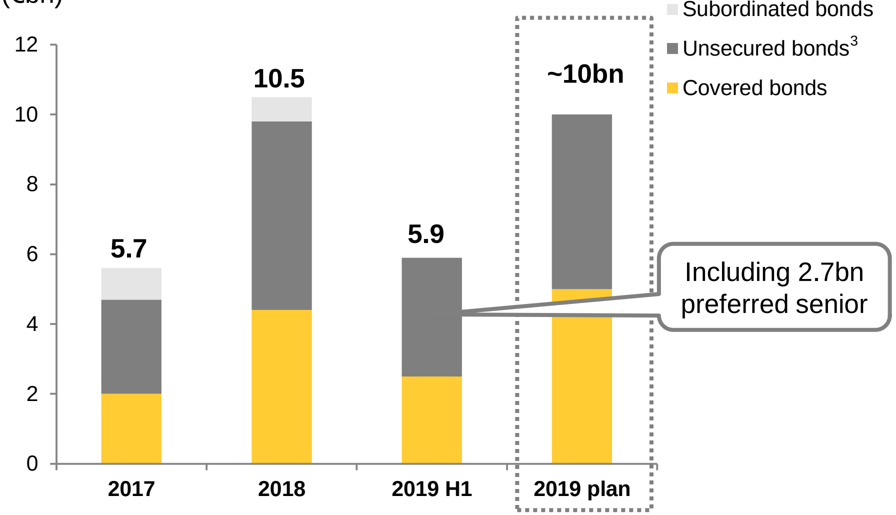
Highlights

› €5.9bn issued in first half year 2019 (average term over 8 years) thereof:
  – Covered bonds: €2bn dual benchmarks with maturities from 5 years and 15 years
  – Preferred senior: Two benchmark transactions of 5 and 7 years with total volume of €2.25bn
  – Non-preferred senior: €500m benchmark with 7 years maturity
› Total funding volume for 2019 expected to be around €10bn
› Issuance of $1bn AT1 in early July and €500m NPS in September 2019

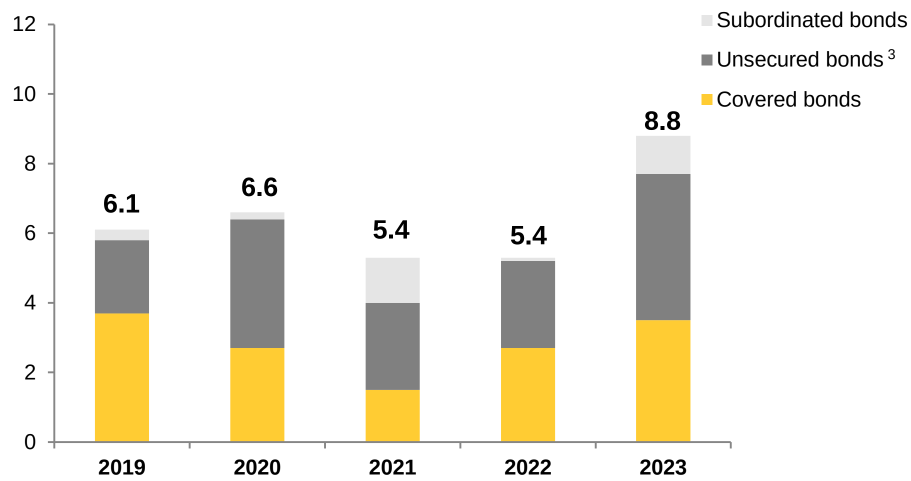
1) Based on balance sheet figures; unsecured bonds including preferred and non-preferred senior
2) Including mBank activities; front office data base

Diversification of funding sources – optimisation of capital structure

New issues activities[1]
(€bn)



Maturities[2] until 2023
(€bn)



Strategy

› Issuance requirements 2019 expected to be around €10bn
› Ongoing review of funding plan throughout the year, final funding depends on asset / RWA development
› New issuance to replace maturing debt and meet regulatory requirements
› Continued focus on diversification: new foreign markets and new investors
› New funding will support the well balanced maturity profile
› Issuance of $1bn AT1 in July 2019 and €500m NPS in September 2019

1) values based on nominal basis as of June 30th
2) basis IFRS values as of June 30th, 2018; non-preferred and preferred senior bonds
3) unsecured bonds incl. preferred and non-preferred senior bonds

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Rating overview Commerzbank

As of 26 September 2019	S&P Global	Moody's Investors Service	FitchRatings	Scope Ratings
Bank Ratings	**S&P**	**Moody's**	**Fitch**	**Scope**
Counterparty Rating/ Assessment[1)]	A	A1/ A1 (cr)	A- (dcr)	-
Deposit Rating[2)]	A- negative	A1 stable	A-	-
Issuer Credit Rating (long-term debt)	A- negative	A1 stable	BBB+ stable	A stable
Stand-alone Rating (financial strength)	bbb+	baa2	bbb+	-
Short-term debt	A-2	P-1	F1	S-1
Product Ratings (unsecured issuances)				
Preferred senior unsecured debt	A- negative	A1 stable	A-	A stable
Non-preferred senior unsecured debt	BBB	Baa2	BBB+ stable	A- stable
Subordinated debt (Tier 2)	BBB-	Baa3	BBB	BBB stable
Additional-Tier-1 (AT1)	BB	Ba2	-	-

Rating events in 2019

› Fitch has upgraded Commerzbank´s short-term bank rating by 1 Notch to F1.

› Moody´s has lowered the rating uplift of non-preferred senior debt rating resulting from the rating agency's Advanced Loss Given Failure analysis by one notch and downgraded this instrument class to „Baa2".

› Moody´s and S&P assigned ratings to Commerzbank´s AT1 issuance in June 2019.

1) Includes client business (i.e. counterparty for derivatives)
2) Includes corporate and institutional deposits

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Key elements of our capital management and funding

- Covered Bonds in the form of mortgage-backed Pfandbriefe are our most cost-efficient strategic funding instrument in line with the PSBC business strategy
- Preferred senior intended to be used as unsecured instrument for refinancing of our strategic growth and to the extent we are allowed for MREL purpose
- Non-preferred senior is expected to be rolled-over at a sufficient volume to support the A-rating of our preferred senior instruments and client products
- Tier 2 is managed at a layer comfortably above the amount of 2% recognised in regulatory Total Capital
- AT1 issuance strategy to be considered in light of maintaining an appropriate distance to MDA and meeting capital requirements

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Financial calendar

2019		2020				
	07 Nov		**13 Feb**	**13 May**	**05 Aug**	**05 Nov**
	Q3 2019 results		Q4 2019 press conference	Q1 2020 results	Q2 2020 results	Q3 2020 results