

## Press release

For business editors  
30 September 2016

### Commerzbank to increase profitability through focus and digitalisation

- **“Commerzbank 4.0” strategy with three main thrusts: focused growth, digital transformation and increased efficiency**
- **Concentration on future-proofing customer business in two segments: “Private and Small Business Customers” and “Corporate Clients”**
- **Trading activities in investment banking to be scaled back, freed-up capital reallocated and balance sheet structure further improved**
- **Evolution into a digital enterprise – “Digital Campus” to speed up implementation**
- **Focusing and digitalisation will lead to staff reductions amounting to 9,600 full-time positions**
- **Strategy implementation to be financed by targeted deployment of resources and retention of profits**
- **Zielke: “Our business model will be simpler, more efficient and fully digitalised, enabling us to sustainably increase our profitability.”**

By the end of 2020 Commerzbank will have sustainably increased its profitability. As part of the “Commerzbank 4.0” strategy, it will concentrate on its core businesses and digitalise 80% of relevant processes, thereby achieving significant efficiency gains. Its business will be focused in two customer segments, **“Private and Small Business Customers”** and **“Corporate Clients”**. The Mittelstandsbank and Corporates & Markets segments will be consolidated into a single unit and trading activities in investment banking scaled back. The downsizing of the trading activities will reduce earnings volatility and regulatory risk, and will free up capital to be invested in the core businesses.

Commerzbank is aiming for a net return on tangible equity (RoTE) of more than 6% by the end of 2020. This target is based on the expectation that the interest rate environment will remain challenging. Should interest rates improve, a net return on tangible equity of more than 8% will be achievable. Commerzbank is expecting revenues for 2020 to total between €9.8 and 10.3 billion. The cost base is to be reduced to €6.5 billion, taking the cost/income ratio to below 66%. In a normalised interest rate environment, revenues could rise to over €11 billion and the cost/income ratio could fall to around 60%.

The Common Equity Tier 1 (CET 1) ratio, after full application of Basel 3, is expected to stay at around 12% and will be above 12% in 2018 taking into account currently foreseeable regulatory developments. For 2020 the Bank is expecting a ratio of above 13%.

To cover its restructuring costs of around €1.1 billion, Commerzbank will cease dividend payments for the time being and will retain its full earnings.

The focus on the core business, with some business activities being discontinued, and the digitalisation and automation of workflows will lead to staff reductions amounting to around 9,600 full-time positions. The Bank will shortly begin preparatory discussions with the relevant employee representative committees. At the same time, around 2,300 new jobs will be created in areas of business growth. Hence the net number of jobs shed will amount to around 7,300 full-time positions.

“Job cuts are a painful process for the Bank and for each individual affected. But they are necessary to make the Bank fit for the future. Although Commerzbank is stable, it is not profitable enough”, said Martin Zielke, Chairman of the Board of Managing Directors of Commerzbank. “We have achieved a great deal in the last few years: we have improved the quality of our balance sheet, reduced risk and significantly strengthened our capital base. Now, with the general business climate as challenging as ever, we need a bold rethink and a real transformation of the Bank. For this, we will be concentrating solely on our strengths, automating our processes and thereby laying the foundations for profitable growth at lower costs. The new Commerzbank 4.0 is focused, digital and efficient.”

## **Concentrating on strengths**

With its two segments, “Private and Small Business Customers” and “Corporate Clients”, Commerzbank will in future be even more focused on its core businesses. “We are focusing on the areas where we deliver particular added value to our customers, thereby setting ourselves apart from the competition. And we are systematically giving up businesses in which we can’t see any future for us”, said Martin Zielke. This relates in particular to the investment bank, where trading activities will be simplified and aligned with the needs of the Bank’s core customers. The existing Corporates & Markets segment will be integrated into the Corporate Clients segment. Services that are important to corporate clients such as primary issuance and distribution and risk management will remain key to the Commerzbank’s offering. The technology-intensive structured equities business in Equity Markets & Commodities (EMC), geared towards market-making and the manufacturing of securitised products, will be ringfenced in a separate legal entity. The exotic structured rates business will cease, while flow credit and bond trading in Fixed Income & Currencies (FIC) will be scaled back. The capital freed up by this withdrawal will be reinvested in the “Private and Small Business Customers” segment. By 2020 the Bank wants to achieve cost savings of €1.1 billion by focusing, eliminating redundancy, simplifying the infrastructure and by digitalisation.

## **Private and Small Business Customers: building on our strong position**

The new Private and Small Business Customers segment encompasses Commerzbank's private and small-business customers as well as the subsidiaries Comdirect, Commerz-Real and M-Bank. The customer group "Small-Business Customers" comprises commercial clients and smaller SMEs.

The Bank wants to gain a net two million new customers in Private and Small Business Customers in the German market by 2020. Growth will be driven, in particular, by the expansion of digital multichannel banking and innovative products like a new digital instalment loan platform and digital asset management including Robo-Advice. Commerzbank will also maintain a dense branch network. Besides the large flagship branches in the main population centres, Commerzbank will introduce a new type of small, modern branch, the "city branch".

"For years now, our retail business has posted sustainable, profitable growth in a stagnating market. We will continue this success story and extend it to small business customers", said Zielke. The Bank is planning to substantially increase its market share among small business customers to 8% over the next four years, thanks to good regional accessibility, tailored product portfolios, digital solutions and its ability to offer private and business services in one place. The aim is for these measures to generate revenue growth of at least €1.1 billion in the new Private and Small Business Customers segment by the end of 2020.

## **Corporate Clients: national and international growth from a leading position**

In corporate banking, the Bank wants to further extend its leading position in trade financing. To achieve this it is looking for focused growth in the most important trade corridors for German and European corporate clients. With its deep penetration of the key German industries – automotive and transport, chemicals and pharmaceuticals, engineering, energy and infrastructure, consumer and retail – Commerzbank possesses comprehensive sector expertise which sets it apart from the competition. In future it will increasingly offer this expertise to its international clients in Europe as well. Among SMEs with turnover of between €15 and 50 million as well, Commerzbank plans to further expand its market position with the aid of its international expertise and digitalisation. To achieve this it will further develop its offering and introduce new digital products and services.

Collaboration between client relationship managers and product experts will be further strengthened by the consolidation of Mittelstandsbank and Corporates & Markets. "The Corporate Clients segment builds on the strengths of the Mittelstandsbank and incorporates the products and services from the capital markets business that are relevant to our clients", Zielke said. The aim is for these measures to generate revenue growth of over €300 million in the new segment by the end of 2020.

## Evolution into a digital enterprise

Commerzbank wants to evolve into a digital enterprise in the next four years. The Bank will invest approximately €700 million per year in digitalisation and IT by reallocating existing funds, without increasing its overall investment expenditure. In future, agile project teams working on a “Digital Campus” will drive forward digitalisation projects and automate and optimise processes. By 2020 80% of relevant business processes will be digitalised. The Bank expects significant cost reductions and efficiencies as a result.

The first milestone will come in October when Commerzbank rolls out its integrated digital sales interface, “One”. This will enable sales personnel and customers to view information and conduct transactions on the same platform at any time. In addition, the Bank will put in place a flexible smart data architecture to enable customers to be addressed in a targeted way. An integrated cloud-based customer relationship management system for private, small business and corporate clients will then be introduced in the second half of 2017.

## Outlook

Due to the reduction in trading activities, Commerzbank will write off goodwill and intangible assets of approximately €700 million in the third quarter of 2016. Consequently, the net result will be negative in the third quarter. The write-offs do not affect the Common Equity Tier 1 (CET 1) ratio. In terms of Operating profit, Commerzbank expects revenues to be approximately the same as in the second quarter. Loan loss provisions will be considerably higher than in the first two quarters due to ongoing weakness in the ship markets. Despite the goodwill write-offs, Commerzbank is expecting a small net profit for 2016 as a whole.

The CET 1 ratio after full application of Basel 3 will be higher in the third quarter of 2016 than in the previous quarter. The Bank is expecting its Common Equity Tier 1 ratio to stand at nearly 12% at the end of the year, provided no significant market distortions occur.

“Efficient use of our capital is our top priority. Our capital ratio will remain comfortably above the foreseeable regulatory requirements”, said Commerzbank’s Chief Financial Officer, Stephan Engels. “We are financing the implementation of our strategy through the targeted use of our resources and by retaining profits. Therefore we are also ceasing dividend payments. We also have the necessary leeway by managing our risk-weighted assets.”

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## About Commerzbank

Commerzbank is a leading international commercial bank with branches and offices in more than 50 countries. The core markets of Commerzbank are Germany and Poland. With the business areas Private Customers, Mittelstandsbank, Corporates & Markets and Central & Eastern Europe, its private customers and corporate clients, as well as institutional investors, profit from a comprehensive portfolio of banking and capital market services. Commerzbank finances more than 30 per cent of Germany's foreign trade and is the unchallenged leader in financing for SMEs. With its subsidiaries Comdirect and Poland's M Bank it owns two of the world's most innovative online banks. With approximately 1,050 branches Commerzbank has one of the densest branch networks among German private banks. In total, Commerzbank boasts more than 16 million private customers, as well as 1 million business and corporate clients. The Bank, which was founded in 1870, is represented at all the world's major stock exchanges. In 2015, it generated gross revenues of €9.8 billion with 51,300 employees.

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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 Europe, in the USA 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, especially due to the ongoing European debt crisis, potential defaults of borrowers or trading counterparties, the implementation of its strategic initiatives to improve its business model, particularly to reduce its ACR 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.