



COMMERZBANK

The bank at your side

# Commerzbank AG

Public Sector Pfandbrief

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# Agenda

1	Executive summary
2	Commerzbank – Recent highlights and strategy
3	Mittelstandsbank
4	ECA covered financing
5	The cover pool

# Executive summary

<p>Commerzbank</p>	<ul style="list-style-type: none"> <li>› Solid capital ratios (CT1 at 11.5% under Basel 2.5, Basel III CET 1 comfortably above 9% under phase-in)</li> <li>› High level of customer deposits, reduction of capital markets and interbank funding</li> <li>› Currently rated A-(negative)/A-2 by S&amp;P, Baa1(stable)/P-2 by Moody's and A+(stable)/F1+ by Fitch</li> <li>› Strategic agenda 2016: ROE &gt;10% (Core Bank post-tax), CIR of 60%, NCA EaD reduction by 35%</li> <li>› Robust German economy reflected in Mittelstandsbank's stable results from customer business</li> <li>› Mittelstandsbank's operating ROE was 22% in Q1 2013</li> </ul>
<p>German economy</p>	<ul style="list-style-type: none"> <li>› Germany is the fourth largest economy in the world and the largest European market with 82m inhabitants</li> <li>› Despite the ongoing European crisis: Germany will remain on a moderate growth path; unemployment at historic low (5.4%)</li> <li>› With USD 1.5trn of exports in 2012 Germany is the world's third largest exporter</li> <li>› The "Mittelstand", the German economy's backbone, is responsible for approx. 50% of German turnover</li> </ul>
<p>Public Sector Pfandbrief</p>	<ul style="list-style-type: none"> <li>› Programme is to be extended as a long-term funding instrument to support Commerzbank's export finance business, a strategic product of the Mittelstandsbank</li> <li>› Cover pool includes loans guaranteed by Euler Hermes, the German export credit agency (ECA), in addition to loans to German and other public entities</li> <li>› Ratings: Aa1 by Moody's / AAA by Fitch</li> <li>› Regular benchmark issuance intended by Commerzbank</li> </ul>
<p>Cover pool</p>	<ul style="list-style-type: none"> <li>› Initially, the Public Sector Pfandbrief cover pool was acquired by Commerzbank via the merger of Deutsche Schiffsbank in 2012</li> <li>› As of 31 March 2013, approx. €1.3bn public sector assets in the cover pool and approx. €1bn outstanding Public Sector Pfandbriefe from the Deutsche Schiffsbank history</li> <li>› A first tranche of approx. €600m of ECA assets is currently being added to the cover pool. New ECA assets will form the basis for future Public Sector Pfandbrief issuance</li> </ul>

Source: Commerzbank

# German economy 2013 – Fighting to stay on track

## Current development

- › The German economy has stabilized at start of 2013
- › This was mainly due to solid growth of private consumption. Investment, however, continued to deteriorate and external demand was weak
- › The labor market has weathered the soft patch rather well so far. The unemployment rate remains below 7%

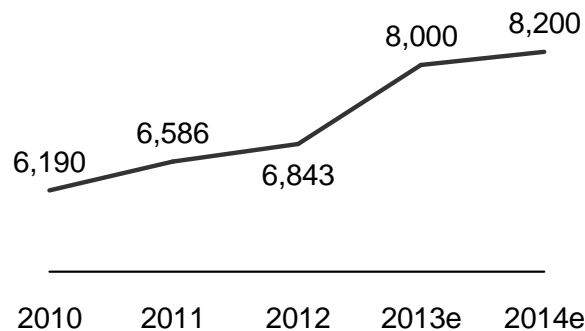
## Our expectation for 2013-2014

- › The recent mixed signals from leading indicators point to a slow recovery in the coming months. Germany is expected, however, to continue to outperform EMU average
- › The willingness of the ECB to buy peripheral bonds markedly has reduced the EMU break-up risk
- › Diminished uncertainty likely to lead to a revival of the German economy in 2013; prospect of stronger growth in 2014

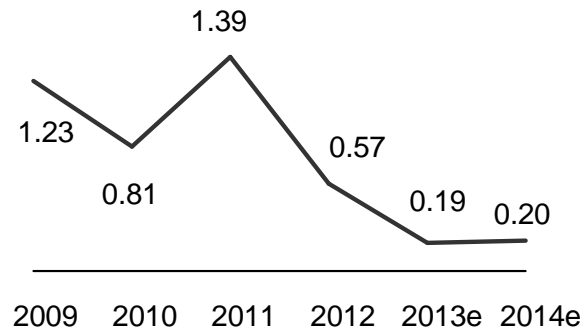
## Reasons for outperformance

- › No bubble in the housing market
- › Low level of private sector debt translating to low refinancing cost
- › Less need for fiscal consolidation
- › Steadily improved competitiveness since start of EMU; however, the advantage is about to decline
- › Strong position in Asian markets and Emerging Markets in general

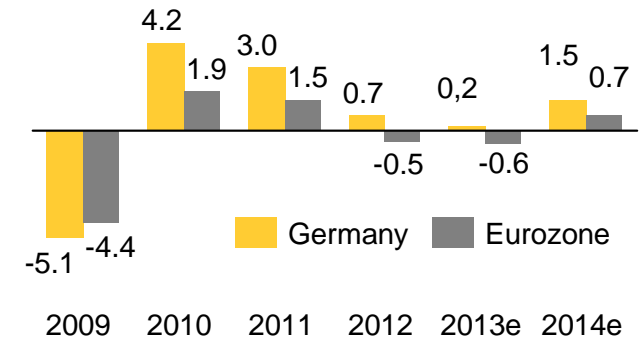
## DAX (average p.a.)



## Euribor in % (average p.a.)



## GDP (Change vs previous year in %)



Source: Commerzbank Economic Research

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## Group operating result of €469m in Q1 2013 – complete restructuring costs booked

- Group revenues of €2.46bn 5% higher vs. Q4 2012 – net commission income up 11% vs. Q4 2012 and nearly flat vs. Q1 2012, interest income remains subdued
- Group operating result of €469m incl. positive OCS effect of €25m, Core Bank with operating result of €556m vs. €408m in Q4 2012
- Group pre-tax result of €-24m includes complete restructuring charge of €493m, as already announced with Q4 2012 reporting; net result attr. to shareholders of €-94m
- Good progress in NCA run-down using the positive market environment: €7.3bn EaD (incl. NPL) reduction in Q1 2013, €16.1bn EaD (incl. NPL) reduction (>10%) since 30 September 2012
- Basel III phase-in ratio of 10.1% and Basel III fully phased in CET 1 ratio stands at 8.4% (pro-forma based on Q1 2013) after the successfully executed recent capital measure

Note: All numbers for previous quarters are restated to conform to new financial disclosure as of 1 January 2013 for comparability

Source: Commerzbank

## Commerzbank financials at a glance

<b>Group</b>	<b>Q1 2012</b>	<b>Q4 2012</b>	<b>Q1 2013</b>
Operating result (€m)	576	-40	469
Core Tier 1 ratio B 2.5 (%)	11.3	12.0	11.5
RWA (€bn)	223	208	210
Leverage ratio	20	19	20
<b>Core Bank (incl. O&amp;C)</b>	<b>Q1 2012</b>	<b>Q4 2012</b>	<b>Q1 2013</b>
Operating result (€m)	866	408	556
Op. RoE (%)	21.2	8.4	11.9
CIR (%)	65.5	76.6	71.7
Risk density of EaD (bps)	28	27	28
LTD ratio (%)	81	76	75
<b>NCA<sup>1)</sup></b>	<b>Q1 2012</b>	<b>Q4 2012</b>	<b>Q1 2013</b>
Operating result (€m)	-454	-448	-87
EaD incl. NPL volume (€bn)	171	151	143
Risk density of EaD (bps)	41	66	72

1) EBA-Buffer re-allocated as of Q4 2012 from O&C to NCA (restated in Q3 2012)

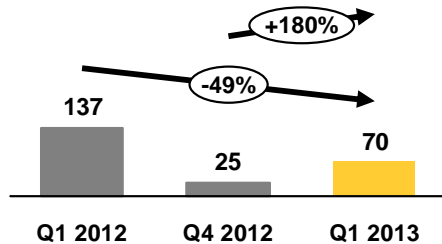
Source: Commerzbank



# Core Bank Q1 operating results

## Private Customers – Operating result

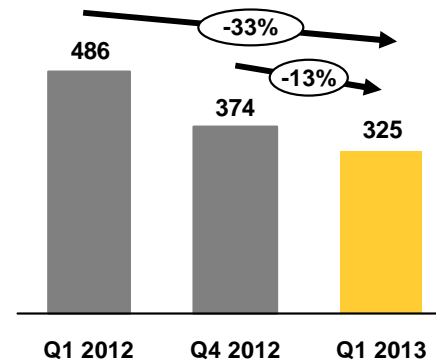
€m



- › Revenue growth in Q1 2013 vs. Q4 2012 due to seasonally stronger securities business

## Mittelstandsbank – Operating result

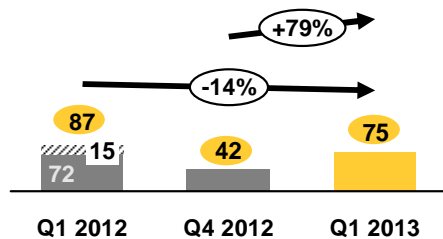
€m



- › Stable results from customer business, but positive effects from restructuring of loans in Q4 2012 did not recur in Q1 2013

## Central & Eastern Europe – Operating result

€m

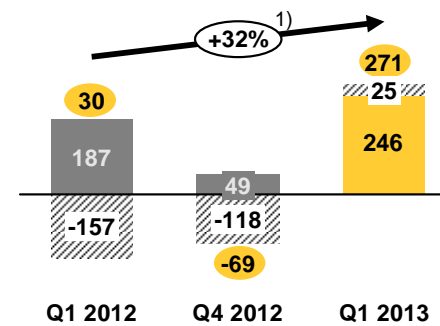


- › Operating result in Q1 2013 supported by releases in loan loss provisions and seasonally low costs

● Reported  
 ▨ Effect from sale of PSB

## Corporates & Markets – Operating result

€m

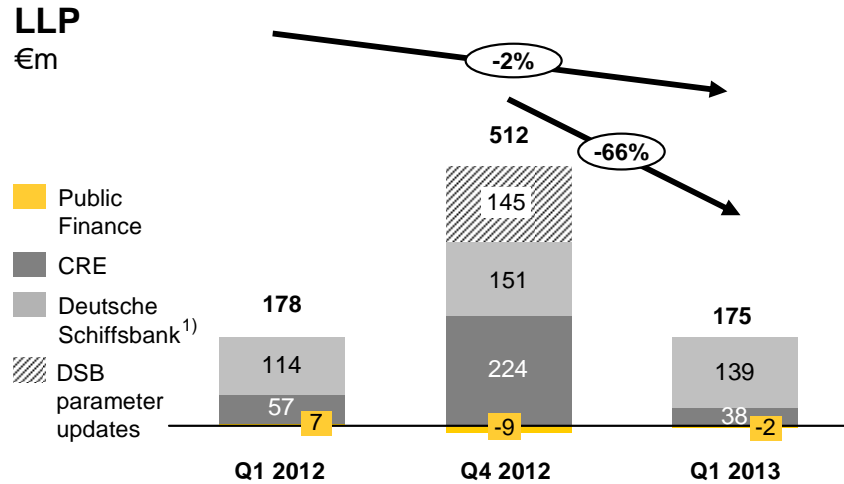


- › Good start to 2013 driven by increased risk appetite from clients in equities and interest rate products

▨ OCS effect ● Reported

1) Excluding OCS effect

# NCA: Good momentum in asset reduction continues without decrease in portfolio quality



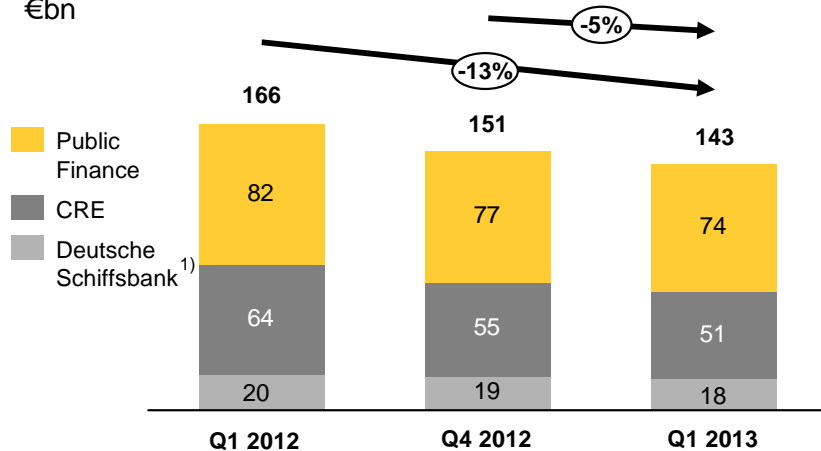
▲ NCA run-down mainly in CRE and Public Finance, EaD (incl. NPL) reduction of €7.3bn in Q1 2013 and €16.1bn since Q3 2012

▲ Since Q1 2012 EaD (incl. NPL) reduced by 10% in Ship Finance, 20% in CRE and 10% in Public Finance

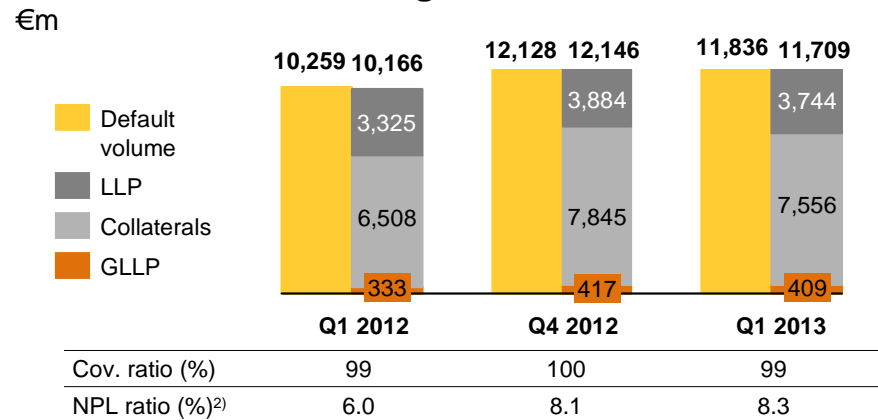
▲ CRE LLP due to releases low compared to previous quarters; Ship Finance LLP still on a high level, as expected

► LLP increase expected in the following quarters

**EaD incl. NPL volume**  
€bn



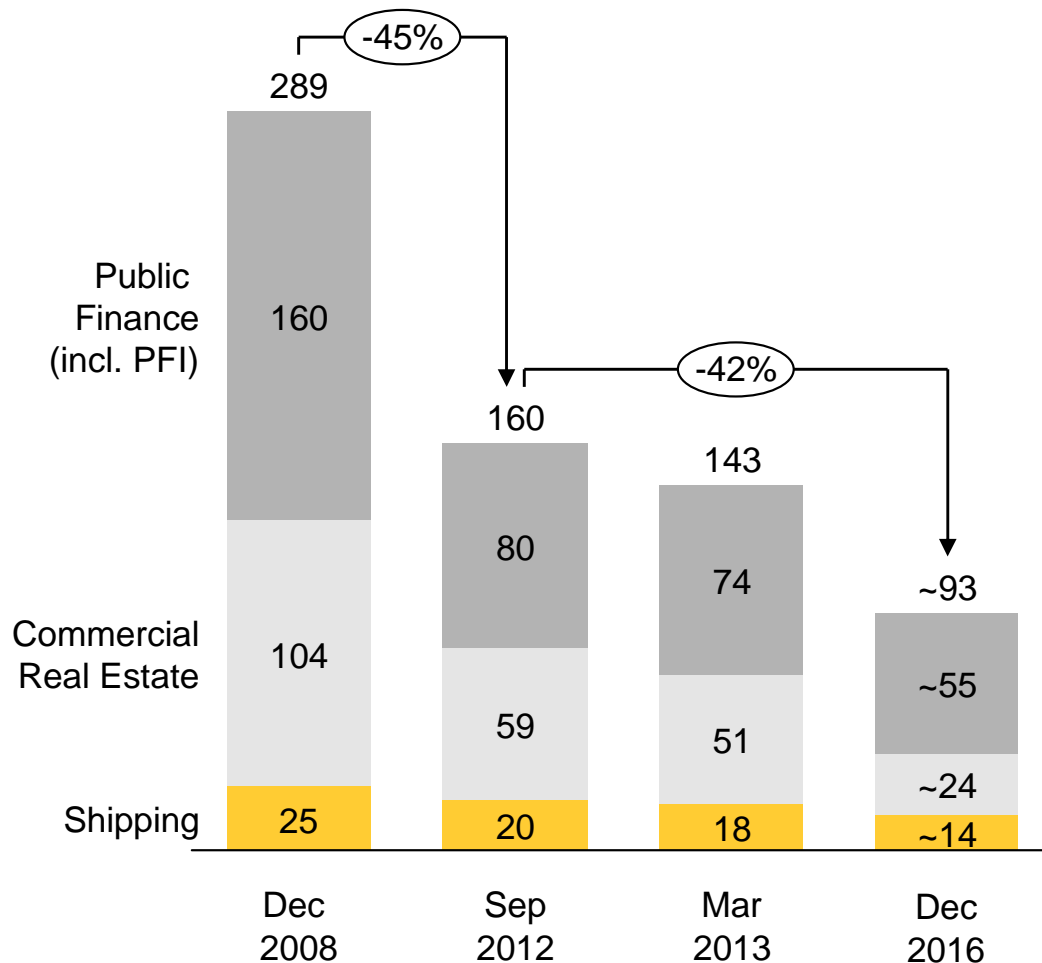
**NPL volume and coverage**  
€m



1) In Q1 2012 Deutsche Schiffsbank portfolio excluding €3.3bn DSB public finance assets 2) As % of EaD

# NCA planning scenario provides exposure reduction of over 40%<sup>1)</sup> by 2016, leading to significant RWA relief

EaD €bn  
(incl. NPL)



## Regulatory Capital of NCA

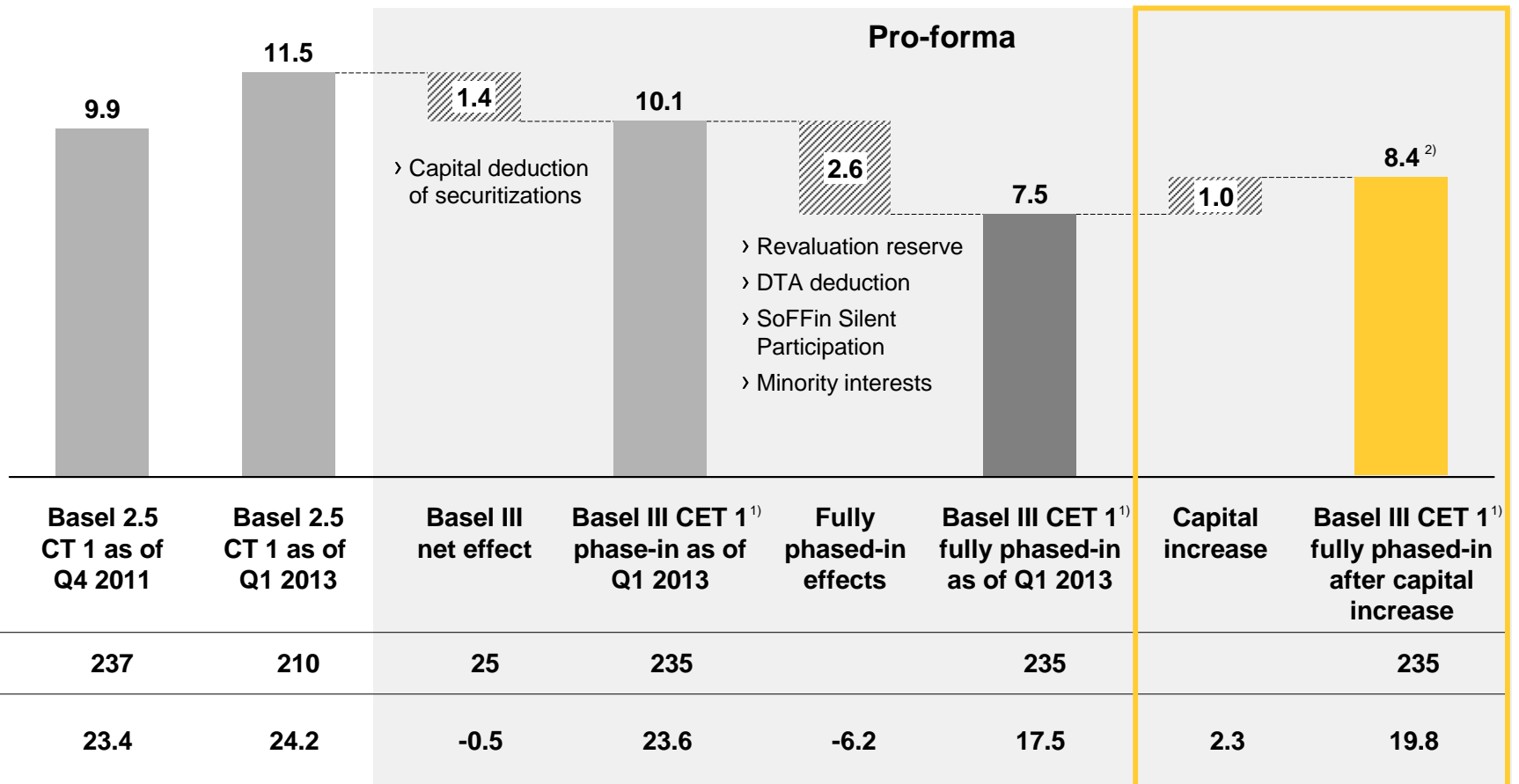
- › From YE 2012 to YE 2016, RWA-reduction of ca. €30bn anticipated – implied capital relief of ca. €2.7bn<sup>2)</sup>
- › Cumulative losses in the years 2013-2016 of approx. €2.3bn anticipated
- › Over the next four years, capital relief due to RWA-reduction thus expected to slightly over-compensate the losses
- › In particular, from 2014 onwards capital relief due to RWA-reduction anticipated to be higher than losses
- › €16.1bn EaD (incl. NPL) reduction (>10%) since September 30, 2012

1) Starting point as of Sep 30, 2012. 2) 9% capital ratio; Basel III phase-in of negative revaluation reserve not taken into account

# Significantly improved Basel III capital ratios after the recent capital increase

## Basel 2.5 CT 1 and Basel III CET 1 ratios

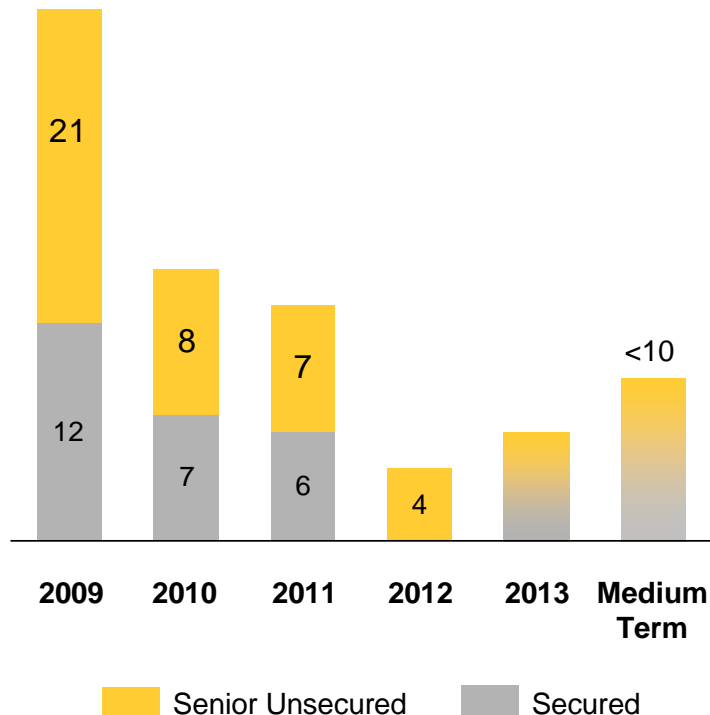
In %



1) Under Commerzbank estimates regarding final Basel III regime 2) Pro-forma based on Q1 2013 Basel III fully phased-in CET 1 ratio and impact from capital increase

# Limited unsecured issuance in 2013 – flexible funding approach to support franchise demand and diversify funding

## Capital market funding history & outlook €bn



### Senior Unsecured

- › Focus on private placements
- › €0.7bn senior unsecured funding in Q1 2013

### Covered Bonds

- › €0.5bn 5Y inaugural SME structured covered bond successfully issued
  - › Innovative structure to refinance SME business
  - › Attractive funding cost for the bank

### LTRO

- › LTRO funding completely repaid in Q1 2013

# Outlook

- Unchanged outlook: ongoing asset reduction and low interest rates expected to put further pressure on revenues compared to 2012
- Investments in strategic repositioning are expected to add to costs in the following quarters
- LLP guidance for FY 2013 unchanged: still expected to be slightly up vs. FY 2012 with higher Core Bank LLP and ship finance still on a high level
- Current pro-active NCA run-down to continue in positive market environment, asset reduction targets for 2016 unchanged
- Basel III CET1 phase-in ratio of 10.1% per end Q1 2013 and pro-forma (based on Q1 2013) fully phased-in ratio of 8.4% post successfully executed capital measure

# Commerzbank today: a competent partner for private and corporate customers with a strong core franchise

## Private Customers

- › ~11 million customers, of which 7.8 million in the retail network
- › 1,200 branches in Germany
- › No. 1 online broker (comdirect)
- › Leading position in wealth management

## Mittelstandsbank

- › House bank of German Mittelstand with market coverage >30% of German SME and >90% of German large corporates
- › Leading position in cash & trade services
- › No. 1 in documentary credit business and No. 3 in commercial euro payments in Western Europe and North America



## Corporates & Markets

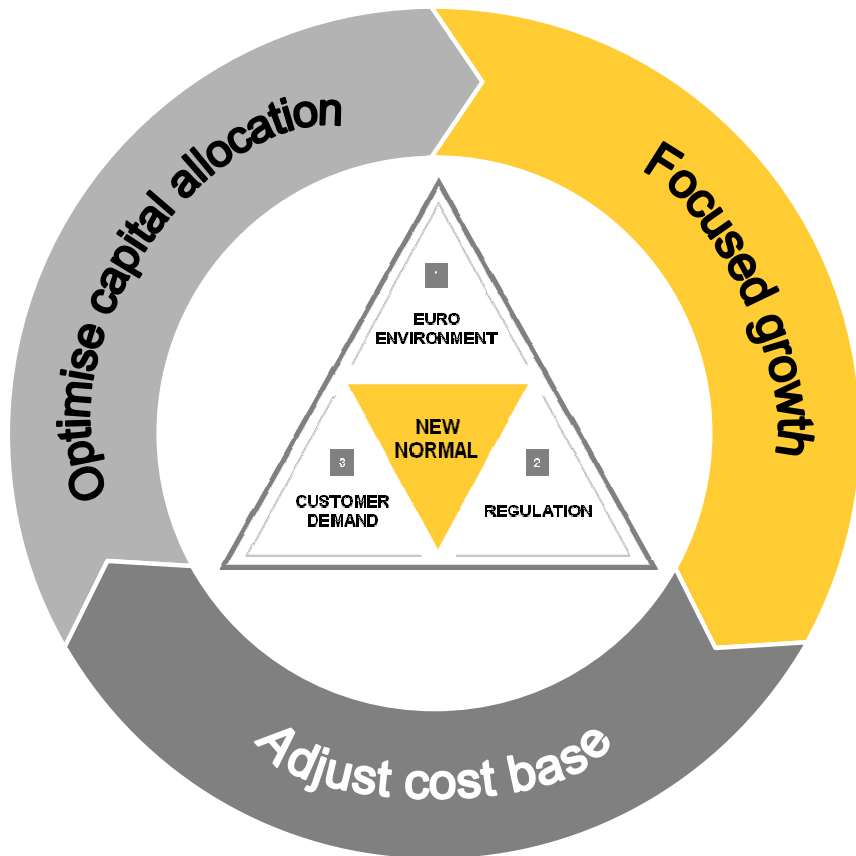
- › Prudent and client centric business model since 2004
- › Leading in European securitized products, German DCM loans & bonds and equity brokerage & international risk management solutions

## Central & Eastern Europe

- › No. 4 bank in Poland (BRE Bank) with 4 million customers
- › Strong brand in retail business with mBank in Poland, Czech Republic and Slovakia

# Our financial goals for 2016

## Our strategic agenda



**ROE post-tax<sup>1)</sup>**  
 Core Bank  
**>10%**

**CIR**  
 Core Bank  
**~60%**

**Basel III under phase-in**  
 Group  
**>9%**

1) Based on implicit tax rate

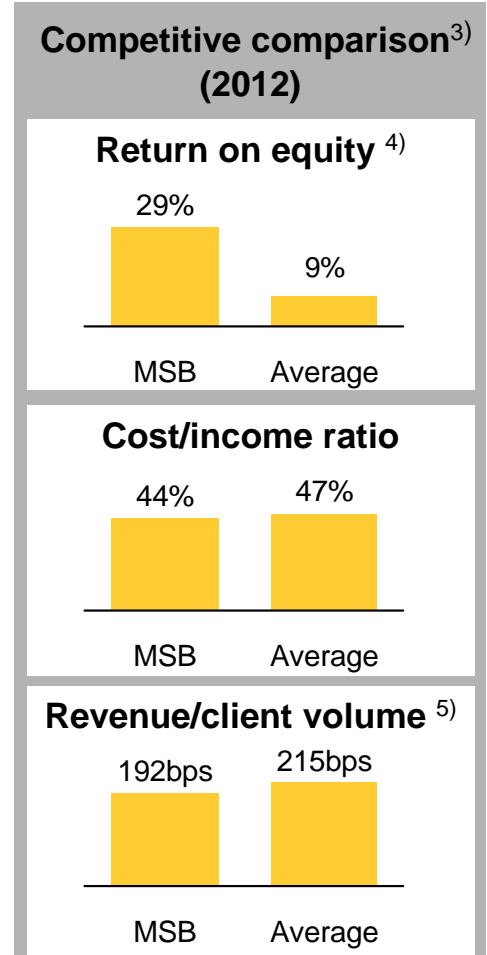
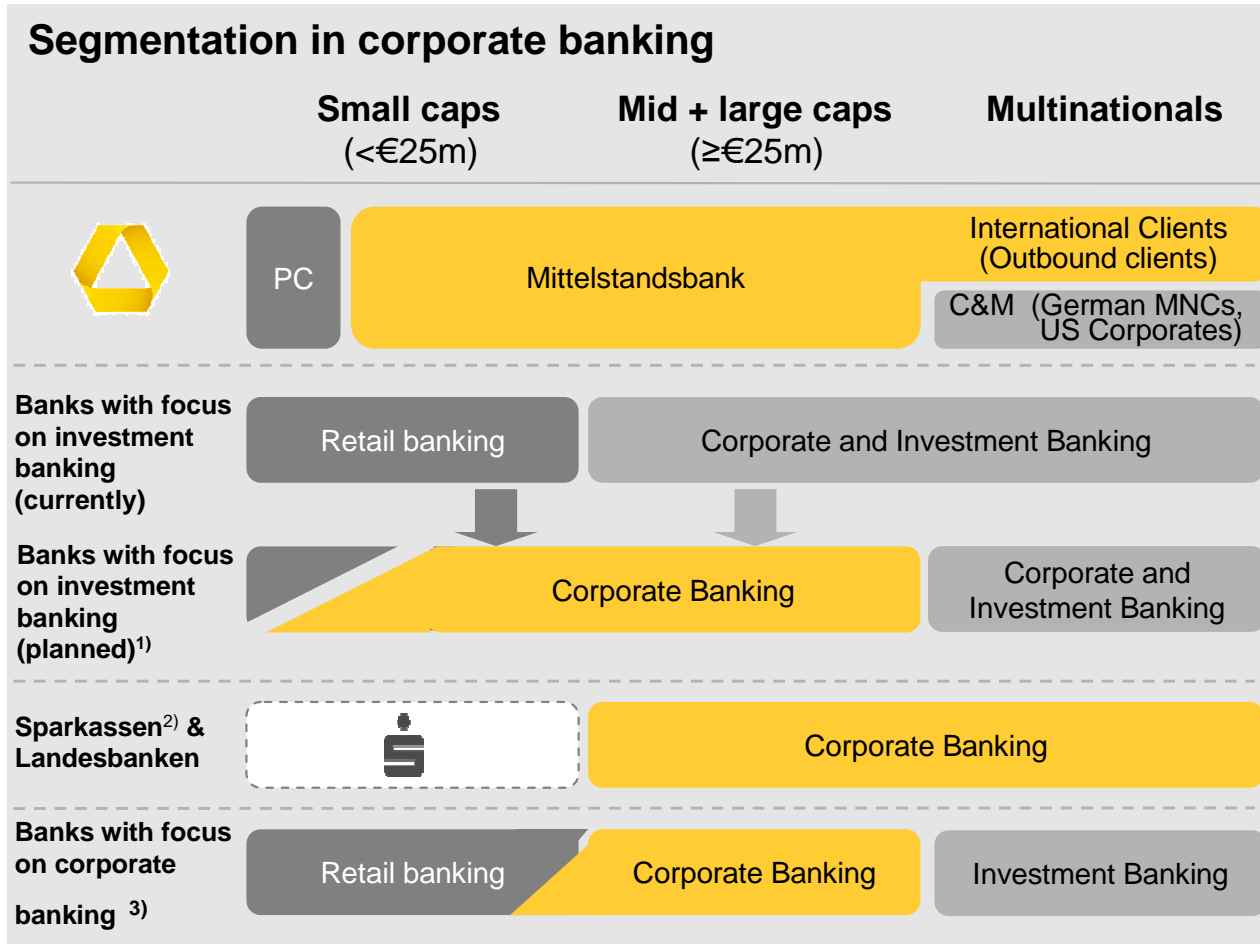


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# Commerzbank Mittelstandsbank

Sustainable and strategic partner for the entire “Mittelstand”  
 Competitors are copying successful CRM-model



1) Deutsche Bank: Privat- and Corporate division clients to cover all clients without demand for capital market products; HVB: entrepreneur banking to cover all corporates > €5m revenue  
 2) Small caps mainly covered by local saving banks 3) Selected European competitors with similar segmentation, source: annual reports 2012  
 4) 9% regulatory capital requirement for risk-weighted assets assumed 5) Revenues = total revenues; Client volume = loan + deposit volume

Source: Commerzbank - Mittelstandsbank

# Strong market position by means of unique business model

**Unrivalled regional coverage in domestic market**  
combined with dense international network







**Regional and international coverage**

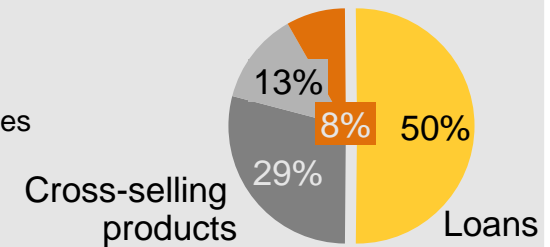
- › 150 locations; ~1,700 relationship managers; ~1,000 local specialists in domestic market
- › >30 international branches
- › ~ 5,000 correspondent banks

**Superior relationship-based business model**  
i.e. relationship managers orchestrate product specialists to ensure optimal solutions for each individual client and cross-selling



**Revenue breakdown<sup>1)</sup>**

-  Loans
-  Cash mgt. and trade services
-  Deposits
-  Others



**Market-leading foreign trade expertise**  
to support our clients in the financing and processing of foreign trade activities






**Market share of export letters of credit<sup>2)</sup>**

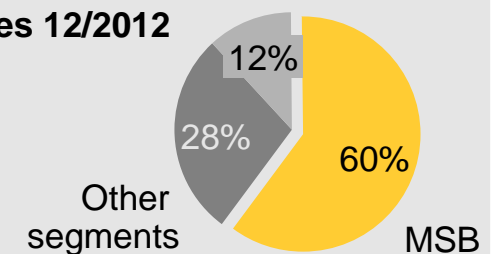
- › Germany: 33%
- › Eurozone: 10%

**Client-centric capital market know-how**  
ensured by Corporates & Markets units dedicated to serving the “Mittelstand”



**C&M's client-related revenues 12/2012**

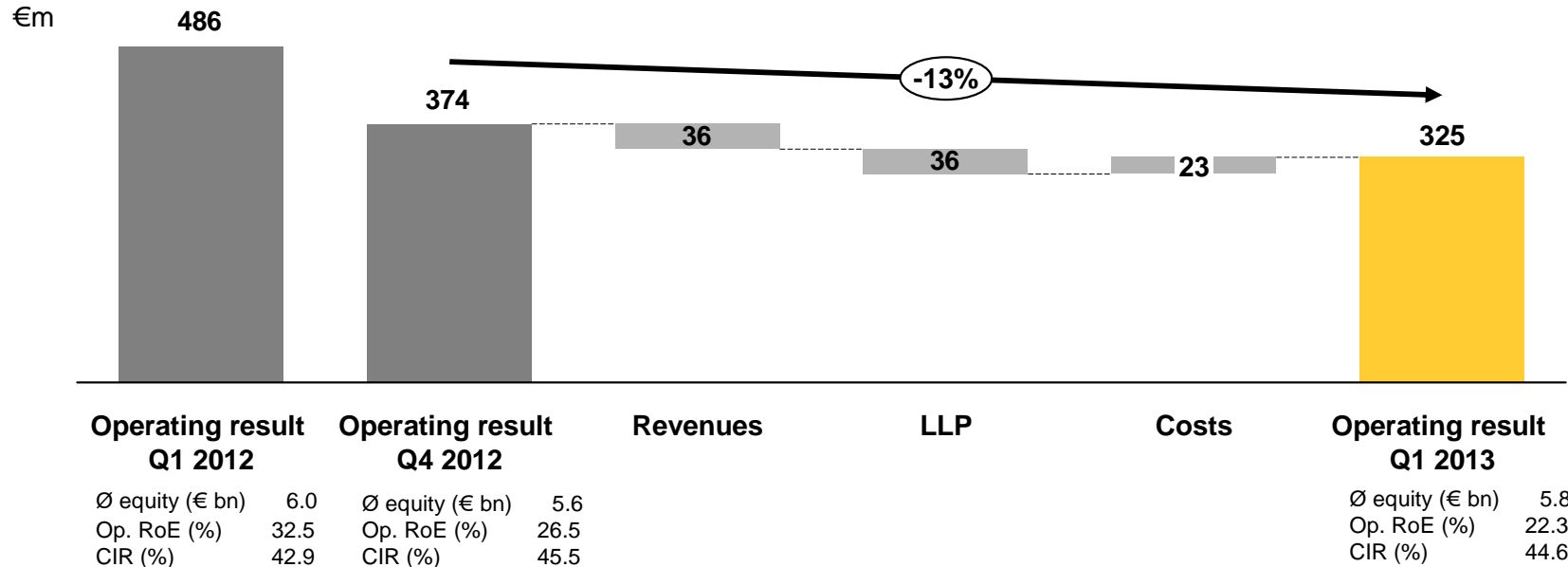
-  MSB
-  C&M
-  PC



1) Basis: revenues 12/2012 2) Source: SWIFTWATCH

# Mittelstandsbank: Stable results from customer business, positive effects from restructuring of loans in Q4 2012 did not recur in Q1 2013

## Quarterly transition



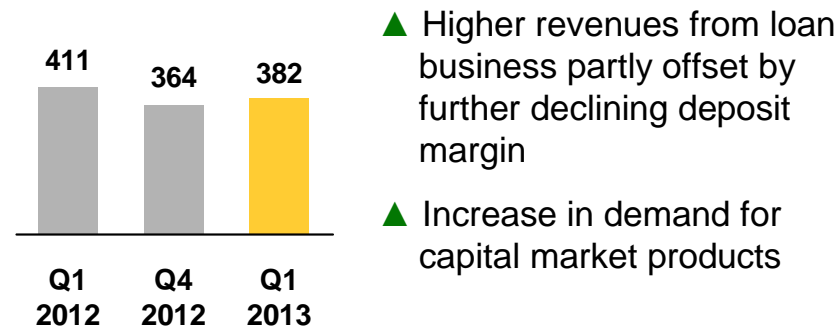
## Q1 2013 vs. Q4 2012

- ▲ Increase in net commission income and higher loan margin compensated decrease in deposit margin
- ▶ Q4 2012 revenues benefitted from restructuring of loans, which did not recur in Q1 2013
- ▶ Increase in LLPs in Q1 2013 vs. Q4 2012 in-line with expectations
- ▲ Decrease in expenses due to year-end effects in Q4 2012, higher costs expected in the coming quarters due to increase in investments
- ▲ Operating RoE of above 22% and CIR under 45%

# MSB divisional split

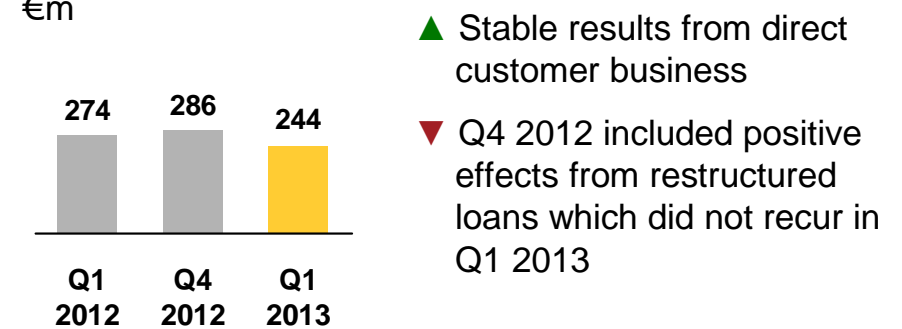
## Mittelstand Germany – Revenues before LLP

€m



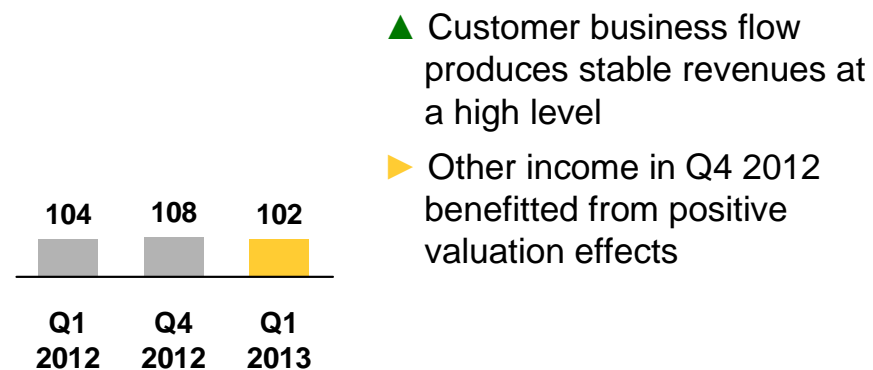
## Corporate Banking & International – Revenues before LLP

€m



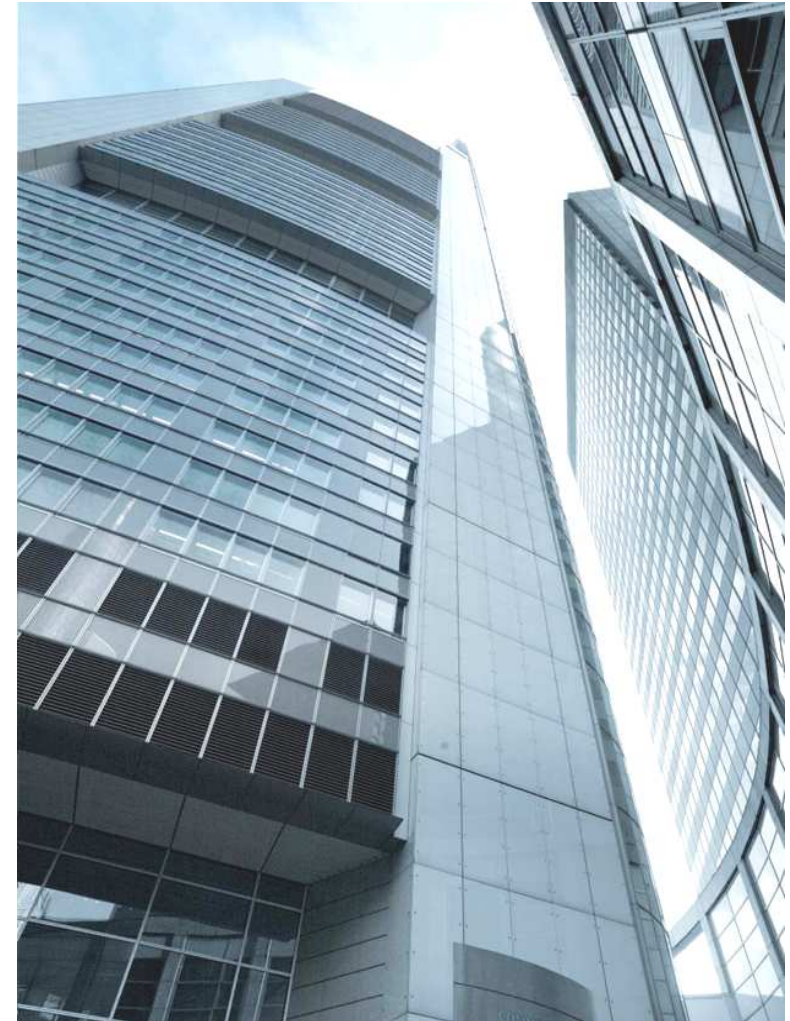
## Financial Institutions – Revenues before LLP

€m



# Mittelstandsbank is a market leader in cash & trade services

- 
- › Market share:
    - No. 1** in documentary credit business in Germany
    - No. 3** in commercial euro payments in Western Europe and North America
  
  - › Sales Offices Germany:
    - Nationwide presence through **27** sales locations throughout Germany for SME
    - Nationwide presence through **7** sales locations throughout Germany for Large and Multinational Corporates
  
  - › Documentary and Guarantee Business
    - Handling of documentary business at **21** locations and guarantee business at **7** locations throughout Germany
  
  - › Sales Offices worldwide:
    - International presence through **21** locations worldwide
  
  - › Employees:
    - ~ **1.350** FTE worldwide (thereof ~ **250** in international locations)
- 



# Structured Export & Trade Finance provides products to support the export oriented industry



## Supporting foreign trade

- › High-level expertise in export financing systems and private credit insurance
- › Development and structuring of individual financing solutions for exports and imports
- › Securing the full financing of orders
- › Solutions through various instruments for securing production and significantly expanding sales markets
- › Real-time liquidity flow
- › Risk distribution through Hermes Cover

## The buyer credit

- › Medium- and long-term form of export finance for capital goods business
- › Finance based on a Hermes financing credit guarantee
- › Payment to exporter and servicing the loan by the importer
- › See slide 25/26 for further details



We are one of the leading banks in **Export Finance** for German and European corporates



We will reinforce our top position in **Foreign Trade** as leading bank for German corporates

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## Euler Hermes guarantee

The basic principles for ECA covered financing are laid down in the OECD arrangement on Officially Supported Export Credits (*OECD Consensus*)



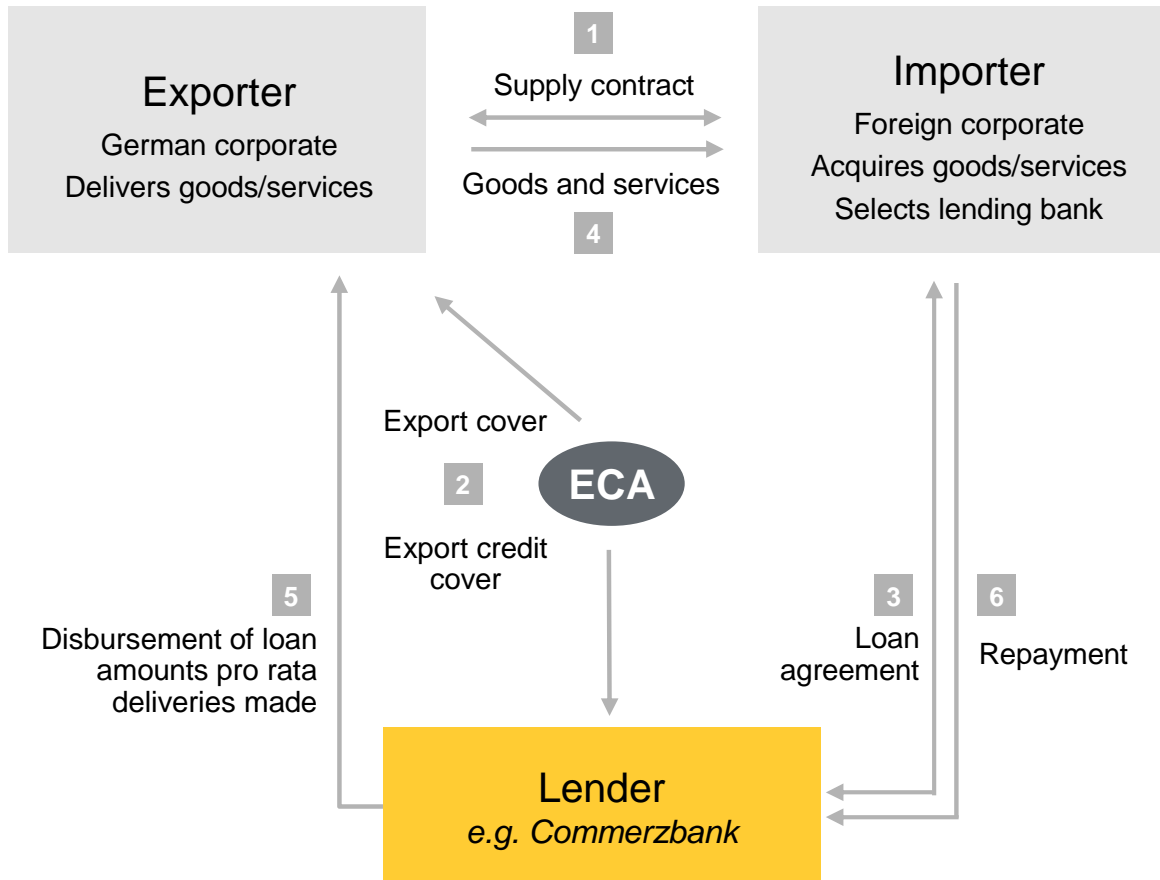
- › The BMWi is the public body responsible for the promotion of German exports
- › Mitigation of political and economic risk components
- › Extent of cover: 95% /  
Verbriefungsgarantie 100%
- › Cover requirements:
  - Eligibility of the underlying sales contract
  - Acceptable risk
  - In accordance with OECD Consensus



- › The Federal Republic of Germany mandated Hermes and PWC as consortium with the promotion and support of the national export industry
- › Leading part is with Hermes (hence often called „Hermes Cover“)

# The export credit guarantee mechanism

## Key parties and activities in a ECA covered buyer credit



## Major steps

- 1 Exporter and importer settle contract for delivery of goods and/or services
- 2 ECA covers up to 85% of supply contract value
- 3 Bank concludes loan agreement directly with buyer tailored to specific needs of supply contract
- 4 Exporter delivers goods/services as determined in contract and lending bank receives proof of fulfillment of formalities required
- 5 Lending bank disburses exporter directly according to loan agreements
- 6 Importer repays loan to bank according to repayment schedule

1. in case importer chooses local/foreign bank, loan agreement will be concluded between respective banks

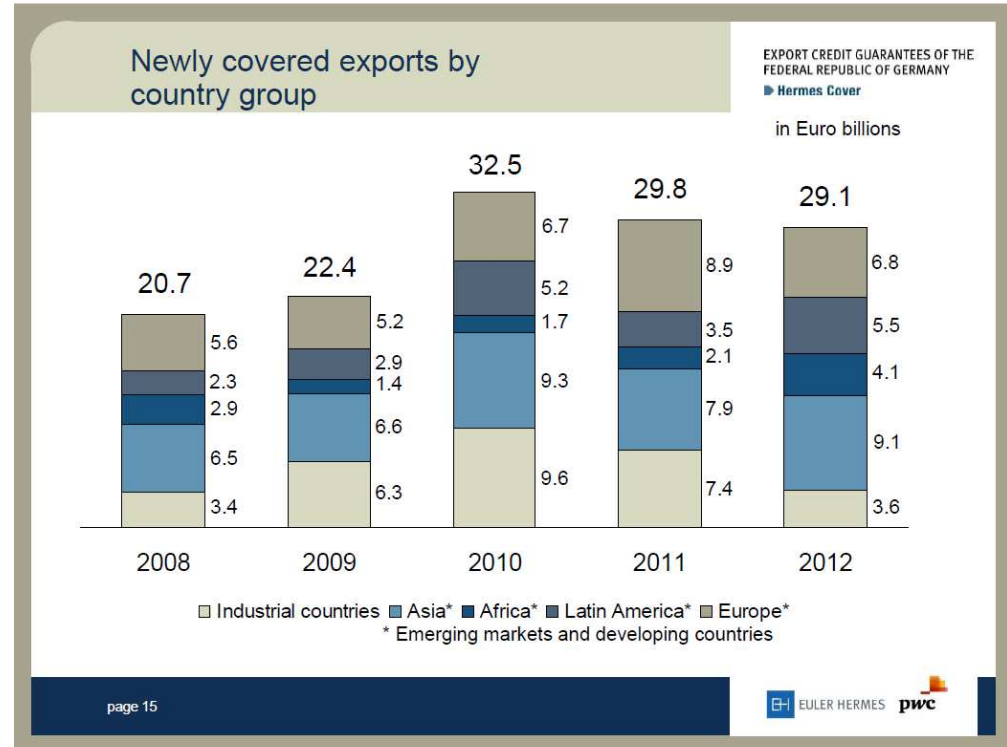
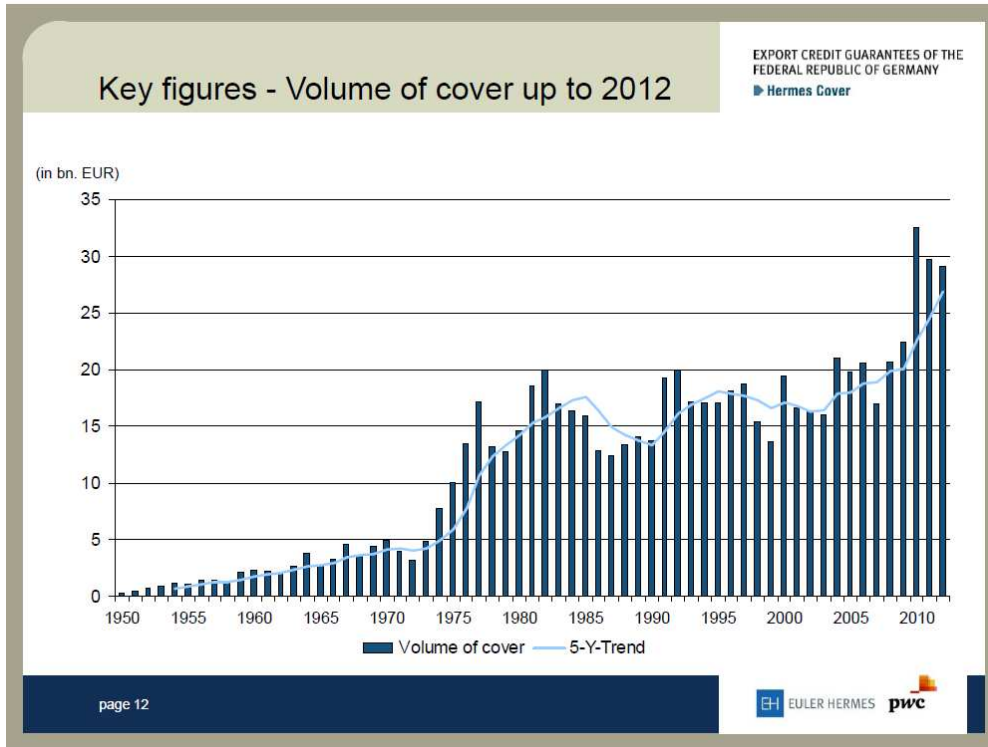
Source: Commerzbank – Project Team

## Product: Hermes covered buyer credit

- Long-term financing of durable capital goods, produced in the country of the ECA
- Contract value and cover costs financed under ECA Cover
- Lender's-risk-participation: 5% of the loan amount for political and economic risk  
Collateral: 95% ECA-/Hermesdeckung
- Borrower: Corporate, bank, sovereign  
Lender: Commerzbank or consortium

„Verbriefungsgarantie“ - 100% ECA Cover for Pfandbrief investors

# Newly generated business under the export credit guarantee scheme of Hermes/PWC



- › The volume of Hermes Cover has steadily increased since 1950 and achieved its record highs always in crisis scenarios (1975, 1981, 1992 and 2010)
- › The 2012 result is ranked as the 3<sup>rd</sup> best in the history of Hermes (€29.1bn)

- › New Hermes Cover in 2012 has been provided for 169 different countries, 87.5 % thereof to Emerging market countries
- › Eastern Europe is the major region for Hermes Cover (30.6 %), followed by Asia (27 %) and industrial countries incl. Western Europe (12.7 %)

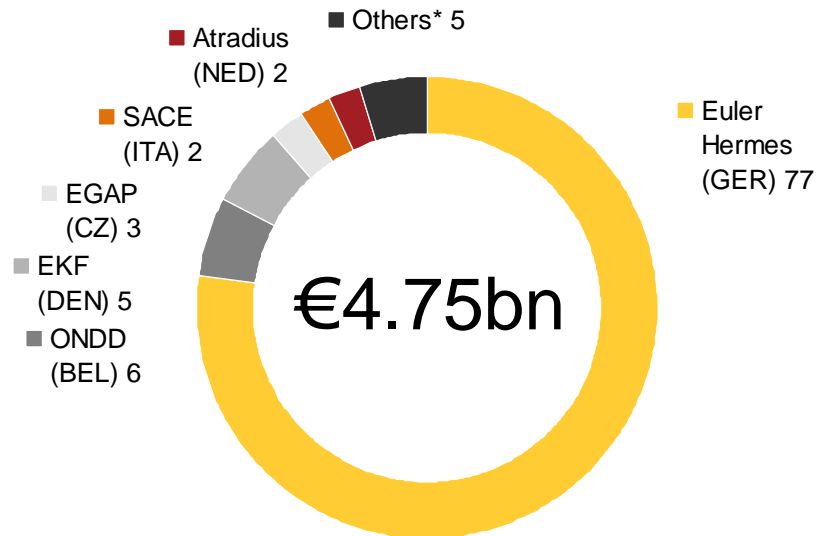
Source: Annual Report 2012 Euler Hermes

# Commerzbank's ECA portfolio

As of March 31, 2013

## Breakdown by ECAs

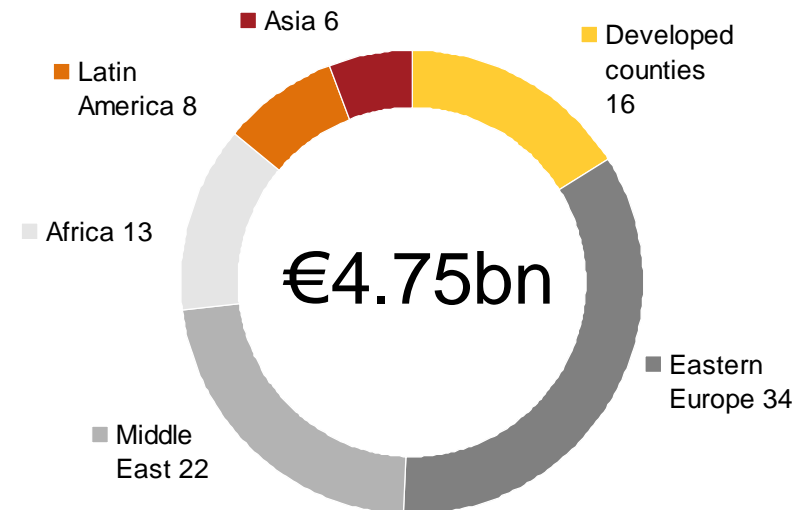
%



\* **Others:** C&L Deutsche Revision (GER), CESCE (ESP), Coface (FRA), ECGD (UK), EKN (SWE), EXIM (USA), Finnvera (FIN), KUKE (POL), ODL (LUX), OeKB (AUT), PwC (GKA-Germany), SERV (CH)

## Breakdown by importer region

%



- › Significant part of ECA exposure is based on Hermes Cover (77 %)
- › Medium and long term transactions mainly in the range from 5 years to 12 years according to OECD consensus

- › From 2009-2012 new medium and long term ECA business volume amounts to €1bn p.a. on average
- › Traditionally major destinations of exports financed are Eastern Europe (34 %), Middle East (22 %) and Africa (13 %)

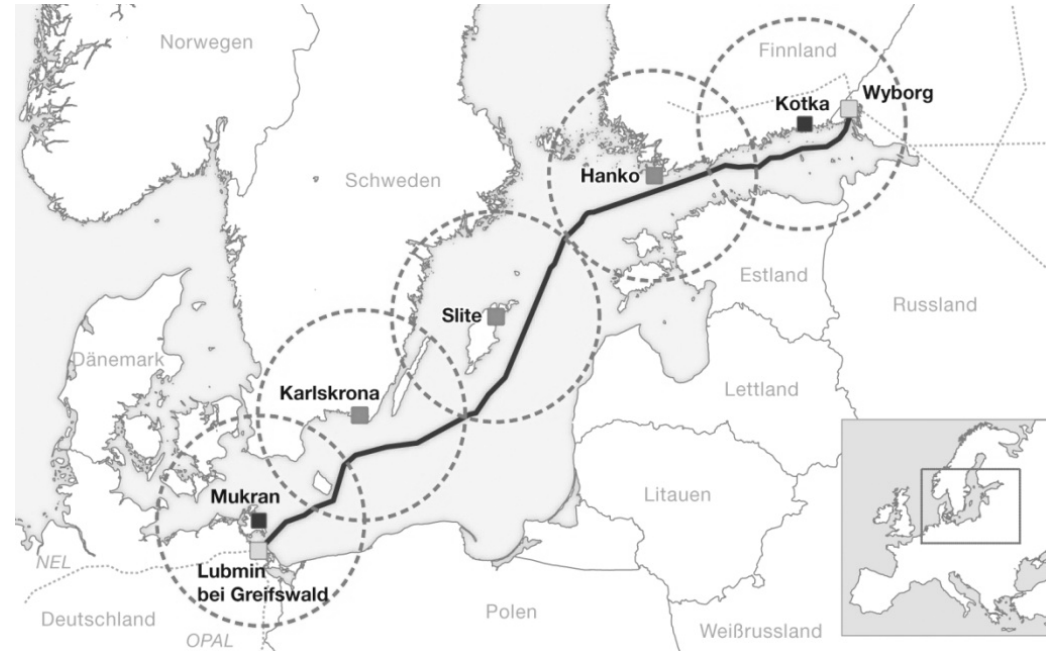
\* Exposure per 31.03.2013 incl. disbursed loans plus loans concluded, but not fully drawn

Source: Commerzbank – Mittelstandsbank

# Selected transactions involving Hermes Cover (I)

## Nord Stream Pipeline – A spectacular infrastructure project

- › Flagship project to secure Europe’s energy supply – designed for the supply of more than 26 million households
- › Two parallel gas pipelines – each 1.224 km in length – with an annual transmission capacity of 55 billion cubic meters of gas
- › Estimated investment: €9bn
- › Financed by a banking syndicate under the lead of Commerzbank regarding the part covered by Hermes (€2.35bn)
- › Orders for deliveries and services to more than 20 German medium-sized companies amounting to more than €2.4bn
- › Investors:



## Selected transactions involving Hermes Cover (II)

Design, manufacturing and supply of an airframe units connection for the MS-21 civil aircraft family in the Russian Federation



**TRADE FINANCE**  
*Deal of the Year*



**Sberbank of Russia**

**€70,400,000**

Export Credit Facility  
HERMES  
Mandated Lead Arranger  
December 2012

COMMERZBANK 

## Selected transactions involving Hermes Cover (III)

Financing of the construction of Plate Mill 5000 for Vyksa to become a fully integrated pipe producer using the best available technology delivered by SMS Siemag



**SMS  
SIEMAG**  
SMS group



**VYKSA**  
STEEL WORKS



UNITED  
METALLURGICAL  
COMPANY

**OJSC Vyksa Steel Works**

**€347,000,000**

Export Credit Facility  
HERMES  
Mandated Lead Arranger  
October 2009



**COMMERZBANK** 



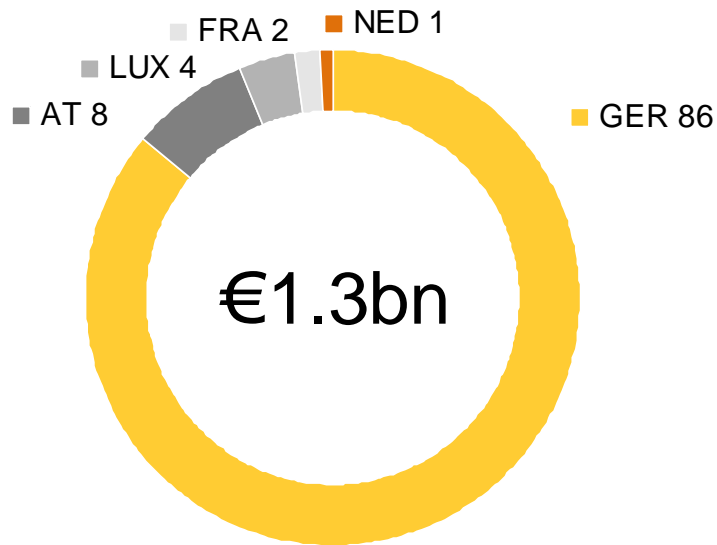
# Agenda

1	Executive summary
2	Commerzbank – Recent highlights and strategy
3	Mittelstandsbank
4	ECA covered financing
5	The cover pool

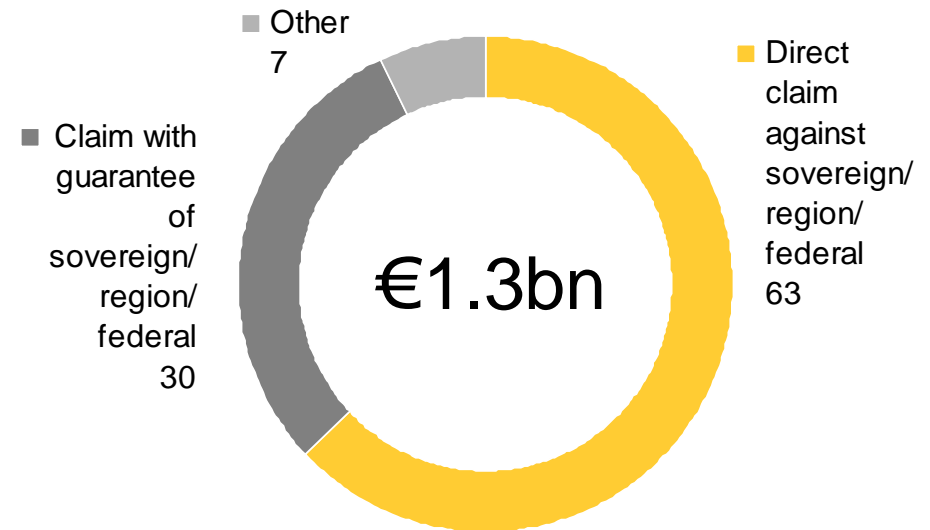
# Commerzbank's „legacy“ public sector cover pool

As of March 31, 2013

Break-down by borrower/guarantor country  
%



Break-down by claim types  
%

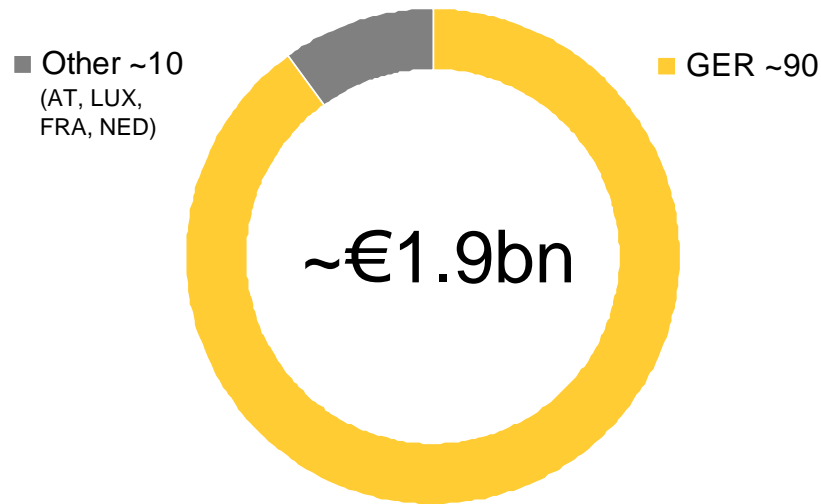


- › Former cover pool of Deutsche Schiffsbank “legacy” includes to a large extent loans to federal states, municipalities and federal state banks
- › As of March 31, 2013 there were approx. €1bn in Public Sector Pfandbriefe outstanding

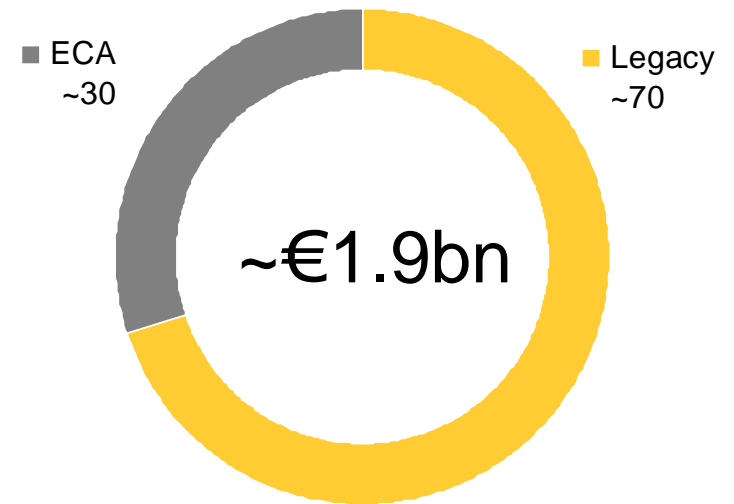
# Commerzbank's pro-forma public sector cover pool

Pro-forma inclusion of the first tranche of ECA covered loans  
(based on actual cover pool as of March 31, 2013)

**Break-down by borrower/guarantor country**  
%



**Legacy assets vs newly added ECA covered loans**  
%



- › First tranche of ECA covered loans planned to be added to the cover pool will be Hermes covered exclusively
- › Germany share in the cover pool increases accordingly
- › Going forward, the ECA part will increase further