Basis of the Commerzbank Group

Structure and organisation

Commerzbank is one of Germany's leading banks for private and corporate clients, and an internationally active universal bank with locations spanning more than 50 countries. It has one of the densest branch networks of any private-sector bank in Germany, with approximately 1,000 branches. Commerzbank serves a total of over 18 million private and small-business customers and more than 60,000 corporate clients worldwide.

As part of its strategy, Commerzbank is focusing its business activities on the two core segments "Private and Small-Business Customers" and "Corporate Clients", offering them a comprehensive portfolio of banking and capital market services. The run-off segment Asset & Capital Recovery (ACR) comprises – besides the Public Finance business – all non-strategic activities of commercial real estate and ship financing. Each segment is managed by a member of the Board of Managing Directors.

All staff and management functions are contained in Group Management: Group Audit, Group Communications, Group Compliance, Group Development & Strategy, Group Finance, Group Human Resources, Group Investor Relations, Group Legal, Group Treasury and the central risk functions. The support functions are provided by Group Services. These include Group Banking Operations, Group Markets Operations, Group Information Technology, Group Organisation & Security and Group Delivery Center. The staff, management and support functions are combined in the Others and Consolidation division for reporting purposes.

On the domestic market, Commerzbank Aktiengesellschaft is headquartered in Frankfurt am Main, from where it manages a nationwide branch network through which all customer groups are served. Its major German subsidiaries are comdirect bank AG and Commerz Real AG. Outside Germany, the Bank has 6 material subsidiaries, 21 operational foreign branches and 32 representative offices in more than 50 countries and is represented in all major financial centres, such as London, New York, Tokyo, Hong Kong and Singapore. However, the focus of the Bank's international activities is on Europe.

Commerzbank prepares Group financial statements which, in addition to Commerzbank Aktiengesellschaft as operating lead company, incorporate all material subsidiaries over which the Bank exercises control. The financial year is the calendar year.

Objectives and strategy

Commerzbank considers itself to be a fair and competent bank that wishes to be a long-term, reliable partner for its customers. We base our actions on the highest ethical values, integrity and fairness and are committed to complying with all applicable laws, guidelines and market standards. For us, this is the basis on which we work in a relationship of trust with our corporate clients, institutional clients, partners and stakeholders. "The bank at your side" – everything Commerzbank does is measured against this promise, and the Bank has very clearly demonstrated its commitment in this area over recent years.

The banking business has undergone fundamental changes due to the current low interest rate environment, legal requirements and digitalisation, as have the ways in which customers want to conduct their banking transactions. Commerzbank is rising to these major challenges with the strategic realignment: Commerzbank 4.0. The new strategy concentrates on focused growth, digitalisation and efficiency.

Full details of the Commerzbank 4.0 strategy can be found both in the Annual Report 2016 and on the Commerzbank website at http://commerzbank.com. Here are the key elements once again:

As part of this strategy, it will concentrate on its core businesses and digitalise 80% of relevant processes, thereby achieving significant efficiency gains and increasing its profitability on a sustainable basis by the end of 2020. Its business is focused on two customer segments, "Private and Small-Business Customers" and "Corporate Clients".

Commerzbank is aiming for a net return on tangible equity 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 normalise, a net return on tangible equity of more than 8% will be achievable. Commerzbank is expecting revenues for 2020 to total between €9.8bn and €10.3bn. The cost base is to be reduced to €6.5bn, taking the cost/income ratio to below 66%. In a up to 2020 expected normalised interest rate environment, revenues could rise to over €11bn, and the cost/income ratio could fall to around 60%. For the year 2020 the Bank expects a Common Equity Tier 1 ratio after full application of Basel 3 of over 13%.

The focus on the core business, with some business activities being discontinued, and the digitalisation and automation of workflows will lead to corresponding staff reductions. In mid-July 2017 Commerzbank agreed an outline reconciliation of interests and an outline social plan with the employee representative committees in Germany. The binding agreements form the basis for personnel reductions at the Bank in a way which is as socially responsible as possible.

Concentrating on strengths

Commerzbank concentrates on two strong customer segments: "Private and Small-Business Customers" and "Corporate Clients". This means we focus on our strength: advising our customers, personally and digitally. At the same time we are concentrating on our core competences and seizing the opportunities of digitalisation to become better, faster and more innovative.

The Bank is focusing on areas where it delivers particular added value to its customers, thereby setting itself apart from the competition; at the same time, it is systematically giving up businesses that do not fit with the strategic orientation. As part of the Commerzbank 4.0 strategy, in the Corporate Clients segment the business with investment and financial products and the associated market-making, which makes up most of the Equity Market & Commodities (EMC) area, is being spun off from Commerzbank.

Private and Small-Business Customers: building on our strong position

The Private and Small-Business Customers segment encompasses Commerzbank's private and small-business customers as well as the comdirect Group, Commerz Real and mBank. We continue to offer a personal presence for our private clients across the country with advisory and other services in some 1,000 branches. At the same time we are expanding our digital offering and creating a single digital platform for all customers and all channels. Over the coming years the Private and Small-Business Customers segment will become Germany's first truly digital multi-channel bank. We are strengthening our offering for small and mid-sized companies. To do this we have created a separate business unit for small-business customers within the Private and Small-Business Customers segment to take responsibility for business customers and small corporate clients.

The Bank is planning to substantially increase its market share among small-business customers to 8% by 2020, 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 €1.1bn 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 key German industries – automotive and transport, chemicals and pharmaceuticals, engineering, energy and infrastructure, consumer goods 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 Mittelstand clients with turnover of between €15m and €100m 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. The aim is for these measures to generate revenue growth of over €300m by the end of 2020.

Evolution into a digital enterprise

We will therefore restructure Commerzbank into a digital enterprise over the next few years. We are developing a holistic digital business model which makes banking for all customers as simple as possible through a strong digital offering. This strategic programme involves rebuilding Commerzbank from the ground upward. The aim of the Commerzbank 4.0 strategy is to become the leading bank in Germany for private, small-business and corporate customers: digital and personal, close to the client and fast and efficient at processing.

Corporate management

Corporate management in the Commerzbank Group is based on a value-oriented control concept. This concept is based on ensuring that the risks entered into by the business units are in line with the external and internal guidelines on risk-bearing capacity and on aiming to achieve an appropriate return over the long term on the capital employed. In this respect, the Bank regularly monitors the allocation of scarce resources to business units and actively adapts its business strategy to changing market circumstances in order to boost the enterprise value over the long term.

The annual planning process is a key corporate management tool. In this process, the Board of Managing Directors sets targets for the business units based on the business strategy. Existing resources such as capital and risk limits are allocated to the segments in a way that reflects the targets and risk profiles. The segments put the plan into operation based on the business strategy and the results of the planning process. The Board of Managing Directors carries out regular checks to ensure that business planning is being followed. This ensures any deviations are identified at an early stage through monthly management reporting and countermeasures taken.

In order to manage the Group and its segments, the Bank uses the standard indicators described below, which cover all the essential dimensions of Group management. Their development is monitored as part of regular management reporting.

The management of the Bank takes account of both pillars of capital adequacy regulations. To ensure internal risk-bearing capacity at all times, planning includes allocating economic capital to the segments broken down by type of risk. The average capital employed in the segments is calculated based on the average segmented risk-weighted assets. At Group level, Common Equity Tier 1 is shown. The calculation for the segments and the Group are both based on a fully phased-in application of Basel 3 regulations. The reconciliation of average capital employed in the segments to the Group's CET 1 capital is carried out in Others and Consolidation.

In addition to compliance with the capital requirements currently in place (under phase-in rules), the capital markets are already focusing on the full application of the CRR from 2018. The Common Equity Tier 1 ratio (fully phased-in) is therefore a key indicator for the Bank in capital management.

The key figures used for measuring success in the corporate management process are operating profit/loss and group profit/loss after tax and non-controlling interests, along with the cost/income and return on equity ratios and the economic value added calculated from these ratios. The cost/income ratio is used to assess cost efficiency and is defined as the ratio of operating expenses (excluding impairments of goodwill and restructuring expenses) to income before loan loss provisions. Segment return on equity is calculated as the ratio of operating profit/loss or pre-tax profit/loss to the average amount of regulatory capital employed. It shows the return on the equity invested in a given business segment. As is standard for value-based management concepts, the target minimum return on capital employed is derived from the expected return on the capital market. With a view to the Commerzbank 4.0 strategy, the focus at Group level is the return on tangible equity.

Economic value added is the indicator used for determining the performance of the Group. It is defined as the difference between the Group's return on equity and the capital cost rate, multiplied by the Group's equity. The Group's return on equity is the ratio of the consolidated surplus after tax and non-controlling interests to average Group equity. The capital cost rate represents our shareholders' expectations for the minimum return on their capital employed and is reviewed on an annual basis. The calculation of the capital cost rate is based on the capital market-oriented Capital Asset Pricing Model (CAPM). Commerzbank currently calculates its post-tax capital cost rate to be 7.5%.

As Group figures, the controlling data listed above form part of a system of other segment-specific data that varies from segment to segment depending on the business strategy.

Remuneration report

The Remuneration Report is part of the Corporate Governance Report in the Corporate Responsibility section. It forms part of the Group Management Report.

Details pursuant to Art. 315 (4) of the German Commercial Code

Details pursuant to Art. 315 (4) of the German Commercial Code (HGB) can be found in the Corporate Responsibility section. They form part of the Group Management Report.

Details pursuant to Art. 315a of the German Commercial Code and explanatory report

Details pursuant to Art. 315a of the German Commercial Code (HGB) and explanatory report can be found in the Corporate Responsibility section. They form part of the Group Management Report.

Details pursuant to Art. 315d of the German Commercial Code

Details pursuant to Art. 315d of the German Commercial Code (HGB) in conjunction with Art. 289f of the German Commercial Code (HGB), "Declaration on corporate governance", can be found in the Corporate Governance report. This can be found under www.commerzbank.com/annual-report2017.

Details pursuant to Art. 340i (5) of the German Commercial Code in conjunction with Art. 315b (3) of the German Commercial Code

Details pursuant to Art. 340i (5) in conjunction with Art. 315b (3) of the German Commercial Code (HGB) can be found in the Corporate Governance section as a combined separate non-financial report.

Important staffing and business policy events

Commerzbank made major steps in implementing its Commerzbank 4.0 strategy in financial year 2017: reaching agreement with the employee representatives on a reconciliation of interests and an outline social plan laid the foundations for the staffing and organisational changes required. By taking over the instalment loan business we now have full responsibility for an important growth area once again. Commerzbank once more reduced complexity by completing the sale of two affiliated companies and agreeing a strategic partnership for securities settlement. The Bank also further strengthened its compliance function. There were some changes in personnel during the year, within both the Board of Managing Directors and the Supervisory Board.

Change in the Supervisory Board of Commerzbank

As proposed by the Supervisory Board, the Annual General Meeting on 3 May 2017 appointed Dr. Tobias Guldimann to the Supervisory Board of Commerzbank Aktiengesellschaft. Dr. Guldimann succeeded Prof. Dr. Ulrich Middelmann, who passed away in 2013 and had been replaced on the Supervisory Board by Dr. Roger Müller. The appointment of a successor marked the end of Dr. Roger Müller's term of office; he returned to his role as substitute member. Heike Anscheit and Stefan Jennes have been members of the Supervisory Board since 1. January 2017 and 1. February 2017 respectively.

Dr. Bettina Orlopp appointed as a member of the Board of Managing Directors

With effect from 1 November 2017, Dr. Bettina Orlopp was officially appointed as a member of the Board of Managing Directors of Commerzbank. As planned, Dr. Orlopp is responsible for the new Board portfolio Compliance, Human Resources and Legal.

Progress made with the implementation of the personnel reductions required under the Commerzbank 4.0 strategy

On 13 July Commerzbank agreed an outline reconciliation of interests and an outline social plan with the employee representative committees in Germany. The binding agreements form the basis for ensuring that the personnel reductions announced by the Bank in autumn 2016 as part of the Commerzbank 4.0 strategy are handled as socially responsibly as possible.

Commerzbank takes over instalment loan portfolio

In mid-August 2017, Commerzbank reached an agreement with BNP Paribas Personal Finance S.A. on splitting out the banking business division of their Munich-based joint venture Commerz Finanz GmbH, which contains the instalment loans distributed by Commerzbank. The split put an end to the joint venture. Under a partial transfer of operations, around 300,000 customer agreements covering a portfolio of instalment loans totalling roughly €3.5bn were transferred from Commerz Finanz GmbH to Commerzbank. The transaction was coordinated with the regulatory authorities and completed on 18 August 2017. The Federal Cartel Office had already given its approval for the transaction. Instalment loans are an important growth area for Commerzbank. The Bank wants to bring the business back in-house and plans to digitalise and expand its operations. With this in mind, Commerzbank launched its own digital instalment loan in the first half of 2017.

Commerzbank completes sale of two affiliated companies

On 13 July 2017, we finalised the announced sale of the interest in the precious metal processor Argor-Heraeus SA, Mendrisio, Switzerland. On 26 July 2017, we finalised the announced sale of the interest in the credit card service provider Concardis GmbH, Eschborn, Germany.

The respective impacts on profit and loss were shown in the income statement in the third quarter of 2017.

Commerzbank and HSBC Transaction Services GmbH agree strategic partnership

At the start of December 2017 Commerzbank Aktiengesellschaft and HSBC Transaction Services GmbH reached agreement on a strategic partnership in securities settlement. As part of this partnership, Commerzbank's operational business processes for securities settlement will be outsourced. This will see the creation of a joint venture in which Commerzbank will hold a 20% minority interest. Initially the partnership will run for 10 years. The operational start of the new company is scheduled for the beginning of 2020. By then the two sides will have laid the technical foundations for the data migration. The capital expenditure Commerzbank has to make for this and the medium-term savings that can be expected are fully reflected in the planning for Commerzbank 4.0. An intensive test phase will start in 2018 to ensure that the outsourced securities settlement activities get off to a smooth start. It has been agreed that the further contractual details will remain confidential.

Commerzbank strengthens compliance function

The Bank once again took steps in 2017 to further strengthen the compliance function. This covers not just structural changes but also increasing headcount, staff training and the successful recruitment of additional compliance experts with external experience to work at head office and in foreign locations. This trend will be further consolidated by means of a short- and medium-term HR strategy. The compliance function implemented various measures relating to global financial crime, global markets compliance and anti-bribery and corruption in order to improve the management of compliance risks. Steps were also taken to further strengthen compliance governance in Germany and abroad. In addition, the Board of Managing Directors and management increased their communication on compliance risks ("tone from the top") with a "culture of integrity" campaign in 2017. The Bank emphasised a consistent compliance structure in the sense of "three lines of defence" which is actively lived out within the entire Bank. As part of this model, compliance coordination units were implemented in the front office (the first line of defence). The Bank set up various cross-divisional compliance committees to promote interaction on specialist issues between the first line of defence units and Group Compliance (the second line of defence). These serve to consider and discuss high-level compliance matters (e.g. regulatory changes) or specific business issues (e.g. assessing customer groups as part of onboarding, cases/patterns of fraud occurring). The Global Compliance Board is the highest committee and is chaired by the member of the Board of Managing Directors responsible for Compliance, Human Resources and Legal. Within Group Compliance, the highest body is the Compliance Management Committee, which is chaired by the Chief Compliance Officer of the Bank.

According to the requirements of the Financial Services and Markets Act 2000 (FSMA) Commerzbank London has mandated a consulting company as a Skilled Person. The consulting company carried out a review of existing structures and processes (especially with regard to money laundering, financing of terrorism as well as sanctions/embargoes) and prepared a report for the UK Financial Conduct Authority (FCA). Following this, the efficiency of the resulting implementation plan will be evaluated and the Skilled Person will report to the FCA on a semi-annual basis.

In terms of the findings relating to the settlements with various US authorities the Bank has dealt with the majority of the findings. The Bank has also received various interim reports from the monitor appointed by the New York State Department of Financial Services ("DFS"), to which it has responded with corresponding implementation programmes. The Bank has already made good progress in carrying out the implementation programmes and has dealt with most of the measures.

Economic report

Economic conditions

Economic environment

In 2017, the global economy recorded the strongest growth it had seen since 2011. Emerging markets provided significant momentum. After a deep recession, Russia and Brazil returned to the growth track. The fact that the growth slowdown seen in China the year before was not sustained also helped. The Chinese economy actually grew even more strongly than in 2016, by 6.9%.

The industrialised countries also noticeably picked up speed in 2017. In the USA growth was clearly higher than in 2016 at 2.3%. The unemployment rate is now lower than it was before the deep recession of 2007–09. Against this backdrop, the Federal Reserve decided in 2017 to raise key interest rates by a further 75 basis points to 1.25%–1.50%, and also started to slowly run down its holdings of securities.

The eurozone also noticeably picked up speed in 2017. Growth was even stronger than in the USA, at 2.5%. The expansive monetary policy of the European Central Bank (ECB) is having an increasingly powerful effect on the real economy. At the same time the eurozone economy is profiting from lively global demand. Thanks to this growth, the situation on the labour market has continued to significantly improve, with the unemployment rate falling from 9.7% at the end of 2016 to 8.7% in December 2017. Despite the tighter supply of available labour, wages rose only very modestly in 2017. Accordingly, there was no change in the low underlying inflation. The core inflation rate, i.e. the year-on-year rate of the consumer price index excluding highly volatile food and energy prices, continues to fluctuate around 1%. The subdued inflationary outlook led the ECB to extend its bond purchase programme until September 2018. However, since the start of the year it has only been buying €30bn per month, half as much as before. The ECB also decided to fully reinvest the principle payment of maturing securities even after the programme has ended.

The German economy grew slightly more strongly in 2017 (2.2%) than it did in 2016 (1.9%). Adjusting for the different number of working days, the increase was as much as 2.5%.

Unemployment at year-begin was a seasonally adjusted 5.4%, the lowest level since German reunification. The economy was mainly bolstered by stronger investment and higher export growth.

Financial markets were once again dominated in 2017 by the extremely loose monetary policies pursued by the leading central banks. Investors continued to be forced into riskier forms of investment such as equities, corporate bonds and the government bonds of periphery countries.

Sector environment

After getting over a brief period of uncertainty at the start of 2017, from summer onwards strong economic optimism emerged, especially in the industrialised countries, and the cyclical improvement also reached some of the major commodity exporting countries. The firmer global economy therefore spread to more countries. Political risk, higher debt and weak productivity growth receded into the background and volatility hovered around what were in some cases record low levels.

Against this backdrop, the already high levels of valuation on global equity markets rose further in 2017. The robust global economy encouraged long-term yields to slowly rise again from their low level in the USA and Germany and risk premiums fell sharply once more on corporate bond markets. Even though the Federal Reserve – the provider of the world's most important currency – tightened monetary policy, funds are cheap all over the world. Most market participants assume that the tighter US interest rate policy will not slow the economy too much or trigger turbulence on the stockmarkets. This confidence contributed to a strong risk appetite on the part of investors.

However, the risks to the global economy have not diminished. Deleveraging by governments, companies and private households has not yet been completed and continues to weigh on the profitability of banks throughout the eurozone. In eurozone bond markets, expansionary monetary policy has to some extent served only to paper over the tensions; and in sub-markets, the banks' withdrawal – due to the regulatory framework – is causing anomalies in prices.

The Eurosystem's expanded asset purchase programme is improving banks' liquidity position and financing conditions, but at the same time it is putting pressure on net interest margins and thus having a significant adverse impact on earnings – even though loans to domestic customers are growing at a faster rate. While the banks' efforts to reduce solvency and liquidity risks were recognised, there were persistent fears about a sustained weakening of the profitability of the banking system in the eurozone and the ability of banks to generate profitable returns on interest-rate-based business.

Last but not least, the importance of cyber-security and compliance was demonstrated once more in the year under review. The protection of data networks and appropriate staff training are an ongoing process which the banking sector must take very seriously, despite its already strong understanding of IT security. The same applies to ensuring compliance with the legal and regulatory requirements.

Overall, the fundamental transformation of the European banking system continued in 2017. The sector today is smaller, more clearly focused on its core functions and less profitable, but also more robust and resilient to future crises.

Earnings performance, assets and financial position

The Commerzbank Group changed the structure of the balance sheet and income statement in 2017. The balance sheet and income statement are now based on the measurement categories under IAS 39. Details of these and other changes can be found in the Group financial statements on page 152 ff.

The Commerzbank Group's operating profit for 2017 came to €1,303m, a fall of 6.8% year on year. Consolidated profit attributable to Commerzbank shareholders for the period under review came to €156m.

Total assets at 31 December 2017 were €452.5bn, 5.8% below the figure for year-end 2016. On the asset side, the volume reduction was mostly apparent in financial assets held for trading.

The fall in risk-weighted assets (phase in) to €171.4bn was driven by a reduction in the risk-weighted assets from credit risk, market risk and operational risk. The Common Equity Tier 1 ratio (on a fully phased-in basis, i.e. on the basis of full implementation of the Basel III regulations) rose to 14.1% at end-December 2017.

Income statement of the Commerzbank Group

The individual items in the income statement were as follows in 2017:

At €4,201m, net interest income in the reporting period was at the same level as in the previous year. In the Private and Small-Business Customers segment net interest income rose year on year, despite another sharp fall in the contribution to earnings from the domestic deposit business. The main income driver was interest income from the growing loan portfolio as a result of the very good new business performance in most areas and the takeover of the instalment loan portfolio from the Commerz Finance GmbH joint venture. Growth at mBank was attributable both to the increase in business volume and to the continuous improvement of the interest margin. In the Corporate Clients segment, the positive capital market business was not able to make up for the burdens of the interest rate environment and lower income from documentary business associated with the reduction of the bank portfolio in Financial Institutions and lower customer activity. In addition, the strategic portfolio reduction of the assets transferred from the ACR segment in 2016 resulted in an anticipated decline in net interest income from lending. In the reporting year, the ACR segment posted a considerable increase in net interest income, caused by significantly lower funding costs amongst other things.

The €116m fall in other realised profit or loss and net remeasurement gain or loss to €–76m was primarily due to negative effects on income from the sale of loans and the write-ups on HETA Asset Resolution AG included in the previous year's figure.

Net commission income fell slightly by 1.0% year on year to €3,178m. In the Private and Small-Business Customers segment, significantly higher commission income from the securities business in Germany contrasted with a steep fall in commissions from loan distribution, as Commerzbank began offering consumer loans through its own platform in the first half of 2017 and ceased distributing instalment loans through the Commerz Finance GmbH joint venture in the middle of 2017. mBank improved its net commission income in several areas of private client business as well as in business with corporate clients.

In the Corporate Clients segment, the sharp year-on-year fall in net commission income was mainly the result of a lower amount of commercial business.

Statement of comprehensive income I €m	**2017**	**2016**[1]	**Change**
Net interest income	4,201	4,165	36
Dividend income	106	164	–58
Loan loss provisions	–781	–900	119
Other realised profit or loss and net remeasurement gain or loss	–76	40	–116
Net commission income	3,178	3,212	–34
Gain or loss from financial assets and liabilities measured at fair value through profit and loss and net income from hedge accounting	1,006	982	24
Other profit or loss from financial instruments, income from at-equity investments and other net income	748	836	–89
Operating expenses	7,079	7,100	–21
Operating profit/loss	**1,303**	**1,399**	**–96**
Impairments of goodwill and other intangible assets	–	627	–627
Restructuring expenses	808	128	679
Pre-tax profit/loss	495	643	–148
Taxes on income	245	261	–16
Consolidated profit/loss	**250**	**382**	**–132**
Consolidated profit/loss attributable to Commerzbank shareholders	156	279	–122

[1] Prior-year figures restated due to a change in reporting plus other restatements (see notes page 152 ff.).

The gain from financial assets and liabilities measured at fair value through profit and loss was €1,092m in the period under review (previous year: €1,019m). The increase was partly thanks to the rise in customer activities in Equity Markets & Commodities, especially the business with structured investment products.

Other profit or loss from financial instruments declined by €134m year on year to €259m. Both periods saw one-off effects having an impact. The figure for the year under review includes a gain of €89m on the disposal of a holding in the payment services provider Concardis. The figure for the prior year includes a one-off effect of €123m from the sale of the stake in Visa Europe Limited.

Net income from companies accounted for using the equity method was €23m after €150m in the previous year, which included a positive effect from the remeasurement of the assets of Commerz Real, reflecting the very good situation in the market for commercial real estate.

Other net income was €465m for the reporting period, compared with €293m the previous year. This €172m increase was mainly driven by positive one-off effects, including €176m from the takeover of the instalment loan portfolio, and a one-off gain from selling real estate.

The net allocation to loan loss provisions fell by 13.2% year on year to €–781m. This fall was the result of a much lower provisioning requirement in Assets & Capital Recovery, where the success in cutting back was reflected in significantly lower loan loss provisions.

In the operational customer segments, by contrast, loan loss provisions were up: in the Private and Small-Business Customers segment most of the higher provisions were at mBank. However, the solid financial position of German households meant that a very low figure was posted once again for the domestic business. The Corporate Clients segment also recorded a higher net allocation to loan loss provisions due to higher provisioning requirements in connection with one individual exposure.

Operating expenses in the period under review were €7,079m, on a par with the prior-year figure. Higher investments in digitalisation and growth and increased costs for regulatory projects, compliance, deposit protection schemes and various banking levies were compensated by cost management. Personnel expenses were €3,600m, representing a year-on-year fall of 3.3% due in particular to the headcount reduction under way. By contrast, other operating expenses, including depreciation on fixed assets and amortisation of other intangible assets, rose by 3.0% to €3,479m. The rise was largely the result of higher investments in IT, increased mandatory contributions (including the Polish banking tax and the European bank levy) and amortisation of intangible assets.

As a result of the developments described above, the Commerzbank Group posted an operating profit of €1,303m in the year, compared with €1,339m the previous year. This included positive measurement effects from counterparty risks of €81m in the reporting year, compared with €525m last year.

Restructuring expenses of €808m impacted on profit in the period under review. They were connected with the implementation of the “Commerzbank 4.0” strategy and the agreement reached with the employee representative committees in this regard on an outline reconciliation of interests and an outline social plan.

Pre-tax profit came to €495m, compared with €643m in the previous year period. Tax expense for the reporting period was €245m, compared with €261m the previous year.

Consolidated profit after tax was €250m, compared with €382m in the prior-year period. Net of non-controlling interests, a consolidated profit of €156m was attributable to Commerzbank shareholders for financial year 2017.

As Commerzbank Aktiengesellschaft is reporting its results for the 2017 financial year in accordance with the German Commercial Code (HGB), the plan is to service all profit-related capital instruments issued by Commerzbank Aktiengesellschaft for the 2017 financial year; no dividend will be paid.

The statement of comprehensive income, which includes both consolidated profit/loss and other comprehensive income for the period, showed a net total of €541m in 2017.

Other comprehensive income for the period of €290m consists of the sum of changes in the revaluation reserve (€287m), the cash flow hedge reserve (€44m), the currency translation reserve (€7m), the value of companies accounted for using the equity method (€–8m), actuarial gains and losses (€145m), the change in the remeasurement of own credit risk (€–114m) along with the change from assets and disposal groups held for sale (€–69m).

The operating earnings per share came to €1.04 and the earnings per share to €0.12. The comparable figures in the prior-year period were €1.12 and €0.22 respectively.

Balance sheet of the Commerzbank Group

Total assets of the Commerzbank Group as at 31 December 2017 were €452.5bn. This was a fall of 5.8% or €27.9bn compared with the adjusted figure at end-2016. The volume reduction is most apparent in financial assets held for trading.

The cash reserve and demand deposits increased by €19.5bn to €55.7bn. This rise compared with the end of 2016 was due in particular to larger deposits with central banks, and to the expansion of the cash reserve.

Loans and receivables were €265.7bn, down €10.9bn year on year. The 3.9% decline came almost equally from debt instruments and loans and advances. Loans and advances to banks and corporate customers fell by a total of €15.8bn, whereas loans to private customers rose €10.8bn.

Available-for-sale financial investments decreased compared with year-end 2016, down 21.4% to €31.2bn. This fall came almost solely in bonds.

Financial assets in the fair value option category declined by 4.2% to €23.7bn. The volume decline was mainly driven by a €0.7bn fall in secured money market transactions in the form of reverse repos and cash collaterals and by reductions in equity funds and money market trading.

Financial assets held for trading at end-2017 were down a hefty 28.4% year on year to €63.7bn. This reduction was driven largely by lower positive fair values (especially in interest rate and currency derivatives), which fell by €14.4bn, and a €9.3bn cut in equities/investment funds.

Positive fair values of hedging derivatives were €1.5bn, €0.6bn lower than the level at the end of 2016. The fall related exclusively to interest rate derivatives.

Intangible assets rose by €0.3bn year on year to €3.3bn. This was mainly related to the capitalisation of self-produced software.

Assets I €m	**31.12.2017**	**31.12.2016**[1]	**Change in %**
Financial assets – loans and receivables	265,712	276,578	–3.9
Financial assets – available for sale	31,155	39,634	–21.4
Financial assets – fair value option	23,745	24,797	–4.2
Financial assets – held for trading	63,666	88,862	–28.4
Other assets	68,215	50,564	34.9
Total	**452,493**	**480,436**	**–5.8**

Liabilities and equity I €m	**31.12.2017**	**31.12.2016**[1]	**Change in %**
Financial liabilities – amortised cost	341,260	343,798	–0.7
Financial liabilities – fair value option	14,940	18,084	–17.4
Financial liabilities – held for trading	56,484	77,772	–27.4
Other liabilities	9,768	11,209	–12.9
Equity	30,041	29,573	1.6
Total	**452,493**	**480,436**	**–5.8**

[1] Prior-year figures restated due to a change in reporting plus other restatements (see notes page 152 ff.).

On the liabilities side, financial liabilities at amortised costs fell by €2.5bn to €341.3bn, especially in connection with the decline in bonds and notes issued, as maturing issues were only partially replaced with new ones.

Financial liabilities under the fair value option fell 17.4% year on year to €14.9bn, driven by lower deposits from banks and central banks.

Financial liabilities held for trading were €56.5bn, €21.3bn lower than at year-end 2016. The negative fair values of interest rate and currency derivatives, which declined by €17.5bn, made a major contribution to the 27.4% fall.

Off-balance-sheet liabilities rose overall year on year, with contingent liabilities increasing 3.4% year on year to €36.2bn and irrevocable lending commitments up €1.7bn to €79.9bn.

Equity

The equity capital (before non-controlling interests) reported in the balance sheet as at 31 December 2017 was €28.9bn, slightly above the figure for year-end 2016. As at the reporting date, the revaluation reserve stood at €–0.6bn. This was a fall of over one-quarter, attributable in particular to the positive development of credit spreads on Italian government bonds. Together with the negative cash flow hedge reserves and the currency translation reserves, this amounted to a deduction of €0.8bn from equity, €0.2bn less than at year-end 2016.

Risk-weighted assets (phase-in) were €171.4bn as at 31 December 2017, €19.2bn below the year-end 2016 level. The decrease was attributable to a reduction in risk-weighted assets from credit risk, market risk and operational risk. Risk-weighted assets from credit risk mainly fell as a result of active portfolio management, including reductions in the workout portfolio, a securitisation transaction and relief effects from currency movements. Regulatory Tier 1 capital fell by around €0.5bn to €26.0bn compared with year-end 2016, chiefly as a result of the next stage in the Basel 3 phase-in. The corresponding Tier 1 ratio rose to 15.2% due to the decline in risk-weighted assets. Common Equity Tier 1 capital was €25.6bn and the corresponding Common Equity Tier 1 ratio 14.9%. The total capital ratio was 18.3% as at the reporting date. The Common Equity Tier 1 ratio (on a fully phased-in basis, i.e. on the basis of full implementation of the Basel III regulations) was 14.1% at the reporting date. The leverage ratio based on the CRD IV/CRR rules applicable on that date, which compares Tier 1 capital with leverage exposure, was 5.5% (phase-in) or 5.1% (fully phased-in).

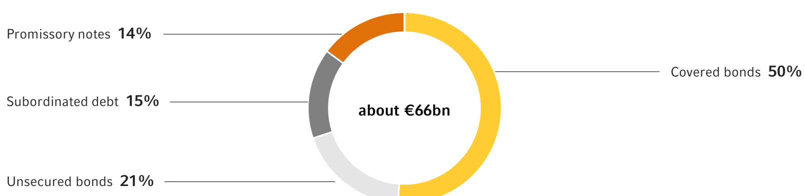
The Bank complies with all regulatory requirements. This information includes the consolidated profit attributable to Commerzbank shareholders and for regulatory purposes.

Funding and liquidity of the Commerzbank Group

The liquidity management of the Commerzbank Group is the responsibility of Group Treasury, which is represented in all major Group locations in Germany and abroad and has reporting lines in all subsidiaries. Liquidity management comprises both operational and strategic components. Operational liquidity management encompasses management of daily payment inflows and outflows, planning for payment flows expected in the short term and management of access to central banks. The division is also responsible for access to unsecured and secured sources of funding in the money and capital markets and the management of the liquidity reserve portfolio. Strategic liquidity management involves managing maturity profiles for liquidity-relevant assets and liabilities within specified limits and corridors. Additional information on this subject can be found in the “Liquidity risk” section of the Group Management Report.

Guidelines for the funding profile and funds are derived from the business strategy and reflect risk tolerance. The Group’s funding is appropriately diversified in terms of investor groups, regions, products and currencies. Top-level decisions about liquidity management are taken by the central Asset Liability Committee (ALCO), which meets at regular intervals. The quantification and limitation of liquidity risks is carried out via an internal model in which expected cash inflows are compared against expected cash outflows. The limits set are monitored by the independent risk function. ALCO and the Board of Managing Directors receive regular reports on the liquidity risk situation.

Capital market funding structure[1]
As at 31 December 2017



[1] Based on reported figures.

Commerzbank had unrestricted access to the money and capital markets throughout the reporting period, and its liquidity and solvency were also adequate at all times. It was always able to raise the resources required for a balanced funding mix and continued to enjoy a comfortable liquidity position in the period under review. The Commerzbank Group raised a total of €5.7bn in long-term funding on the capital market in 2017.

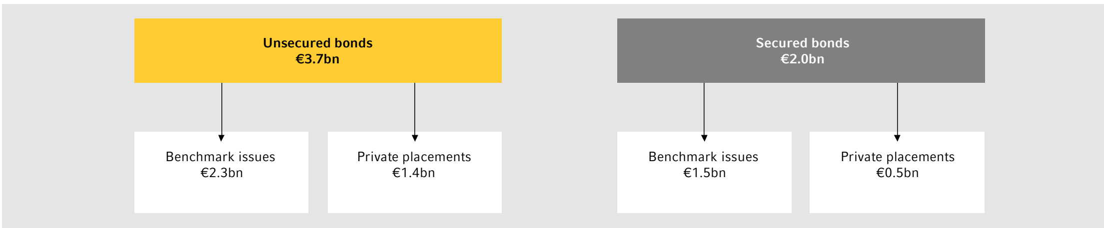
An unsecured benchmark subordinated bond with a volume of €500m and a term of just over ten years was issued in the first quarter. In the first quarter the Bank placed a subordinated bond worth SGD 500m in the Asian market for the first time. The issue has a term of ten years with an issuer call option after five years.

Most investor demand (over 90%) came from Singapore investors. This further diversified the Commerzbank investor base. Commerzbank also issued two senior unsecured benchmark bonds with volumes of €500m each and terms of seven and eight years respectively. A further €1.4bn was raised in private placements. The Polish subsidiary mBank also issued a senior unsecured bond with a benchmark volume of CHF 200m and a term of six years.

In the collateralised area, a mortgage Pfandbrief with a six-year term was topped up by €500m at the start of the year, taking it to €1bn. This was followed in the third quarter by a mortgage Pfandbrief with a ten-year term and a volume of €750m, which was topped up by a further €250m. mBank issued a covered bond under Polish law for just under €0.5bn.

The focus has been on the long end, so the average term of securities issued in 2017 was around eight years.

Group capital market funding of 2017
Volume €5.7bn



As at year-end, the Bank had a liquidity reserve of €83.3bn in the form of highly liquid assets. The liquidity reserve portfolio functions as a buffer in stress situations. This liquidity reserve portfolio is funded in line with liquidity risk appetite in order to ensure that it is kept at the required size throughout the entire reserve period stipulated by the Board of Managing Directors. A part of this liquidity reserve is held in a separate stress liquidity reserve portfolio managed by Treasury to cover liquidity outflows should a stress event occur and to ensure solvency at all times.

In addition, the Bank operates an intraday liquidity reserve portfolio in the amount of €9.7bn as at the reporting date. The regulatory liquidity requirements of the German Liquidity Regulation were met at all times in the reporting period. As at the reporting date, Commerzbank Aktiengesellschaft's key liquidity ratio calculated using the German Liquidity Regulation's standard approach was 1.55, again significantly higher than the minimum regulatory requirement of 1.00. Commerzbank's liquidity situation therefore remains comfortable given its conservative and forward-looking funding strategy. The Bank is not currently drawing on central bank liquidity facilities.

Summary of 2017 business position

Despite restructuring expenses of more than €800m, Commerzbank generated a consolidated profit, further increased the capital ratio and substantially reduced the workout portfolio in financial year 2017. The implementation of the Commerzbank 4.0 strategy was driven forward as planned and the growth course maintained.

The decline in operating income year on year was in line with our expectations and mainly related to lower one-off income items; with the cost base stable, the cost/income ratio rose slightly as expected. Adjusting for one-off income, the objective of improved quality of income and earnings last year was achieved. As the restructuring expense was recognised in full (we had originally thought it was likely to be spread over two financial years, and hence lower in 2017), consolidated net profit for the Group did not quite reach the level of the previous year, as had been forecast, but remained positive.

At segment level, it proved impossible to achieve the targeted increase in profit and return on equity in the Private and Small-Business Customers business. Customer numbers and assets under control (total loan, deposit and custody account volumes) in Germany exceeded their targets in financial year 2017, in some cases significantly. Income was further affected by the negative impact from tougher domestic competitive environment. Income in the lending business kept pace with the expansion of the portfolio, despite lower new business margins. A further rise in the interest margin and growth in net commission income at Polish subsidiary mBank was unable to make up for the income decrease in Germany. Loan loss provisions at mBank were slightly higher, so the forecast stability in this indicator was restricted to Germany. We continue to regard the quality of the portfolio as high overall. Greater investment in digitalising processes and products, intended to increase efficiency in the years to come, contributed to a sharper rise in operating expenses than originally planned. Regulatory expenses at mBank were also considerably higher, so the cost/income ratio rose slightly rather than falling as expected.

In the Corporate Clients segment, margin pressure during the year under review, along with subdued new lending business and a deliberately accelerated reduction in credit portfolios that are not part of the core business, resulted in a decline in net interest income and total segment income on a scale that had not been anticipated. A loan loss provision for a single exposure was required at the year-end, so the objective of unchanged loan loss provisions was not met. Consequently the operating earnings of the segment, which had been intended to match the level of the previous year, fell more sharply than forecast. The significant reduction in the cost base was implemented as planned, but this proved insufficient to keep the cost/income ratio stable and it moved up significantly.

The Asset & Capital Recovery segment once again carried out its strategic reduction task faster than expected. As anticipated, this resulted in a decline in segment income; measurement effects make up a significant portion here. Despite overall conditions remaining difficult, especially in shipping financing, a significant reduction in the portfolio was achieved, with a substantially lower level of loan loss provisions. General loan loss provision improved by much more than forecast – they were almost halved and came in well below the lower end of the €450-600m range originally targeted. Lower risk costs were the main reason for the substantial reduction in the operating loss; we had originally assumed a loss on the same scale as the previous year.

At Group level the anticipated decline in one-off income and the increased pressure on margins, which wiped out much of the success of the growth initiatives implemented, were the main causes behind a 2.5% fall in total income before loan loss provisions to €9.2bn. Operating profit was down less, by €0.1bn to €1.3bn, as the good quality of the credit portfolio allowed lower loan loss provisions. Cost management and positive effects from the headcount reduction under way made it possible to cover both higher charges for regulatory expenses and high investments in restructuring Commerzbank to become a digital technology company. At €7.1bn, operating expenses were at the same level as in the previous year.

As the restructuring expense of around €0.8bn had a greater impact on pre-tax profit than the goodwill writedown in 2016 in connection with the strategic refocusing (€0.6bn) and restructuring provisions to be reported (€0.1bn), consolidated net profit for financial year 2017 was down from €0.4bn in the previous year to €0.3bn. Consolidated earnings attributable to shareholders were €156m (previous year: €279m). As anticipated, return on equity declined year on year, from 1.1% to 0.6%, while the cost/income ratio went up roughly in line with expectations, by two percentage points to 77.3%.

Commerzbank further strengthened its comfortable equity position in 2017. Common Equity Tier 1 under full application of the Basel 3 rules rose to €24.0bn (previous year: €23.4bn), largely due to rising equity capital and lower regulatory deductions. Accentuated by the 10% fall in risk-weighted assets, this resulted in a significant improvement in the Common Equity Tier 1 ratio from 12.3% to 14.1% at the end of December 2017.

Segment performance

Private and Small-Business Customers

The Private and Small-Business Customers (PSBC) segment encompasses branch business in Germany, comdirect Group, Commerz Real and the mBank Group. Small-Business Customers combines business customers and smaller Mittelstand customers with an annual turnover of up to €15m served by the branch bank in Germany. The segment again saw growth in new clients and assets under control in 2017. With over 12.7 million customers in Germany and more than 5 million in central and eastern Europe, Commerzbank is one of the leading banks for private and small-business customers in these markets.

Performance

€m	2017	2016[1]	Change in %/%-points
Income before provisions	4,832	4,818	0.3
Loan loss provisions	–154	–119	29.9
Operating expenses	3,811	3,621	5.2
Operating profit/loss	**867**	**1,078**	**–19.6**
Capital employed	4,134	4,122	0.3
Operating return on equity (%)	21.0	26.1	–5.1
Cost/income ratio in operating business (%)	78.9	75.2	3.7

[1] Prior-year figures restated due to a change in reporting plus other restatements (see notes page 152 ff.).

Against the backdrop of difficult interest rate and competitive conditions, the Private and Small-Business Customers segment posted an operating profit of €867m in financial year 2017, compared with €1,078m the previous year. In Germany, strong new customer growth, loan growth in mortgage lending that was again above the market and pleasing securities business largely made up for the persistently strong negative impact of the low interest rate environment. Investments to further extend the market position in Germany pushed up operating expenses. mBank again performed strongly in most business areas, resulting in considerable growth in the major lines of income.

At €4,832m in the period under review, income before loan loss provisions was marginally above the level of the previous year (€4,818m). Net interest income climbed by €72m to €2,353m, despite a further declining contribution from the deposit business in Germany. The main driver was interest income from the growing loan portfolio as a result of the very good new business performance in most areas and the takeover of the instalment loan portfolio from the Commerz Finance GmbH joint venture. By contrast with Germany, mBank saw the interest rate margin continue to improve. Net commission income improved slightly, up €21m year on year to €1,977m. Significantly higher commission income from the securities business in Germany contrasted with a steep fall in commissions from loan distribution, as Commerzbank began offering consumer loans through its own platform already in the first half of 2017 and ceased distributing instalment loans through the Commerz Finance GmbH joint venture. mBank improved its net commission income in several areas of private client business as well as in business with corporate clients.

The other profit and loss components largely reflect changes in one-off income items. This includes other profit or loss from financial instruments, which fell by €34m to €119m in 2017, following a gain of €123m the previous year from the sale of the holding in Visa Europe Limited. The year under review includes a gain of €89m on the disposal of the holding in payment services provider Concardis. Other net income of €224m includes special effects of €176m, mainly from the takeover of the instalment loan portfolio. In turn, the dissolution of the joint venture with BNP meant that current income from companies accounted for using the equity method is now only a marginal €2m (previous year: €131m): lower contributions from Commerz Real play a part here, with no repetition of the remeasurement gains on assets seen last year.

Loan loss provisions show that the quality of the credit portfolio remains high, even though they increased by €–35m to €–154m. The majority of the valuation allowances related to mBank, where loan loss provisions increased by €–36m to €–119m. Net loan loss provisions in Germany were again very low at €–35m (previous year: €–36m).

Operating expenses rose by €189m to €3,811m. Total personnel costs fell €18m to €1,341m, largely as a result of cost cutting in Germany. Other operating expenses including internal cost allocations rose by €207m to €2,469m, reflecting amongst other things the increased investment in the digitalisation of products and processes. Regulatory costs at mBank, such as the Polish bank levy, had a major impact on expenses and reduced profitability by €116m in 2017 (2016: €75m).

Overall, the Private and Small-Business Customers segment posted a pre-tax profit of €867m in 2017, €211m less than in the prior-year period.

Main developments in the financial year

The Private and Small-Business Customers segment continued to systematically push forward the Commerzbank 4.0 strategy in 2017. Good progress was made in digitalising services and processes and expanding distribution channels in all divisions. Important foundations were also laid in the German branch business for the future organisational structure of business with private and small-business customers.

Growth in new customers and assets under control (AuC) also accelerated again in the reporting year. The segment is significantly closer to its declared goal of increasing AuC to over €400bn by 2020. At the end of 2017, AuC were €376bn. The branch bank, comdirect Group and mBank Group all gained customers. In Germany alone, the segment grew by around 500,000 new customers during the year under review.

Private Clients and Small-Business Customers

The branch bank in Germany offers the range of services of a full-service bank to private, small-business and wealth management customers both personally and via digital channels. The Bank is keeping its number of locations unchanged: private clients receive advice and/or service in some 1,000 branches, wealth management customers in 103 locations and small-business customers in around 330. The business unit for small-business customers was further developed during the reporting year. This includes both previously managed business customers as well as Mittelstand customers previously managed in the Corporate Clients segment with an annual turnover of between €2.5m and €15m. Major progress was made in 2017 in terms of the range of products and services for small-business customers.

High quality and profitable growth

In the past financial year the branch bank has once again made good progress with its core objective of growth and has been able to further stimulate a sustained improvement in profitability. The high level of quality was retained in the segment in 2017.

Customer satisfaction as the yardstick for the core objective of quality is measured using the net promoter score (NPS); this shows how willing clients are to recommend the Bank. It was at a consistently high level. External prizes and awards confirm the high quality of service and advice. For example, Commerzbank was named “Service King 2017” by Focus Money, and the outstanding quality of advice made it overall winner in the “Premium Banks” study by Handelsblatt. The high quality is partly due to the “Commerzbank Customer Compass” advisory application for private and small-business customers. This allows individual, personal advice, tailored to the client’s stage of life and based on their financial needs and objectives. This advice has been standard in the Bank for all customer groups since 2012.

We continued to successfully refine our marketing activities. Data-driven, cross-channel, automated customer management through the customer life cycle and new activities in partnership banking allowed us to accelerate growth in customers and assets and capture further efficiencies. Traditional advertising campaigns, cooperations with external partners and initiatives such as prospect handling and loyalty measures for new customers contributed to growth. In its marketing the Bank is increasingly using data-based methods and advanced analytics to determine the best offering for a customer and show them, for example, suitable offerings in online banking. As a result, product sales to online banking customers who have consented to their data being used were increased by 10% compared with a comparator group. Marketing activities focused on the free current account with a starting balance as the anchor product. Over half a million new payment accounts were opened in 2017, some 110,000 of them online.

In the lending business, the strong trend continued in 2017. Demand for residential property in Germany remains high due to the low level of interest rates. As a result the Bank was able to increase new volumes in private mortgage loans by 26% year on year. There was also considerable growth of 17% in personal loans compared to 2016. Sales of instalment loans were down on the previous year in 2017, due to the change in the business model. Following the dissolution of the joint venture with BNP Paribas, since August 2017 the Bank has been again carrying the instalment loan business in its own books. June 2017 saw the launch of the digital instalment loan: this is now much simpler and quicker to take out. Further evidence of how the Bank is expanding its digital offering to improve customer friendliness and efficiency.

The persistently low level of interest rates is also having an impact on the retirement savings business: increasing numbers of customers are opting for savings solutions such as pension or endowment insurance. This was reflected in the results of the retirement savings business: the volume of new business was up 8% to €2.5bn (2016: €2.3bn). In the area of home loan savings, new business volume of €2.7bn was generated. This is equivalent to a 12% increase on 2016 (€2.4bn). This shows that the attractiveness of home loan savings to lock in interest rates in a low rate environment and when modernisation is required remains intact.

Interest rates remain low and fluctuations in the markets, especially in currencies, were a challenge for investors again in 2017. In the securities business, Commerzbank customers could again chose between various custody account models to invest in. The Premium Fund Custody Account was launched at the start of the reporting year. This allows investors to buy units from around 100 top funds with upfront fee. All costs are covered by a flat-rate annual charge of 0.9% of the volume of the custody account. By the end of the year under review, around €2.4bn had been invested in the Premium Funds Custody Account. The mandate business saw a big increase in volume. A gain of some 8.5% was posted in wealth management products. Portfolio volume at the end of the year was some €23bn. Wealth management recorded growth of 19%, to around €15.2bn portfolio volume. As a result, volume based portfolio income from securities rose once again, accounting for around 81% of total income in the securities business in 2017 (2016: 77%).

The gain for entrepreneurs

During the year under review we further expanded business with small-business customers. The first offerings specially for small-business customers were launched: for example, the "start-up offer" comprises basic payment services like an account and credit card, plus an immediate credit line. The "entrepreneur package" allows customers to cover their basic needs for payments and credit, while the "premium private package" adds solutions for entrepreneurs' personal needs. At the end of 2017 a new leasing offering with leasing calculator and attractive terms was launched in cooperation with Commerz Real, as were "Cash Radar" for digital liquidity management and "Sector: Radar" for industry and focus reports.

Customers experience the Bank digitally and personally

In the Private and Small-Business Customers segment, the future is both digital and personal. At the end of 2016 the application ONE was launched in the branches; this allows branch advisors and online banking clients to access the same technical platform. The single user interface for employees and customers was further extended in 2017. The Commerzbank Customer Centre has also been working with the application since April. The shared view of the customer allows a single, consistent customer experience across all channels. The new investment advisory in ONE also meets the regulatory requirements of MiFID II (the Markets in Financial Instruments Directive), which came into force on 3 January 2018. ONE means the Bank will be technically better placed to integrate and implement product innovations or new regulatory requirements across all distribution channels.

Also newly on the market is a mortgage app that allows customers to search for, finance and value property conveniently on their smartphone or tablet. Services on the app include property search, an advance credit check with personal credit certificate and an interest rate guarantee for 48 hours, along with tools such as a property valuation with just one picture from an independent property valuer. The customer can check in seconds whether the purchase price is realistic and the amount they wish to borrow is feasible. Even the loan application can be initiated at once online. The customer documents needed are displayed individually and can easily be scanned in with the mobile phone. If the customer wants advice, this can be arranged at once.

The banking app, which has been downloaded over two million times since launch, has also been improved. For instance, 2017 saw a more convenient log-in process using fingerprints or the biometric log-in with facial recognition for users of the new Apple iPhone X. The app also has new functions like the preferred PIN for credit cards. The Bank is increasingly relying on mobile solutions in dialogue with customers: in August 2017 a messenger function was added to the banking app in the form of Mobile Dialog. This allows the Bank to assist customers with their questions on products and services every day by text, audio and video chat and give a full answer to their queries. Since Mobile Dialog was launched it has been used nearly 90,000 times over audio, video and text chat.

Even in times of digitalisation, Commerzbank is clearly committed to its branches as an important part of the multi-channel bank. However, customer behaviour has changed over recent years, not least because of digital change. Customers are making increasing use of the Bank's digital offerings, but still want a personal contact on site. The Bank is therefore retaining its national presence and the branch strategy is based on new branch models with greater differentiation in the service offering. This involves a change to the service model: In the autumn the Bank reached agreement with the employee representatives on personnel reductions, the restructuring of the advisory model and further steps towards digitalisation.

The Bank also made progress in implementing its branch strategy. Flagship branches in larger cities will be the main showcase for Commerzbank in future. The final concept has now been determined. Seven new flagships were opened across the country during the reporting year: Bonn, Freiburg, Dresden, Leipzig, Mainz, Wiesbaden and Mannheim. In future the City branch will be the cheap and efficient branch model for local daily banking. The test phase for this model continued in 2017: further pilot branches were opened in Frankfurt and Stuttgart. In view of the positive results it was decided to roll these out gradually over the next few years. The concept for the City branch won the "Customer Experience Award" in 2017. This is given for outstanding customer experience and innovation in distribution, marketing and client service with retail banking customers. The award is bestowed by the trade magazine "gi-Geldinstitute" in cooperation with the Frauenhofer IAO and IBM Germany.

comdirect Group

During the year under review comdirect Group strengthened its position as the German market leader in the online securities business by organic growth and by the acquisition in April 2017 of onvista AG, with its two fully owned subsidiaries onvista bank GmbH and onvista media GmbH. With assets under custody exceeding €91bn for the first time and 29.6 million securities transactions executed, comdirect Group remains the top address for securities saving, investing and trading. As a smart financial advisor it also supports its clients in all their banking transactions. Since onvista bank GmbH merged with comdirect bank AG, onvista bank has been a business unit in the B2C business segment. B2B business with institutional partners is done through ebase GmbH. The extensive financial portal www.onvista.de is run by onvista media GmbH.

In an environment where interest rates remain problematic and trading is quiet, comdirect Group exceeded the growth seen in previous years in brokerage and banking. The rise in assets under custody is primarily due to net inflows into securities custody accounts and exchange rate effects. The numbers of orders executed in securities trading was clearly up. The lending business also reported considerable growth, partly due to the optimised instalment loan offering. Business with institutional partners in key customer segments– banks, insurers, asset managers – grew too.

The range of brokerage services was extended in 2017 by adding cominvest digital asset management, which already had over €200m in custody accounts by the year-end. The comdirect Group also raised its profile as a smart financial advisor by using innovative voice control systems. Innovation management continues to target the central objectives: making it as easy as possible for the bank's customers to manage their finances while at the same time encouraging them to save, invest and trade in securities with digital solutions and accessible offerings.

Commerz Real

Commerz Real can look back on a successful year, with new business volume matching the prior-year figures.

As asset manager for physical assets in the Commerzbank network, the company combines more than 45 years of experience in asset and investment management with extensive structuring expertise and a unique portfolio of investment products and individual financing solutions. The product portfolio includes hausInvest, which was created in 1972 and is one of the most successful open-end real estate funds, as well as institutional investment vehicles and equity investments under the CFB-Fonds and CFB Invest brands. The portfolio ranges from commercial real estate of various types through solar parks, wind farms and aircraft to infrastructure and production facilities. The common thread is always a physical asset – as an asset gathering product for private and institutional investors, comprehensive construction management for commercial projects and a tailored financing concept for corporate customers. In addition, as the leasing company for the Commerzbank Group, Commerz Real offers need-based real estate and equipment leasing concepts as well as asset structuring. At the end of the period under review, assets under management amounted to around €31bn.

The hausInvest real estate fund reached €13bn at the end of 2017, up around €1.2bn from 2016. With a market share currently in excess of 14% (2016: 13%) it remains the second largest open-end retail real estate fund in Germany. 95 properties in 16 countries and 56 cities with a market value of around €10.5bn generated a return of 2.7% by the end of 2017. The fund management team further strategically optimised the portfolio, successfully selling for investors and acquiring lucrative long-term assets. Purchases and disposals were more or less balanced in 2016, but during the year under review hausInvest bought (€1.5bn) more than twice as much as it sold (around €850m).

Commerz Real also grew significantly in the institutional business. Four special AIF alternative investment funds are distributed under the Commerz Real Institutional brand with BaFin authorisation: the Commerz Real Institutional Hotel Fund (opened-ended special AIF with fixed investment terms), the Commerz Real Institutional Smart Living Fund (opened-ended special AIF with fixed investment terms), the Commerz Real Institutional Aviation Fund (closed-end special AIF) and the Commerz Real Institutional Renewable Energies Fund (closed-end special AIF). Three of these funds successfully achieved first closing.

Commerz Real Asset Structuring GmbH (CRAS) focused in 2017 on structuring individual financial solutions and developing long-term financial structures for real estate. Commerz Real Mobilienleasing GmbH (CRML) again concentrated on leasing and hire purchase models for operating assets for small and mid-sized companies, primarily machinery, manufacturing equipment and commercial vehicles. An important strategic step in this customer segment was moving into small-ticket leasing by providing a digital application which automatically produces offer and contract documentation at the point of sale. New transactions amounted to around €1bn in the reporting year.

mBank Group

The mBank Group is one of the largest financial institutions in Poland. It is engaged in private and corporate customer business and investment banking and also offers financial services such as leasing and factoring, commercial real estate financing, brokerage, asset management, corporate financing and capital markets advisory. mBank is also active in retail banking in the Czech Republic and Slovakia.

Financial year 2017 was very successful for the mBank Group. mBank's growing business activities were reflected in solid growth in new customers and revenue, while deposits and loans were stable over the year. At the end of 2017 the Group had roughly 5.3 million private customers and 22,000 corporate customers, compared to 5.1 million and roughly 21,000 respectively on a comparable basis last year.

The corporate strategy of the mBank Group is called "mobile bank" and is based on three pillars: customer focus, extending the bank's competitive advantage in mobile services and consistently improving efficiency. Numerous project initiatives were launched to implement the most important strategic objectives, e.g. extending the digital offering.

Since April 2017 mBank customers have been able to use a new smartphone app developed using the results of studies into how mBank clients behave. Along with a new user interface and simplified navigation the app also has several entirely new functions, such as Android Pay (for Visa and MasterCard holders) allowing contactless POS payments with a smartphone, a payment assistant with reminder function for regular payments so users can pay bills quickly, the ability to contact an advisor directly from the app using One-Click-mLine, mobile transaction authorisation confirmation, a quick overdraft within one minute of request and an express money transfer by telephone number within the Polish BLIK system.

A new version of the CompanyNet transaction service for corporate customers was also launched; this is easier and more intuitive to use and can be tailored to individual user needs. Company finances can also be managed on the move, using the mBank Company Mobile app. This provides quick authorisation for oders and access to central financial information management.

Under the mBox project, mBank also offer its retail banking solutions, which have won numerous awards in Poland and abroad, to partners outside Poland. The offer includes the electronic platforms (the internet bank platform and the mobile app) and specific product and marketing expertise. mBank also supports cooperation partners in project management and organisation and in other areas which are critical to the success of a digital retail banking provider. The first partner to profit from the expertise of mBank will be La Banque Postale of France, a subsidiary of the French post office. mBank plans to expand this part of the business.

The mAccelerator Fund was set up in 2017 as a way for mBank to get involved in developing start ups in the banking and financial services sector. The fund's portfolio currently consists of two companies: Cyber Rescue, a cyber security solution based on passive biometric features, and Digital Teammates, which specialises solely in process automation with robotics. Further investments are in the pipeline.

Outlook for Private and Small-Business Customers

As part of its growth strategy in financial year 2018 the segment will concentrate on providing better support for customers to achieve their financial objectives. The branch bank will continue to implement the Commerzbank 4.0 strategy under the motto "Customer bank no.1". The Bank wishes to continue to offer its clients high-quality advice and grow profitably. The focus is on increasing revenue significantly. Among the central measures is completing the multi-channel platform ONE. The Bank will also in future – with the consent of the clients – use advanced analytics to make its huge store of data available to the branch channel. By covering the market more intensively, growth will be expanded among small-business, wealth management and private customers. The Bank aims to stand out in the market with product innovations and digitalise further offerings and services. Implementing a new advisory model in the branches and advisory teams goes hand in hand with a further restructuring of the branch network into flagship and city branches.

The comdirect Group will concentrate on establishing cominvest digital asset management and reinforcing the market position in brokerage by pursuing the trading campaign. Further functionalities will also be added to the smart financial advisor. Business with institutional partners will be driven forward by focusing on digitalising the range of services, developing robo-advice solutions and working increasingly closely with fintech companies in wealth management.

The stated aim of Commerz Real is to further raise its market presence. The emphasis continues to be on expanding the institutional business and customer-centric digitalisation, mainly in the product areas hausInvest and equipment leasing. Commerz Real wants to refine its business model to become a digital asset manager and integrated investment services provider. As far as possible, all business processes will be automated and products and services made even more flexible, rapid and transparent. The company expects strong new business and a further strengthening of the market position at hausInvest and in the areas of asset structuring and equipment leasing over the coming months. Focusing Commerz Real on digital transformation will make it possible to access new markets and future themes relevant for the industry.

mBank too will concentrate on implementing its strategy in 2018. The mBank Group will continue to concentrate on growing its mobile banking services and transaction banking – with special attention on the ever more challenging customer demands. For this the bank will consistently improve its existing offerings and develop new products to meet customer expectations of convenient and innovative banking. In addition, mBank expects the success to date of its customer acquisition in Poland, and in the foreign markets of the Czech Republic and Slovakia, to continue.

Corporate Clients

The Corporate Clients segment is divided into five reporting areas. The Mittelstand, International Corporates and Financial Institutions divisions are responsible for business with our core customers: the Mittelstand division covers larger Mittelstand customers and domestic large corporates with the relevant products they require. The International Corporates division looks after corporate clients headquartered abroad, large German multinational companies and international insurance companies. The Financial Institutions division is responsible for financing and processing foreign trade and for relationships with banks in Germany and abroad and with central banks. The segment offers customers the complete range of products of an international full-service bank, from traditional credit products, individually tailored financing solutions, cash management and trade finance, investment and hedging products, through to customised capital market solutions. The performance of the Equity Markets & Commodities (EMC) division is reported separately since it is due to be spun off. The Other Result division handles all business that either has a cross-segment risk management function or falls outside the strategic focus of the Corporate Clients segment. These mainly relate to assets transferred from the former Non-Core Assets and Portfolio Restructuring Unit run-off segments and effects from hedging positions.

Performance

€m	2017	2016[1]	Change in %/%-points
Income before provisions	3,989	4,447	−10.3
Loan loss provisions	−295	−185	59.3
Operating expenses	2,885	2,973	−3.0
Operating profit/loss	**809**	**1,289**	**−37.3**
Capital employed	10,462	11,600	−9.8
Operating return on equity (%)	7.7	11.1	−3.4
Cost/income ratio in operating business (%)	72.3	66.9	5.5

[1] Prior-year figures restated due to a change in reporting plus other restatements (see notes page 152 ff.).

The reporting year 2017 was a challenging one for the Corporate Clients segment, with persistently low interest rates, a challenging regulatory environment, the implementation of our Commerzbank 4.0 strategy launched in 2016 and geopolitical uncertainty factors, some of which resulted in lower customer activity. This was also reflected in its earnings performance, with the segment posting an operating profit of €809m in the year under review after €1,289m in the previous year. This decline is mainly due to the negative interest rates, the effects of the business policy transformation and higher loan loss provisions.

The Mittelstand division benefited from the segment's solid market position. Credit volumes were expanded slightly over the year. The negative impact of the interest rate environment and the stiff price competition was counteracted by strong demand for capital market solutions. International Corporates saw moderate loan growth but lower demand for structured capital market products compared to last year.

As anticipated, the restructuring of Financial Institutions resulted in a customer and income base lower than last year, though solid over the year. In combination with strong performance on the equity market and relatively low volatility, Equity Markets & Commodities profited from greater customer activity, especially in business with structured investment products.

In the period under review, income before loan loss provisions fell €459m or 10.3% year on year to €3,989m. The positive capital market business was not able to make up for the burdens of the interest rate environment and lower income from documentary business associated with the reduction in the bank portfolio in Financial Institutions and lower customer activity. The ongoing strategic reduction of the portfolio transferred from the former Non-Core Assets segment also led as expected to a fall in net interest income from lending. Net interest income was €1,730m, down €193m. Net commission income was €1,237m, €43m lower than last year, mainly due to a lower contribution from the commercial business.

Loan loss provisions were €–295m in the year under review, an increase of €110m year on year. The higher need for provisions compared to the previous year was largely associated with a single position.

Operating expenses were €2,885m, down 3.0% on the prior-year figure, while spending on strategic development continued. The decline was primarily attributable to strict cost management and lower personnel costs, enabling the Bank to offset higher regulatory expenses and investments in digitalisation in particular.

Overall, the segment posted a pre-tax profit of €809m, compared to €639m in the prior year, which was especially heavily affected by goodwill write-offs of €627m.

Main developments in the financial year

The business performance of the Corporate Clients segment last year was largely determined by two factors: externally, by ever rising competition, and internally by the implementation of the Commerzbank 4.0 strategy. The focus here was on bringing together product units and concentrating on the core business, as well as continuously implementing growth initiatives and digitalising processes and products. Against the backdrop of these challenges, we comfortably beat our cumulative target of 3,500 net new customers by the end of 2017. This demonstrates that our strategic adjustments are going down well with our corporate customers.

Progress in digitalisation

We made good progress in financial year 2017 towards becoming a modern, customer-focused multi-channel bank and digitalising our internal processes.

In addition to advice in person, we also offer our customers the ability to access many of our products and services quickly, independently and at any time via our online corporate customer portal, so they can integrate banking transactions into their daily business. Around 40% of standardised term deposits are now processed over our corporate customer portal. As part of digital investment and risk advice in the corporate customer portal, clients receive individual product proposals to match their personal investment objective and market expectations. The percentage of currency, securities and money market transactions traded online grew again during the reporting year. The digital lending business was also further optimised. Guarantees can now be issued quickly and efficiently online, in addition to the online money market loan.

Commerzbank is also active in applying innovative financial technologies. Using the rapidly spreading distributed ledger technology (DLT) and blockchain technology, Commerzbank carried out its first pilot transaction placing euro commercial paper with immediate settlement.

Today, the processing of traditional trade finance activities is largely paper-based, but Commerzbank is taking a leading position in developing digital solutions in this market segment. With the successful market introduction of the Bank Payment Obligation to protect open-invoice payments, it is now possible to present financing solutions which support the optimisation of current assets for our corporate customers. Commerzbank also successfully implemented an IT platform solution to finance trade receivables with a market leading technology supplier for selected customers both in Germany and at selected international locations.

In addition Commerzbank is playing a leading role, together with other banks, in global DLT/blockchain projects to develop a digital platform for trade and supply chain finance business (Batavia, R3). The Bank is also engaged in this area in a cooperation project with the Fraunhofer Institute for Material Flow and Logistics IML in Dortmund. The long-term aim is to develop scenarios for future physical supply chains.

The Commerzbank Trade Innovation Project will consolidate and modernise the IT platforms for processing trade financing transactions, which are key for the Bank. The main functions for processing collections and documentary credit processing were piloted in two foreign locations during the year under review, in Europe and Asia.

Setting up sector networks

As a key part of the sector approach, in 2017 the sector experts in the branches were grouped together with the central sector teams, who combine strong sector expertise with corporate finance knowledge, to form sector networks. The aim is for our small and mid-sized corporate customers to also profit from sector and capital market skills which to date have been focused on the needs of large multinationals. This will make it possible to offer forward-looking financing solutions for all small, mid-sized and large corporate customers. Local specialists – working with product specialists – are able to offer customised debt and equity financing solutions to small and mid-sized customers.

Strengthening the equity capital market business

In order to be able to offer corporate customers and institutional investors even more comprehensive advice and take account of changing regulatory requirements, equity trading and the business with structured equity transactions for this customer group were successfully merged with the equity capital markets business. As a result, Commerzbank has a single, highly efficient platform for successfully winning, executing and settling all equity-based transactions and services.

Keeping up the excellent reputation in brokerage

The Commerzbank equity business has an outstanding reputation with institutional investors and corporate customers. For the sixth year in a row, Commerzbank was voted "Germany – Leading Brokerage Firm" in 2017, putting it in top place in the Extel Survey, one of the leading polls of institutional investors. This leading position also includes first place in the categories "Country Research, Small & Mid Caps Research" and "Equity Sales".

Strong growth in the market segment for sustainable bond financing

The market segment for sustainable bond financing for companies, banks and public issuers in Europe and Asia saw strong growth in 2017. Total volume was €120bn, equivalent to a 50% increase year on year. We worked on a range of successful transactions in this segment in several European countries.

M&A advisory with an international perspective

Thanks to its broad customer access and the extended sector approach, Commerzbank played an advisory role in various takeover transactions involving German and international clients. German Mittelstand customers in particular were assisted in national and international transactions. Our customers based abroad were advised on cross-border transactions with a German connection; the focus was on customers from Asia acquiring domestic companies.

Market position maintained despite weaker currency market

While an environment of gradually rising yields triggered an increased demand for interest rate hedging, the currency markets saw little new business, especially in the second half. Low volatility in particular resulted in very restrained trading activity in this market segment. The expansion of FX Live Trader, our electronic currency trading platform for derivatives transactions, allowed us to maintain our market position in a market which shrank overall.

We optimised the processing for approving new customers on our electronic trading platforms so we can onboard them fully automatically in just a few hours. In financial year 2017 the segment won the "Profit & Loss Digital FX Award" for its innovations in the FX business. Our treasury management was awarded the TMI Award for Innovation & Excellence.

Commodity hedging is still part of the Commerzbank service offering; physical trading in precious metals discontinued

Physical trading in precious metals and the associated services were discontinued in the year under review with the sale of precious metals refiner Argor-Hereaus SA. Services in non-physical precious metals trading remain a core business for the Bank. Commodity risk hedging are still offered to ensure that our corporate clients can continue to benefit from the full range of capital market-oriented risk management solutions.

Further streamlining of trading activities

We continued to downsize our trading activities during the past financial year and focused even more closely on customer needs. We withdrew from business in complex and exotic interest rate and currency derivatives and restricted bond trading to supporting our primary market activities.

Dedicated unit for compliance issues set up within the segment

Once again in the year under review we set a high priority on implementing across various jurisdictions regulatory requirements that have become complex and ever tighter over the years and further adapted the systems, processes and control mechanisms in Bank accordingly. Sustainable success requires us to have guidelines and directions on proper conduct. Last year we launched a major internal campaign on the "culture of integrity" to raise staff awareness in the segment of the importance of acting in a way that is legally and ethically impeccable. This also reinforces the reputation and integrity of the Bank and our segment.

In order to ensure a high degree of security in compliance issues at segment units, a specialist unit was set up within the segment at the end of 2017. This will act as the centre of competence for all compliance issues and be responsible for the following areas, amongst others: compliance business risk strategy, controlling and communications within the segment, support in dealing with compliance guidelines where client structures are complex, advice on the latest regulatory trends, ongoing review of customer data and assessment of customer risk throughout the term of the relationship, review of and if necessary improvement to the quality of customer related data and staff training.

The creation of the new unit will also ensure that employees at the Corporate Clients segment both in Germany and at foreign locations always act in accordance with the applicable compliance standards.

Mittelstand

As the leading provider of finance to the German Mittelstand, in this division we serve small and mid-sized companies with turnover in excess of €15m, and large domestic customers with turnover from €250m and a corresponding need for capital market products. As a leading relationship bank, the segment has a broad regional distribution network across Germany.

Growth programme launched for smaller German companies
At the end of 2017 we launched a growth programme to expand our German Mittelstand business. The aim is aim to gain further market share among small and mid-sized companies, especially those with annual turnover of between €15m and €100m, and further build on the business relationships with our existing customers. We mainly offer loans to finance further growth. Our optimised advisory model with corporate client advisors and skilled local specialists, plus digital channels, lives up to our commitment to be the best personal and digital bank for the Mittelstand in Germany.

Expanding bond transactions for large German customers
Commerzbank has longstanding relationships with capital market-oriented companies in Germany with a financing requirement of at least €200m per year. We won and successfully placed a large number of bond mandates in 2017.

Strong position in syndicated lending and promissory notes strengthened
Last year Commerzbank again demonstrated its leading position in arranging and structuring syndicated loans for corporate customers, especially in coordinating large-scale transactions for German and European corporates. Commerzbank's high penetration in the German Mittelstand also led to a consolidation of its leading market position in the steadily growing Schuldschein loan business.

High level of issues in the German equity market
The equity markets performed strongly in 2017. Companies' issuing activity was correspondingly high. On the German equity market in particular, Equity Capital Markets significantly grew both income and market share year on year. In addition to many successful equity placings last year, a large number of prestigious mandates was won for forthcoming IPOs and capital increases to take place this financial year.

International Corporates

The International Corporates division handles business with corporate clients headquartered abroad, large German multinational companies and international insurance companies.

Cross-border advisory approach confirmed
The customer-focused advisory approach used by Commerzbank, with the relationship manager coordinating the globally active client service team to ensure high-quality advice across borders at the international locations of Commerzbank, was systematically taken forward over the reporting year. Our German corporate customers continue to make increasing use of our local service offering for their foreign subsidiaries. International groups too are choosing Commerzbank as a competent financial services provider, not just in their home markets and in Germany, but increasingly worldwide as well. In addition to the local service, customers find the broad product portfolio of cash management, trade finance, corporate finance and interest rate and currency management attractive. This makes Commerzbank a well-positioned and reliable partner for corporate customers as they continue to internationalise.

Important partner for export-oriented corporate customers
Increasing globalisation and the resultant international competition mean our export customers face the challenge of not only having to provide their foreign business partners with technically attractive and innovative product offerings – they also have to offer attractive payment and financing options. As part of its range of international trade services Commerzbank offers long-term export financing in conjunction with more than 15 government export credit insurers such as Euler Hermes. The export financing specialists are available to our customers at 14 locations in important export markets around the world, offering their expertise on structuring and implementing financing, as well as providing direct local support.

International range of services strengthened with new partner bank

The partnership agreement signed in May 2017 with Mashreqbank, one of the leading institutions in the United Arab Emirates, gives Commerzbank corporate customers rapid and efficient access to local banking services. Our network of international partner banks plus the 50 or so own locations mean Commerzbank is present for corporate customers in all the major markets around the world.

Further diversification in bond issues

We further diversified our bond issuing activities for international corporates in reporting year 2017. Our regional focus is on issuers from Germany, France, the rest of Europe and the UK, supplemented by issuers from the USA. Some securities were issued as multi-tranche bonds denominated in euro, dollars and sterling. Companies mostly used the bonds for regular corporate financing or to pay for acquisitions. We also saw further considerable growth in liability management.

Financial Institutions

The Financial Institutions division is responsible for relationships with banks in Germany and abroad and with central banks. In carrying out its activities, Financial Institutions makes use of a global network of correspondent banks and established links in emerging markets, thus promoting the Group's global foreign trade activities and supporting other segments in their international activities and strategies. Financial Institutions assists its customers throughout the world with (foreign) payment transactions, hedging of foreign trade risks and funding for foreign trade deals. The Financial Institutions division also provides its customers with bilateral loans, supports them in syndicated loans and offers solutions for active risk management.

Implementation of the new strategic alignment completed

Financial Institutions successfully completed the realignment of its correspondent banking strategy in the past financial year in view of the changed global market environment and increasingly strict regulatory requirements. The complexity of the bank portfolio was considerably reduced, at almost no cost in terms of capabilities. Financial Institutions retains a competitive global network of correspondent banks which are very important for the customer areas of Commerzbank. This ensures that Commerzbank will remain the market leader for the settlement of Germany's foreign trade in the future.

The extension of participation in trade facilitation programmes to new target markets over recent years and newly developed formats further promote trade financing. The Bank will continue to support German and European export-oriented corporate clients with their international trading business in the world's main trade corridors. The specialist magazine Global Finance awarded Commerzbank the title "Best Trade Finance Bank Germany" – an indication of its trade finance skills.

Comprehensive product range in payments

In cash management we offer our customers a comprehensive range of products and services to optimise their national and international cash and treasury management. These include multi-bank-enabled solutions for national and international payments and an extensive digital offering. In addition, in reporting year 2017 we continually kept our customers informed of the latest risks in payments, to protect them from these new forms of fraud. The prestigious specialist magazine Global Finance and research firm Greenwich Associates honoured Commerzbank with multiple awards for outstanding performance in cash management.

Numerous awards in the Pfandbrief segment

Once again in financial year 2017 we expanded our strong market position in the global Pfandbrief segment. We improved our market position in the international Pfandbrief segment to fourth place, from fifth the previous year. We remain the market leader in Germany in unsecured bonds. In 2017 Commerzbank again won two important awards for its success in the Pfandbrief segment: the prestigious "Best Euro House 2017" from the magazine The Cover, and "Covered Bond House of the Year" from IFR.

Equity Markets & Commodities

As already announced, as part of the Commerzbank 4.0 strategy, the business with investment and financial products and the associated market-making, which makes up most of the Equity Market & Commodities (EMC) area, is being spun off from Commerzbank. The business being split out comprises the established ETF brand, the associated leading platform for ETF market-making and the business in structured trading and investment products, which are in demand from both private clients and institutional investors. This will allow the unit to better concentrate on its key competencies as a leading European and Asian provider and market maker for financial products and make even more efficient use of financial resources.

Intensive preparations were made for the legal spin-off during the year under review and applications made to the supervisory authorities for the necessary licences. All strategic options for a subsequent placing in the market will be further analysed in depth.

In a trading environment like the year under review, with low volatility and a change in correlation, the division profited from increased customer activity and was able to improve performance significantly compared to the prior year, especially in business with investment products. This was in particular due to the doubling of income in electronic trading in this division.

The asset management business also performed strongly and saw further inflows during the year. The EMC expertise in managed investment solutions, especially multi-asset, sustainability and commodities, won numerous awards over the financial year. Thanks to the launch of the Commerzbank/Mattioli Woods Fund for structured products, an innovative product solution, we won the “Retail Investment Product” Risk Award 2018.

Along with a strong market position in several European countries, EMC also reported growing interest in its products in Asia. During the year under review the business in Asia achieved its best results to date. This was confirmed by winning “ETF House of the Year” at the Structured Products Asia Awards for the second time in a row, and “Best House for China” at the Asia Pacific Awards for Structured Retail Products.

Outlook for Corporate Clients

In the current business year the Corporate Clients segment will continue to concentrate on further implementing the Commerzbank 4.0 strategy. Both the initiatives announced back in 2016 and those started in the year under review will be actively driven forward. The successful agreement reached with the employee representatives last year, which will be accompanied by implementation of the agreed target organisational structure during 2018 and personnel reductions in the following two years, was essential for this.

We are keen to expand our market position in Germany and abroad by winning further new customers and come closer to our target of 10,000 new customers by 2020. In Germany we will focus mainly on small and mid-sized customers with turnover of between €15m and €100m. Special concentration will be paid to gaining further market share by systematically exploiting our strengths in corporate finance and trade finance, risk management, international presence and digitalisation.

The further growth in customers will be supported by advertising campaigns and focused sales activities. New digital offerings will make the Bank more attractive to new customers and increase the loyalty of existing ones.

A new optimised advisory model will support differentiation from the competitors, combining a broad regional presence of advisors in person with digital distribution channels which proactively boost customer retention. At the same time, the old sales channels will be refocused by grouping similar activities together and outsourcing administrative activities to downstream divisions of the Bank to take the pressure off distribution, so they can deal even more closely with customers’ needs. Operational excellence will also be emphasised, so customers and advisors can enjoy lean, largely digital, processing. The idea of the one-stop shop will be actively used as a competitive advantage.

We wish to further build on our market leading position as the provider of finance for the Mittelstand. In 2018 we will again assist our corporate customers as a competent and reliable lender. We also expect sustainable financing with environmental or social features to continue to gain in importance, as increasing numbers of issuers and investors move into the segment.

We wish to realise further growth potential in corporate finance and trade finance too, by continuing to focus on the sector approach and by modernising and further consolidating our IT platforms so foreign trade can be processed even more efficiently. As part of the digital transformation an increase in application programming interface (API) banking for our customers is planned.

We are further aiming to develop our digital new issue systems landscape, including expanding blockchain capabilities and integrating a bond database. Our expertise in public-sector funding will be strengthened by continuing to develop digital applications.

The separation of the EMC division, which is no longer a part of the segment's core business, will be progressed in 2018 with the aim of bringing the business to market in the short to medium term.

Special attention will be paid when implementing these measures to further strengthening the segment's compliance culture.

Asset & Capital Recovery

The Asset & Capital Recovery segment comprises the complex financings of the portfolios in the areas Commercial Real Estate (CRE), Ship Finance (SF) and Public Finance (PF).

The ACR run-off strategy aims to systematically reduce the individual segment portfolios in a way that preserves value and minimises risk. The aim of this asset reduction is to free up capital so that it can be employed in business areas offering higher returns.

Performance

€m	2017	2016[1]	Change in %/%-points
Income before provisions	166	213	−22.2
Loan loss provisions	−336	−599	−43.9
Operating expenses	98	128	−23.4
Operating profit/loss	**−269**	**−515**	**−47.8**
Capital employed	2,982	3,308	−9.8
Operating return on equity (%)	−9.0	−15.6	6.5
Cost/income ratio in operating business (%)	59.4	60.4	−0.9

[1] Prior-year figures restated due to a change in reporting plus other restatements (see notes page 152 ff.).

In financial year 2017, despite difficult overall conditions particularly in the international shipping markets, the ACR segment was able to reduce total volumes (exposure at default (EaD), including problem loans) of assets that no longer form part of the core business of Commerzbank by more than €2bn to €14.0bn with a significantly reduced burden on the income statement. The reduction focused on the riskiest sub-portfolios in commercial real estate and shipping loans, and as a result the volume of problem loans also fell significantly. The ACR segment reported a strong improvement in operating profit in 2017: the loss of €–515m in 2016 was almost halved to €–269m.

Income before loan loss provisions fell by €47m to €166m, reflecting the considerable progress in cutting back segment assets. In the previous year the €135m partial write-up on the former position in HETA Asset Resolution AG, which was reported almost completely under other realised profit or loss and net remeasurement gain or loss, made a major contribution to income; in 2017, however, earnings were lifted by one-off income of €68m. The amount reported under net gains from financial assets and liabilities measured at fair value through profit and loss arose from the write-up of a position with a counterparty with whom Commerzbank had taken out a hedge in the Public Finance division, which had previously been written down.

The success in shrinking assets was reflected in the sharp fall in impairments. Loan loss provisions came to €–336m, compared with €–599m the previous year. The expense related almost entirely to ship financing.

In line with a further reduction in headcount, operating expenses fell €30m to €98m.

Overall, the ACR segment posted a pre-tax loss of €–269m in the 2017 reporting period. This represents a €246m reduction in the loss compared with the same period of the previous year.

Main developments in the financial year

Reduction strategy continued

For all assets bundled in the ACR segment, a reduction plan for all ACR portfolios is being drawn up as part of the comprehensive management plan. The focus of the portfolio reduction is on reducing EaD (including NPLs). The priority here is to reduce the more risky assets. The management of ACR also has an efficient tool kit for reducing the portfolio. In addition to active restructuring and the use of market opportunities, improved access to investors and capital markets in recent years has made it possible to reduce assets in a selective manner by selling sub-portfolios, provided capital is freed up as a result.

The value-preserving portfolio reduction in financial year 2017 was over €2bn, taking EaD to €14.0bn, including NPLs. The EaD volume of the CRE and ship finance portfolio stood at €4.1bn as at the end of 2017. Risk-weighted assets (RWA) fell by €3bn year on year to €18bn. The secured funding for ACR's activities comes from lettres de gage publiques. Securities repo transactions also play a role in funding the portfolio. Optimising the funding structure – through active cover pool management, for example – is an important component of the reduction strategy. The ACR segment still has sufficient numbers of highly qualified staff with many years of experience in the different asset classes. The operating stability of the units within the ACR segment is assured.

Commercial Real Estate

In financial year 2017 the total CRE volume (EaD) was further reduced by €1.0bn or 42% to €1.4bn through active management. In CRE Germany, which still accounts for around 31% of the total exposure, EaD declined by 45% to €0.4bn. In CRE International, which accounts for around 69% of the total portfolio, EaD fell by 40% over the course of 2017 to €1.0bn. The breakdown of the overall portfolio by type of use is as follows: the main components of the exposure are the sub-portfolios office (€0.2bn), retail (€0.8bn) and logistics (€0.2bn).

Ship Finance

In financial year 2017 the portfolio volume (EaD) booked in ACR was reduced by €2.2bn from €4.8bn to €2.6bn. Aside from the ongoing reduction in problem loans at individual loan level, the focus of reduction activities in 2017 was on the sale of selected loans from the performing loan book.

In 2017 the bulker and container markets recovered from their historic lows seen in 2016, sometimes considerably. This does not yet mean that all loans can be fully serviced, however. Tanker markets remained very weak in the reporting year.

The portfolio is divided principally between three standard types of ship, namely containers (€1.0bn), tankers (€0.5bn) and bulkers (€0.4bn). The rest of the portfolio (€0.7bn) consists of various special tonnages which are well diversified across the various ship segments.

Public Finance

The Public Finance portfolio consists mainly of loans to local authorities, other public-sector or quasi-public-sector institutions, companies or financing institutions.

EaD rose by €1.0bn over the past financial year to €10.0bn, as a result of restructurings. Most of the exposure is in western Europe and North America.

Outlook for Asset & Capital Recovery

The run-off strategy for the ACR segment will be rigorously pursued in the coming years. The aim is still to run off the remaining portfolios and residual risks completely over time in a way that preserves value and releases capital. Opportunities to sell assets and portfolios will therefore continue to be taken in cases where a sale makes economic sense. By the end of 2018, the ACR segment aims to further substantially reduce the CRE and DSB portfolios.

In CRE, persistently low interest rates and ongoing pressure on both large and small investors to invest are such that we assume real estate will remain an attractive asset class, especially in the eurozone. Stable market conditions are expected for the short to medium term.

In Ship Finance we are keen to continue to run down the portfolio, depending on market conditions. The future speed of portfolio reduction will continue to depend crucially on the performance of the shipping markets.

The future performance of the Public Finance portfolio is dependent on political, economic and monetary developments, particularly in the UK and the USA. The Public Finance division will continue to seek out and make use of opportunities for asset and portfolio reductions that are focused on risks and do not harm profits.

Others and Consolidation

The Others and Consolidation segment contains the income and expenses which are not attributable to the business segments. Reporting for this segment under Others comprises equity participations that are not assigned to business segments, overarching Group matters such as expenditure on regulatory fees, specific individual matters that cannot be allocated to the segments and Group Treasury. The costs of the support functions, which are mainly charged to the segments, are also shown here. Consolidation includes income and expense items that represent the reconciliation of internal management reporting figures shown in segment reporting with the Group financial statements in accordance with IFRS. The costs of the staff and management functions are also mainly charged to the segments and shown here. Restructuring costs for support functions and staff and management functions are not included in this charging.

The segment recorded an operating loss of €–104m in 2017 compared with €–453m in the previous year. Reasons for the €349m increase included one-off income from a property sale and a lower burden from the purchase price allocation associated with the acquisition of Dresdner Bank. Taking into account restructuring expenses of €808m in connection with the implementation of the headcount reduction as part of the Commerzbank 4.0 strategy, Others and Consolidation recorded a pre-tax result of €–911m in 2017, compared with €–559m in 2016.

Our employees

Our employees are a major part of our corporate success. We can only achieve our business objectives with motivated and high-performing staff. Their commitment and skills make us strong competitors. Our goal is to constantly make Commerzbank a more attractive employer as a result of our HR activities. At the same time, HR plays a key part in implementing the Bank's new business model. The values of our corporate culture include a shared leadership philosophy and our code of conduct. These help our employees to find their bearings, especially in times of change. We strongly believe that observing the rules and behaving with integrity strengthens our reputation and ensures our sustainable business success. Compliance and integrity are therefore major elements of our business model.

Actual number employed	31.12.2017	31.12.2016
Total staff Group	49,417	49,941
Total staff parent bank	33,850	35,211

At year-end 2017, the Commerzbank Group employed 49,417 staff, a decrease of 524 employees compared with year-end 2016. The number of full-time equivalents was 43,560, compared with 44,267 in the previous year (FTEs excluding trainees were 41,814 compared with 42,190 the previous year). The following table shows full-time employees at year-end by segment and by staff/management and support function. The staff/management functions perform central Group management tasks. The support functions ensure that the business processes underlying the Bank's operations run smoothly. The costs of the staff/management and support functions are mainly charged to the segments on the basis of an internal allocation formula.

Full-time personnel	31.12.2017	31.12.2016[1]
Private and Small-Business Customers	20,534	20,940
Corporate Clients	6,030	6,310
Staff/management functions and Support functions[2]	16,996	17,017
Group total	**43,560**	**44,267**

[1] Prior year restated.
[2] Staff/management functions: Group Audit, Group Communications, Group Compliance, Group Development & Strategy, Group Finance, Group Human Resources, Group Investor Relations, Group Legal, Group Treasury and the central risk functions. Support functions: Group Banking Operations, Group Markets Operations, Group Information Technology, Group Organisation & Security and Group Delivery Center. The staff/management and support functions are combined in the Others and Consolidation division for reporting purposes.

Most employees in the Commerzbank Group (around 75%) work in Germany. The average length of service at Commerzbank Aktiengesellschaft (Germany) is around 21 years; 18% have worked for the Bank for up to 9 years, 30% for between 10 and 19 years, and over half for 20 years or more. The employee turnover rate in 2017 was 4.6%, compared with 3.7% in 2016.

HR work supports the new business model

The focus on the core business, with some business activities being discontinued, and the digitalisation and automation of workflows is leading to corresponding staff reductions. In order to do this as socially responsibly as possible, Commerzbank has agreed an outline reconciliation of interests and an outline social plan with the employee representative committees in Germany. In addition, 32 partial reconciliations of interest were negotiated for the individual Group divisions. The way to the new target structure has therefore been defined.

At the same time, HR plays a key part in successfully implementing the Bank's new business model. It supported the business units in the negotiations with employee representatives and is accompanying them as they move towards the new organisational structure.

Promoting digital competence

Engaged and capable employees make a vital contribution to Commerzbank's success. To ensure this, the Bank has refocused its strategic agenda for HR work out to 2020. The aim is to create a framework for employees and managers to play a competent and motivated role in helping to shape digital transformation at Commerzbank.

We want our employees to be aware of digitalisation and have the skills for it. We provide events across the Bank where they can extend their knowledge about digital issues. We train them in agile working methods and build up new competences. We also promote the next generation of talent. We are taking new paths to find digital talents. Our international Digital Banking Trainee programme aims to attract digital talents from various academic subjects. During the year under review we hired 24 graduates for the trainee programme. This new programme means we are playing a pioneering role in the European banking market. It is supporting us on our way towards becoming a digital technology company.

Digitalisation is also reflected in our products and HR processes. We are working to digitalise most of these. The objective is to simplify and standardise our HR processes.

Strong culture of integrity at the Bank for sustainable success

We want to be economically successful and profitable over the long term. For that we need a good reputation and a strong brand. Compliance and integrity are therefore major elements of our business model. A strong culture of integrity helps us to get our bearings and take the right decision. Integrity has for years been part of our corporate culture and is set down in our ComValues.

We launched a Bank-wide campaign on the culture of integrity during the reporting year as a way of strengthening our corporate culture. This is intended to raise employees' awareness of integrity. And to motivate them to continue to act attentively, honestly and fairly.

Our Code of Conduct is also based on our ComValues. These set out minimum standards for behaving with integrity at the Bank and helping us to assess situations correctly. If we follow these principles, we protect the good reputation of the Bank and strengthen our brand. We are confident this gives us a clear competitive advantage.

During the year under review we revised the Code of Contact, adding practical examples. The revised principles provide us with clear, understandable help in acting properly.

Diversity management an integral part of HR strategy

Diversity and inclusiveness are firmly integrated in our corporate culture. Diversity stands for the variety of our employees and customers. Inclusiveness describes an environment where diversity is acknowledged and everyone has the opportunity to develop in line with their abilities and interests. We are clearly committed to a mutually accepting working environment which is free of prejudice. As a signatory to the Diversity Charter in Germany we give a clear sign that we acknowledge and value the diversity and equality of our employees, customers and business partners. Both, employees and the Bank benefit from this. During the year Commerzbank held the fifth German Diversity Day, with numerous national events and workshops for staff.

Bank promotes good work/life balance

Our employees should be able to have a good work/life balance. For this reason, we support them with flexible working time models, opportunities to work from home and childcare services. We have also been working for some years now with professional partners on the issue of care. We support staff members who care for relatives, e.g. by providing advice and arranging care places. We also offer them the opportunity to network on various topics both within and outside the Bank, such as at events or in staff groups on various topics.

Number of women in management positions up again

In the year under review Commerzbank had 30.7% of management positions occupied by women, more than in 2016. It remains important for us to encourage female employees into management functions in future. Commerzbank has set itself the objective of having 35% of management positions held by women by the end of 2021. Positions are of course filled solely on the basis of qualification and competence.

Bank encourages employees to live and work in a way that is healthy

Our employees are more motivated and can perform better if they live and work in a way that is healthy. As long ago as 2012 Commerzbank gave a commitment to integrating health objectives in its HR policies and in all other areas of the business. Since then we have shown dedication to the health of our employees well in excess of what is required by law. We offer employees a wide range of information and training on health issues. We also encourage our managers to be aware of healthy behaviour in daily working life.

We also supported some 160 company sports groups with around 16,000 members in more than 50 types of sport at Commerzbank during the year under review. We also ran numerous campaigns to encourage people to keep mobile. As in previous years, just under 1,900 Commerzbank employees rose to the challenge of walking at least 10,000 paces for 100 days.

Not only the physical but also the mental health of our employees is very important to us. The Employee Assistance Programme (EAP) provides our staff with skilled advice in difficult personal and professional situations.

Our holistic approach to company healthcare management creates a framework for healthy working.

Attractive company benefits for employees

Along with remuneration, we also offer our employs many attractive company benefits. These range from private and occupational retirement saving to risk insurance and numerous other extras. These benefits are all very relevant for our employees and support our positioning as an attractive employer. We are keen to promote the mobility of our employees. Once again in 2017, staff were able to lease bikes and bank cars. Around 5,300 employees made use of this offer. For this first time this year the Bank included an electric car in a leasing campaign. This is a further contribution to the Bank’s sustainability targets and highlights electromobility. Commerzbank also regularly offers staff the opportunity to lease high-end IT devices for their private use.

Remuneration

As a result of the increased significance arising from greater regulation, remuneration of all employees below the level of the Board of Managing Directors is disclosed in a separate report (Remuneration Report pursuant to Section 16 of the Remuneration Ordinance for Institutions (Institutsvergütungsverordnung)). This is published annually on the Commerzbank website at www.commerzbank.com.

Outlook and opportunities report

Future economic situation

The development of the global economy in 2018 will be determined by geopolitical risks as well as the economic development of emerging markets. The spotlight remains on China, where growth will probably slow somewhat. Firstly, the important construction sector will expand less rapidly as real estate prices are hardly rising any more; secondly, heavily indebted companies (mainly state owned ones) will boost their investments at a lower rate. The upturn in countries whose exports are dominated by raw materials, by contrast, will continue to gain in strength.

In the USA there is every chance that the expansion which has been under way for more than eight years will continue in 2018. Private consumption will again rise sharply, driven by rising employment and accelerating wage growth. The same applies to corporate investment, which is being buoyed by promising sales prospects. In addition, the stronger crude price will again provide impetus to capital expenditure in oil and gas production. US exports will probably rise as fast in 2018 as they did in 2017. To date, the fears of a trade war which emerged during the US presidential election campaign have not been realised. Further support is likely to come from the tax cuts which have been approved, benefiting both companies and employees.

The US economy is set to grow by 2.7% in 2018, again faster than productive potential. The already low unemployment rate will decline further. This will confirm the Federal Reserve in its expectation that core inflation (excluding food and energy) is heading up towards 2% again. We therefore assume that they will raise benchmark interest rates in 2018, by a total of 100 basis points.

Real gross domestic product **Change from previous year**	**2017**	**2018**[1]	**2019**[1]
USA	2.3 %	2.7 %	2.3 %
Eurozone	2.5 %	2.5 %	2.3 %
Germany	2.2 %	2.5 %	1.8 %
Central and Eastern Europe	3.8 %	3.4 %	3.0 %
Poland	4.6 %	3.8 %	3.2 %

1 The figures for 2018 and 2019 are all Commerzbank forecasts.

A very powerful recovery is underway in the eurozone, which only a change of direction by the ECB would put at risk. There is no sign of this on the horizon. The ECB halved its bond purchases at the start of the year, and will only buy €30bn of securities per month until September, gradually ceasing altogether after that. But that does not mean the end of loose monetary policy. The ECB deposit rate is likely to remain at –0.4% for a considerable time. Low interest rates are making the still high debt levels of many companies and households more sustainable.

The solid economic growth will drive unemployment down further, but this will probably have little impact on the weak trend in wages. Underlying inflation will also remain weak.

The UK's vote in favour of leaving the EU will have no further impact on the eurozone economy. For one thing, it will probably be several years before the UK actually leaves the internal market. We also anticipate that it will ultimately conclude an agreement with the EU that minimises the economic disruption.

The German economy looks set to grow as fast in 2018 as it did last year, once adjusted for the different number of working days. On an unadjusted basis, the rise will be 2.5%, driven by vigorous investment activity. Consumption should post sound growth once again. Slightly higher wage increases and a continued strong rise in employment are still giving a powerful boost to employees' household income. Domestic demand is not the only source of support, though. The German economy will continue to benefit from lively global demand. It is worthy of note, however, that unit labour costs at German companies have been rising faster than in the rest of the currency union for several years now. And in the property market, low interest rates are driving up prices, especially in the major cities.

The US interest rate reversal and the continuation of the ECB's highly expansive monetary policy will once again shape the financial markets in 2018. The end to ECB bond purchases will not have any major upward impact on the yield of 10-year German government bonds. The bull run on equity markets is not yet over, although volatility is likely to rise. The current year is set to be a good one for equity investors once again. The healthy economy is causing company profits to rise. The persistently loose monetary policy is also supportive of equity valuations. The euro/dollar exchange rate looks set to weaken in 2018, as the Fed will probably hike its benchmark rates more than the markets currently expect.

Exchange rates	31.12.2017	31.12.2018[1]	31.12.2019[1]
Euro/US-dollar	1.20	1.18	1.26
Euro/Sterling	0.88	0.88	0.92
Euro/Zloty	4.18	4.30	4.40

[1] The figures for 2018 and 2019 are all Commerzbank forecasts.

Future situation in the banking sector

Given the tailwind for the German and European economy and a eurozone recovery that is increasingly self-sustaining, the risks for the economic environment in which the banking sector operates are currently more balanced than before. Some of the dangers previously noted remain. They include the risk of increasing protectionist tendencies, a surprise stumble in Chinese growth or political risks in Europe and the world. The vote in Sicily, for example, increased the risk of parties critical of Europe potentially winning the forthcoming parliament elections in Italy, and the country's structural weaknesses remain a risk factor for the currency union. Any escalation in the North Korean conflict or the tussle between Saudi Arabia and Iran could sharpen the perception of geopolitical risks. The bursting of the debt bubble, cascade effects, a massive loss of confidence and political decisions could result in a significant setback to economic growth in China.

Over-reactions on the financial markets and misallocations in the real economy caused by the lengthy period of expansive monetary policy would have a direct impact on the banking sector through interest rate and commission business. High valuations for equities and bonds, real estate markets and private equity have created plenty of scope for disappointment, and complacency and optimism have in some cases got out of hand. Investors who normally buy safe assets might panic at market turbulence, and procyclical investors have become much more significant. The planned end to low interest rates for some central banks already risks causing financial market turmoil, especially as modest expectations about the speed and extent of monetary tightening could be disappointed. The Bundesbank recently pointed out that remeasurement risk, interest rate risk and default risk all occur at the same time and can exacerbate each other.

A largely disorderly UK departure from the EU without any transitional period or free trade agreement, which cannot be ruled out despite the recent progress in the negotiations on the terms of departure, would be equivalent to an economic shock and cause harm to the German banking sector, even though there would be marginally positive value creation effects as market-related financial services are switched to Germany. The current level of integration between the UK and the EU, especially Germany, is very high, due to specialisation in the internal market and international value chains. Banks' foreign business with major German export clients would be noticeably hit, especially, through trading, in cars, engineering, electricals, chemicals, pharmaceuticals, food and textiles. Wholesale deliveries are significant at the macro and microeconomic level for both Germany and the UK. Research by the Ifo Institute shows that at least 550,000 jobs in Germany depend on exports to the UK, hence business with retail bank customers would be directly affected. In addition, the UK's departure from the EU internal market and the customs union may affect trade with other EU countries. Banks have to hope that their credit customers identify the risks Brexit will have for their own business models, and mitigate these. In the short term there would be major general downside risk for the macro-economic environment from market jitters and political uncertainty, with a negative impact on the customers of the banking sector. The perception of serious institutional consequences from the departure of one of the three large member states (in terms of the balance of power, a potential change of direction on free trade and the effect on the EU budget) could add to this. If the UK government lowers regulatory standards in the banking sector after Brexit to support London as a financial centre, the competitive position of the banks in the remaining EU countries would be harmed.

There is also ongoing uncertainty on the markets regarding the capital adequacy, interest rate risks, non-performing loans, cyber risks and especially profitability of European banks. The recent finalisation of the Basel 3 regulations raises the question of consistent implementation; this, together with the issues where the supervisors were unable to reach any consensus, could cause investor uncertainty. The focus remains on individual business models for sustainable profit generation and stress resistance in the low interest rate environment. One of the main challenges still facing banks is to adapt their business models – in view of ongoing overcapacity in some countries coupled with new technology-driven competitors – to the changed conditions, reduce costs and increase profitability. This means pushing ahead with the systematic modernisation of banking operations and making sufficient capacity available for digitalisation.

All in all, the eurozone banking sector is still in the middle of a long-term structural transformation triggered by the crisis of the last few years. The stronger capital base is offset by reductions in implicit government guarantees, stricter rules on resolution and greater creditor loss participation. A further reduction in leverage exposure levels and improved asset quality in an increasingly digitalised and automated industry are still essential if the banking sector is to meet the tougher requirements of banking supervisors and fulfil investor expectations.

Economically, the sector will receive a boost in 2018 for its business with retail and corporate customers from the macroeconomic environment. The more robust global economy is based on an upturn which is broader in terms of countries and contributors. International trade in goods is benefiting from the broadly rooted uptrend, as is, finally, capital expenditure; private companies in particular appear to be putting aside their unwillingness to invest. The good performance seen in employment and incomes continues to support consumption growth and savings. The best environment for banks would be a steady economic upturn and a rise in yields that is slow and only gradual. But, large repayments by customers and the increased use of internal and alternative external sources of funding, along with tough competition, will limit income growth.

The outlook for the banking environment in Poland remains gloomy for the medium term as a result of economic policy and the dispute with the EU over the effect of European law. We still expect the banking sector to come under pressure from the newly introduced bank levy and other potential measures to increase the government's influence. The close trade relations with the UK would also cause harm in the event of a disorderly Brexit.

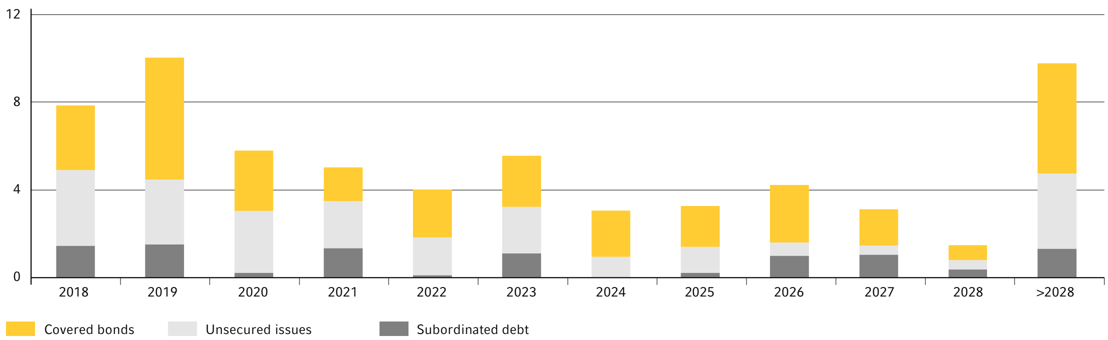
The Polish economy continues to grow strongly, though. After a healthy rise of around 4.6% in economic output last year, 2018 is likely to see a strong gain of about 3.8%. Private consumption will again play a major role, accentuated by fiscal policy measures such as support programmes for families and pensioners. The country also benefits from strong demand from Germany. In addition, as the funding period draws to an end, an increasing amount of EU funding can be expected to be drawn down. Hence, investment should again make a perceptible contribution to growth in 2018. The positive trend in wages and unemployment should generally boost credit volumes, and the solid position of private households and the corporate sector will be reflected favourably in banks' risk costs.

Financial outlook for the Commerzbank Group

Planned funding measures

Commerzbank anticipates a capital market funding requirement of less than €10bn over the coming years. Commerzbank offers a broad range of products in the capital market. In addition to unsecured funding instruments such as senior unsecured and Tier 2, Commerzbank can also issue secured funding instruments, in particular mortgage Pfandbriefe and public-sector Pfandbriefe. These give Commerzbank stable access to long-term funding with cost advantages compared with unsecured sources of funding. As such, Pfandbriefe are a key element of Commerzbank's funding mix. Issuance formats range from large-volume benchmark bonds to private placements. Commerzbank does not anticipate any negative effects on the placing of long-term funding instruments in the capital market from the forthcoming Brexit negotiations.

Group maturity profile of capital market issues as at 31 December 2017
€bn



By regularly reviewing and adjusting the assumptions used for liquidity management and the long-term funding requirement, Commerzbank will continue to respond actively to changes in the market environment and business performance in order to secure a comfortable liquidity cushion and an appropriate funding structure.

Planned investments

Commerzbank plans to invest around €1bn in 2018. Around two-thirds of this relates to IT investment. Some 45% of investments are on digitalisation, around 25% on regulatory issues and just under 20% on our infrastructure.

Private and Small-Business Customers

The main investment targets for the branch bank in 2018 are still initiatives relating to the Commerzbank 4.0 strategy and compliance with regulatory requirements.

The focus is on continuing the digitalisation activities. These include in particular investments in the new multi-channel platform ONE, where the expansion of functionalities for customers and employees is being steadily driven ahead. Maintenance costs are being reduced by decommissioning individual systems, using individual components throughout the entire Group and increasing standardisation. Compliance requirements can be better met by harmonising processes, products and services. The platform also makes it possible to connect for example fintech companies, thus making the business model more flexible.

There will also be further investment in Commerzbank's sales platform. The findings from analyses of customer needs will be fed in a targeted manner to channels such as branches, the Customer Centre or online banking to permit an industrialised, scaled and automated customer approach and customer service. Tailored offerings targeted at specific needs increase customer satisfaction and promote cross and upselling. This calls for the efficient use of big data and advanced analytics as part of digital customer relationship management (DCRM). In-depth analysis of internal and external data identifies untapped customer potential and allows the Bank to generate tailored offerings. Analytical DCRM is also used to generate leads: the leads generated (prospective customers) are collected, managed and processed in a targeted manner in the customer pool. Budgets for marketing and sales campaigns can then be allocated more efficiently.

Implementing the wide range of ever higher regulatory requirements in a timely and customer-centric manner remains the Bank's top priority. Investments are focusing on implementing the requirements under the EU General Data Protection Regulation, changed tax legislation and process optimisations related to the EU Directive MiFID II.

2018 will also see more rigorous work on making the structure of the branch business more efficient. The core of the measures being taken is the implementation of an advisory model which pays closer attention to a differentiated service offering in the individual locations, along with a clear digitalisation strategy. At the same time, local presence will be consistently maintained. Investments in the branch business in 2018 will focus on the accelerated rollout of the flagship branch format and the City branches successfully piloted in 2017.

Investments in digitalisation, the sales platform, the advisory model and regulatory implementation will again form the basis for the small-business customers unit in 2018. At the same time, as part of Commerzbank 4.0 the Bank will again invest in 2018 in specific issues relevant to companies and entrepreneurs. The focus is on further developing digital liquidity management, extending our leasing offering and the foreign business offering for corporate customers. Another focus for investment will be completing the new advisory model for small-business customers in the branches and taking over customers from the Corporate Clients segment. In future, small-business customers with turnover of less than €15m will be covered across the country at over 300 locations by more than 1,600 employees specialised in dealing with entrepreneurs.

Planned investments at mBank in financial year 2018 will again concentrate on digitalisation. Client-related and internal processes will be further optimised and automated in order to extend and reinforce the leading competitive position. Against the backdrop of digital transformation, it will be crucial to have an agile organisation. The projects planned for 2018 systematically support the "mobile (banking) first" approach of a customer-focused multichannel bank. A comprehensive understanding of customers and their needs is essential to gain new clients and retain existing ones. The investments will make it possible to offer financial solutions customised to customer needs. Further activities aim to boost process efficiency and optimise costs. Various initiatives from 2017 will continue in 2018. Among them are the One Network project and investments to improve and standardise IT infrastructure at mBank and IT security. The One Network project will see further advisory centres and "light" branches opened in 2018. There will also be investments for regulatory requirements, including MiFID II, split payment of VAT in Poland and cooperation with a state clearing house belonging to the national tax authority.

Corporate Clients

The investments at the Corporate Clients segment in 2018 will again concentrate on the measures decided as part of the Commerzbank 4.0 strategy. The emphasis will be on the growth programme "Leading the Future" – the top position in the Mittelstand. This aims to gain market share and expand the market position in Germany by clearly focusing all actions on the needs of sales and the customer. At the same time, the ever rising level of digitalisation will make it possible to reduce administrative activities in sales, creating more time for customers and allowing better support for existing customers, e.g. using sales analytics.

Our digital corporate client credit will be rolled out in 2018: this lets customers make a simple online application for credit lines of up to €5m, receive an immediate response and download the loan agreement once it has been agreed. There will also be a focus on actively managing compliance risks. The segment will continue to invest globally in strengthening the compliance culture, largely by holding appropriate training sessions.

Campus/journeys

Commerzbank is transforming itself into a digital technology company in order to significantly speed up service provision for customers while improving efficiency within the Bank. As part of Commerzbank 4.0 the Bank is pursuing the strategic objective of having 80% of the relevant business processes end-to-end digitalised by the end of 2020. The first major digitalisation processes at Commerzbank may be completed in 2018. In addition, three further digitalisation projects will be launched this year. Up to 1,000 staff are still working on the digital campus.

The digitalisation will not be approached in the same way as traditional projects, but grouped into thematically related end-to-end process bundles known as master journeys. Responsibility for each lies with a lead executive. For each journey, implementation will be driven forward by two members of the Board of Managing Directors as sponsors. The journeys follow a vision the teams work towards in short intermediate stages at set deadlines, known as sprints. The ongoing and planned digitalisation projects are grouped together in the Digital Campus and agile working methods are applied.

Back office

Commerzbank will continue in 2018 with the ongoing optimisation of the IT structure. There will also be significant investment in payment transactions and securities processing. At the end of 2017 Commerzbank entered into a strategic partnership in securities processing with HSBC Transaction Services GmbH. This will allow Commerzbank to work on a cost efficient, modern and flexible platform.

Investments are also being made in big data and advanced analytics. This describes making smart use of the data Commerzbank holds from public sources or is given voluntarily by customers. The aim is to address customers in a focused manner, create added value for the customer and open up new opportunities for business.

The compliance function will be reinforced in connection with the further development of legal compliance and ethical principles.

Ever stricter regulatory requirements mean Commerzbank needs to make substantial investments in order to comply with national and international standards. Among the expenditure planned in 2018 is the implementation of the EU General Data Protection Regulation (GDPR).

Anticipated liquidity trends

In the fourth quarter of 2017 the eurozone money and capital markets were again strongly affected by the monetary policy measures implemented by the European Central Bank (ECB) to support the economic recovery in the eurozone and prevent deflationary trends.

The ECB made an additional €60bn of liquidity available each month up to the end of 2017 through the securities purchase programme. From January 2018 onwards it intends to buy €30bn of government bonds and other securities every month. The programme is to run until at least the end of September 2018, nine months longer than previously planned. There was a further increase in excess liquidity to just under €1,800m as at the end of December 2017. We expect that in 2018 the ECB will again be a net buyer of more securities than those that fall due. The translation into demand for credit will remain modest.

The restrictive regulatory environment and ECB interest rate policy are still having a limiting effect on turnover in the repo market. The ECB's purchase programme is continuing to cause a shortage of collateral. Owing to the high excess liquidity in the market, the volume of longer-term securities repo transactions is restricted. Liquidity trends on the bond markets are still dictated largely by the ECB's activities. Secondary market liquidity, which has already been significantly reduced, will remain modest due to the ECB's activities. We still anticipate that interest rates will be negative out to three years, with persistently high demand from investors for high-quality securities, and therefore expect credit spreads to remain tight.

Commerzbank's liquidity management is well prepared to cope with changing market conditions and able to respond promptly to new market circumstances. We also anticipate no significant impact on our liquidity situation from Brexit. The Bank has a comfortable liquidity position that is well above internal limits and the currently applicable requirements prescribed by the German Liquidity Regulation and MaRisk.

Our business planning is done such that a liquidity cushion can be maintained commensurate with the prevailing market conditions and related uncertainties. This is supported by our stable business model in private and corporate customer business and continued access to secured and unsecured debt instruments in the money and capital markets.

Managing opportunities at Commerzbank

The demands placed on modern, sustainable banking business have changed markedly in the past few years. The pressure on profitability has increased significantly in respect of both earnings and costs. Rising competition means old structures have to be reviewed and new paths taken. Whereas in the past, personal customer relationship management was a key element of banking, these days our customers expect multi-channel advisory services, digital financial offerings and individual, tailor-made products. We are rising to these challenges with the strategic initiatives we have launched and in some cases already successfully implemented. But we face additional challenges from increasingly stringent regulatory requirements. With this in mind, the constant review of internal processes, structures and technical platforms to make ourselves leaner, more efficient and more customer-oriented is not a one-off project but an ongoing process that will occupy us over the coming years and should enable us to largely counteract the significantly tougher requirements.

The Commerzbank 4.0 strategy announced in autumn 2016 has three main thrusts. Firstly, we are concentrating on businesses with clear competitive advantages and getting rid of non-core activities. Secondly, we are transforming ourselves into a digital technology company. And thirdly, we are simplifying the Bank's structure and thus boosting our efficiency. Our aim is to be the leading bank in Germany for private, small-business and corporate clients. We want to provide a modern and superior range of digital and personal services, close to the customer and offering fast and efficient processing. We will remain personal and digital: the customer can decide which channel to use to contact us. The Bank concentrates its customer activities in two strong sales segments – Private and Small-Business Customers and Corporate Clients.

By 2020 the Private and Small-Business Customers segment will become a digital multi-channel bank in Germany. The key elements of this are digital and analogue service offerings, new sales platforms and a differentiated branch concept. Our network of around 1,000 branches retains its vital central role, but we want to achieve faster growth by combining digital platform strategies with modern branch formats. The "ONE" sales application is a standardised technical platform for online and branch sales. Broad-based market coverage is assured through flagship branches focusing on advisory services and city branches that combine efficient customer service with a reduced infrastructure and lower operating costs. With the aim of gaining two million net new customers by 2020, the Bank is offering attractive products such as digital instalment loans and digital asset management and working with partners such as Tchibo, Amazon and Lufthansa. Small-business customers are handled in a separate business unit within the Private and Small-Business Customers segment. We combine strong expertise in private customer business with the credit experience of Mittelstandsbank. New digital offerings coupled with a nationwide local presence will enable us to significantly increase our share of the business customer and smaller Mittelstand customer markets from 5% to 8%. The holistic advisory services take both business and private considerations into account.

The Corporate Clients segment combines the Bank's traditional strengths in corporate banking – a national presence coupled with support for customers entering international markets, a unique relationship management model and a leading range of trade and export financing services – with the capital market know-how of our investment bank. We are thus creating the optimal framework for developing solutions tailored to the specific needs of larger companies. We will also leverage our expertise in Germany's key industries at a European level in order to better harness it for international growth. Our aim is to be the leading provider of hedging products for corporate clients and the number one debt house. We strive to ensure a uniformly high quality of advice worldwide. Corporate customer advisors in Germany not only coordinate the involvement of product specialists, they also work with the Bank's global client service teams. The multilingual relationship managers and specialists on the European desks in their global markets are in constant contact with corporate customer advisors in the domestic market.

We will transform the Bank into a digital technology company across all segments. This restructuring affects strategy, technology, competence and culture. We will actively drive forward digitalisation in the banking business and be a technology leader. We want to be number one is all technologies that provide our customers with speed, security and convenience.

For some time we have been involved in start-ups, both directly and through our subsidiaries CommerzVentures, main incubator and the digitalisation platform #openspace. We support entrepreneurs with good ideas, so we have a finger on the pulse of tomorrow's innovations. The Digital Leadership programme will support our managers in their multiplier role for digital change.

The digital campus will become the engine driving the Commerzbank transformation, testing and developing new, agile working methods and new forms of cooperation. This will bring us to results more quickly and allow us to deal with changes more flexibly. We already have some success stories to show along the way, with digital proofs relating to customer interfaces, new technologies and the digital world of work.

The specific opportunities arising for the two customer segments this year are described in the corresponding parts of the "Segment performance" section.

Anticipated performance of the Commerzbank Group

The banking environment remained very challenging in 2017, but Commerzbank laid important foundations for achieving a sustainably higher level of profitability in the medium term with the help of the Commerzbank 4.0 strategy. The €0.8bn of restructuring expense needed to implement these strategic measures was recognised in full in the last financial year. In financial year 2018 Commerzbank will continue to focus on growth in customers and business volumes and sustainably improving the market position in the two core segments Private and Small-Business Customers and Corporate Clients, and on high investment in the digital transformation of the business model. This will lay the basis for considerable growth in income in the coming years, as well as significant gains in efficiency. In the Asset & Capital Recovery segment, which groups together complex, long-term and risky portfolios that make no strategic value contribution, Commerzbank expects to see further substantial success in making reductions. We assume that by the end of 2018 the ship financing portfolio can be shrunk to a volume which is negligible for risk purposes. This will further strengthen Commerzbank's resilience to adverse stress scenarios.

We expect no material change to the challenging overall conditions in the current business year. In addition to low or negative interest rates, the stiffer competitive situation, reflected in lower margins on new lending and weaker profitability in deposits, will weigh on income.

In our view, any acceleration of the improvements in income and earnings we are aiming for in the medium terms, which would require a normalisation of the yield curve and rising rates at the short end of the curve in particular, is unlikely in 2018. The priority in the current year, therefore, will be to improve the quality of customer-related income and earnings. This means, firstly, that total Group income in the current business year will probably not quite reach the level seen in 2017. Adjusting for the exceptional, one-time income last year, however, Commerzbank is aiming for a slight growth in income. Secondly, the high quality of the loan portfolio in the core Private and Small-Business Customers and Corporate Clients segments, together with the considerably lowered level of risk in Asset & Capital Recovery, will permit a further significant reduction in the risk provisioning requirement. With continued strict management of operating expenses, on our forecast Commerzbank will be able to reach another milestone in 2018 on the path to higher profitability, as set out in our strategy.

Anticipated performance of individual earnings components

As in the previous year, efficient asset liability management is one of the challenges for increasing interest income in an interest rate environment which is likely to remain difficult. The focus will be on managing the ratio of loans to deposits by strictly controlling deposits and growing the business in the Private and Small-Business Customers and Corporate Clients segments. To counter the tighter margin situation, which is being driven by competition, Commerzbank will emphasise high-margin financing such as consumer loans (now operating on a proprietary platform since mid-2017), without neglecting strict risk metrics. We still see promising potential for growth in the private and small-customer business in Germany and at mBank in Central and Eastern Europe. In business with corporate customers, by contrast, who in the current very favourable economic environment have considerable capacity to finance themselves, only a slight expansion of business is again likely to be possible. At Group level Commerzbank is aiming for a slight increase in net interest income overall.

The slight increase targeted in net commission income in both Private and Small-Business Customers and Corporate Clients is mainly related to growth in the securities and capital markets business. For private customers, higher volume-based income from mandate business combined with a further expected increase in volumes held in custody accounts should compensate for the loss of income from distributing consumer loans and lead to higher commission income overall.

For institutional and corporate customers, more frequent periods of volatility on the financial markets, triggering increased activities of market participants in primary and secondary markets, is likely to help commission business.

The uncertainties as to the performance and volatility of the global capital markets make it difficult to forecast gains or losses from financial assets and liabilities measured at fair value through profit and loss. Commerzbank continues to apply its risk-oriented, customer-centric approach to ensure as stable a contribution as possible from this business. This income item now includes remeasurement effects on assets reclassified under IFRS 9 on 1 January 2018, such as the ship financing portfolio. Commerzbank is targeting a substantial reduction in the ship portfolio, which is measured at fair value, by the end of 2018, without any material effect on earnings.

We estimate that the other income items, including realised gains or losses on financial instruments and other net income, will in total be significantly below last year's high level in 2018. Financial year 2017 benefited from one-off income and measurement effects of the order of just under €500m, including gains on disposal of a shareholding and a real estate transaction.

Despite our expectation that the interest rate environment will again weigh on income, we anticipate slight growth in income on an adjusted basis in the current year. The core income items, net interest income and net commission income, should deliver the lion's share of this. Including the one-off income recognised last year and unlikely to be repeated in 2018, or at least not on the same scale, income overall will be slightly below last year's figure.

In a scenario of rising interest rates, especially at the short end of the yield curve, we would regard a significantly larger rise in income as realistic.

The introduction of IFRS 9 affects the forecast of the risk result, which is comparable but not identical to the old loan loss provision item. The risk result now includes, for example, gains or losses on disposal of financial instruments mainly recognised at cost, a subcomponent that cannot be reliably forecast but is also not expected to be material in size. Commerzbank expects a risk result of less than €600m for financial year 2018. Unlike in previous years, the Asset & Capital Recovery segment will in our view no longer require any significant risk costs. Apart from the fact that from 1 January 2018 measurement changes on the ship financing portfolio are reported in the gain or loss on financial assets measured at fair value, the now advanced reduction of the ACR portfolio also plays a role in this.

One major reason for the expected significant rise in the risk result related to the Private and Small-Business Customers and Corporate Clients segments also has to do with the introduction of IFRS 9: since the start of this year, expected credit losses on a one-year view must be booked at the time of initial recognition for new lending business, regardless of whether any impairment expense is actually incurred. The strategic decision to operate the high-margin consumer finance business, with comparatively higher expected risk costs, on Commerzbank's own platform will therefore push up the expected risk result. The expected growth in credit risk costs in the core business areas does not, overall, reflect any deterioration in the very good quality of our loan portfolio. The expectation of above-average portfolio quality is also reflected in our forecast that in the current year only a relatively small share of the risk result is likely to relate to value losses caused by a significant deterioration of credit quality, known as phase 2 impairments under IFRS 9. From 1 January 2018 expected lifetime losses in the risk result must be taken through profit and loss when credit exposures suffer a material rating deterioration.

Commerzbank expects the operating expense in 2018 to be below last year's level thanks to continuous efficiency improvements; our cost base should be capped at €7.0bn. Investments to increase future profitability, such as the digitalisation campaign in all divisions of the Group, are planned to be on the same scale as in 2017. We also anticipate no let up in regulatory costs, such as banking levies, which again rose significantly in 2017, for the foreseeable future. The first favourable cost impact will be felt in the course of 2018, although the positive effects from the planned efficiency enhancement measures such as the headcount adjustment are not scheduled to become increasingly visible until the years that follow. By providing in full for the restructuring expense last year we have laid the foundations for sustainably reducing the cost base to €6.5bn in financial year 2020.

Anticipated segment performance

In the Private and Small-Business Customers segment, higher customer numbers and business volumes remain the key driver of income. We regard the steady conversion to a multi-channel bank with innovative branch and sales concepts and increasing digitalisation of products and processes as a competitive advantage allowing us to gain further market share and improve profitability. The lending business will remain a focus for growth, although the unhelpful interest rate and competitive environment is such that the planned volume growth will probably not be fully felt in growth in income.

We will particularly push ahead with the high-margin consumer loan business in 2018, but we are also planning volume growth above the market average again in real estate financing. Increased penetration of the existing customer base offers further scope to boost income. The focus is on a product range which is tending to narrow, but the increasing digitalisation of the offering improves customer benefits and simultaneously makes it possible to gain in efficiency. The segment also anticipates cost efficiency from process optimisation, e.g. by extending the central ONE sales platform. Our Polish subsidiary mBank, which operates one of the most innovative direct banking platforms in Europe, will further build on its good market position in both corporate and private customer business, especially in its home market. A further rise in income is therefore expected. Operating expenses should grow in line with income, despite another expected heavy burden from regulatory costs. In our view, the forecast significant increase in the risk result for the whole Private and Small-Business Customers segment is mainly related to the introduction of IFRS 9 and does not reflect any material change in the high quality of the loan book. All in all we expect a significant increase in income in the Private and Small-Business Customers segment in 2018 on an adjusted basis, i.e. excluding the €200m or so of one-off income recognised in the year under review. Taken with slightly lower operating expenses, there should be a significant improvement in operating profit and operating return on equity. There is likely to be a slight drop in the cost/income ratio.

Under the Commerzbank 4.0 strategy, the Corporate Clients segment will focus in 2018 on further strengthening and improving its leading market position in many areas. As well as accessing new customer groups, including abroad, the broadening of the existing customer base and associated market share gains should boost profitability. Areas of business where Commerzbank has particular competitive strengths, such as trade financing, have the potential for further growth in income. The transformation to the agreed target organisational structure will also be driven forward, including the spin-off of Equity Markets & Commodities. It remains our firm intention to bring these business activities to the market in the short to medium term. Segment activities in the current year will focus on the ongoing transformation of advisory and sales processes and the continuing digitalisation and modernisation of the product range, which will allow increasing efficiency gains over time. The income side will continue to be held back by tighter margins as a result of stiffer competition in new lending and knock-on effects from activities discontinued in 2017 which are no longer part of the core business. By rigorously implementing the planned growth initiatives the Corporate Clients segment is aiming to increase income overall above the level seen last year.

Operating profit should also rise somewhat. This forecast is based on the assumption that the expected significant rise in the risk result primarily related to the introduction of IFRS 9 can be largely compensated by the targeted slight decline in operating expenses. With the operating return on equity forecast to change little, we assume a slight improvement in the cost/income ratio.

The Asset & Capital Recovery segment will continue the reduction strategy it has been successfully implementing over recent years in 2018. We are confident that the ship financing portfolio can be reduced to a level which is scarcely material from the risk perspective by the end of 2018. Further focused portfolio sales are possible in commercial real estate, and on an opportunistic basis in public finance, provided they meet the objective of protecting value. Income will fall significantly accordingly. Following the reclassification of the ship financing portfolio to an "other" business model after the introduction of IFRS 9, measurement changes are no longer reflected in the risk result but in gain or loss from financial assets and liabilities measured at fair value through profit and loss. Only the commercial real estate portfolio is largely still classified under the "hold" business model, in other words a deterioration in credit quality results in risk provisioning charges being reported in the risk result. On our forecast, the gain or loss on fair value measurement in 2018 will hit profitability materially less than loan loss provisions did in 2017, which were required almost solely for ship financing. This assumption is based on the view that there will be signs of recovery in some segments of the global shipping market during the current year, but whether these can be sustained is highly uncertain. Even in a stress scenario with charter rates falling further, however, the forecast of relatively lower risk costs should remain valid thanks to the strong reduction in the size of the portfolio. The risk result is likely to be materially lower. Overall for Asset & Capital Recovery, excluding measurement effects (which regularly make up a substantial amount of total income but cannot be reliably forecast), we anticipate another significant reduction in the operating loss.

General statement on the outlook for the Group

In financial year 2018 Commerzbank will focus on continuing to implement the Commerzbank 4.0 strategy. On our forecast, slightly lower income with slightly lower operating expenses and a significant fall in the risk result will give an operating profit almost on the level of the previous year and a slightly worse cost/income ratio. Excluding the effect from one-off income last year, operating income this year will rise slightly, resulting in a slight improvement in the cost/income ratio; on this adjusted basis there is a significant improvement in operating profit. As no more significant restructuring expenses are likely to be needed, we expect a strong rise in the consolidated surplus in the current year. As a result we see the return on equity and economic value added on a substantially higher level. We expect the Common Equity Tier 1 ratio (after full application of Basel 3) to fall to around 13.3% as at 1 January 2018 due to initial application of IFRS 9 and be at least 13% at the end of the year. Temporary fluctuations in the ratio during the year due to market movements cannot be ruled out.

We plan to use the profit for the year mainly to further strengthen the capital base by retaining it. In view of Commerzbank's comfortable equity capital position and the intention to further improve the risk profile, we are aiming to pay a dividend for financial year 2018.

Despite the clearly strengthened resilience to external influences in recent years, there are numerous risk factors that could affect the forecast profit for 2018 to a considerable but not reliably quantifiable extent should events take an unfavourable turn. These include the geopolitical situation, which is marked by great uncertainty and significant regional tensions. Widely diverging trends in interest rates between the USA, where a normalisation of monetary policy is now well under way, and Europe for example, where an end to unconventional central bank measures is only starting to emerge, could result in large price corrections on the capital markets. Excessive volatility on the financial markets could also be triggered by sharp swings in the currency markets and the very high level of valuations on international bond and stock markets.

This could significantly harm the currently very positive economic outlook in many economies, especially Germany, which is closely integrated into the world economy. Other risk factors include unfavourable trends in the regulatory or legal environment, which could delay the impact of the intended cost improvements, or bring about a further tightening of the competitive situation in Germany, which could limit potential income by making the margins on new business unattractive from a risk/return perspective.

Group Risk Report

The Group Risk Report is a separate reporting section in the Annual Report. It forms part of the Group Management Report.