



# Commerzbank AG

SME Structured Covered Bond

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# Agenda

1	Executive Summary
2	Commerzbank Credit
3	The German Mittelstand's Role and Commerzbank's Franchise
4	The SME Structured Covered Bond
5	The Cover Pool
6	Credit Process, Monitoring of SME Loans and Commerzbank's Internal Rating Methodology
7	Appendix

## Executive summary

<p>Commerzbank</p>	<ul style="list-style-type: none"> <li>› Solid capital ratios (Core tier 1 at 12.2% under Basel II.5, &gt;9% under Basel III phase in)</li> <li>› Significant increase in customer deposits, reduction of capital markets and interbank funding</li> <li>› Currently rated A(negative)/A-1 by S&amp;P, A3(negative)/P-2 by Moody's and A+(stable)/F1+ by Fitch</li> <li>› Strategic agenda for 2016: Planned ROE &gt;10% (Core Bank), CIR of 60% and NCA RWA reduction by 42%</li> <li>› Robust German economy reflected in Mittelstandsbank's low LLP and net releases, as well as increasing profits (€395m in Q3 2012 vs. €350m in Q3 2011)</li> <li>› Mittelstandsbank's ROE is 28% compared to 14% of competitors</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: strong German GDP growth; unemployment at historic low (5.4%)</li> <li>› With USD 1.5trn of exports in 2011 Germany is the world's second largest exporter</li> <li>› The "Mittelstand", the German economy's backbone, is responsible for approx. 50% of German turnover</li> </ul>
<p>Structured Covered Bond (SCB) Programme</p>	<ul style="list-style-type: none"> <li>› Similar to structured covered bonds in other jurisdictions</li> <li>› Dual-recourse to Commerzbank and a pool of German SME loans</li> <li>› Committed minimum OC of 11%</li> <li>› The SME Structured Covered Bond Programme is expected to be rated Aa2 by Moody's and AA by Fitch</li> <li>› Commerzbank registers the loans and related mortgages in the Refinancing Register</li> <li>› Trustee of the SPV acts for the benefit of bondholders</li> </ul>
<p>Cover Pool</p>	<ul style="list-style-type: none"> <li>› Cover assets are Euro-denominated senior loans to German SME companies with a Commerzbank Internal Rating between 1.0 and 4.0</li> <li>› The initial €650m pool is dynamic in nature and can expand for future issuance in line with eligibility criteria</li> <li>› The maximum weighted-average life (WAL) of the loan portfolio is 3.0 years</li> <li>› Debt group concentration is capped at 0.5%; industry concentration at 15%</li> <li>› Repaid or repurchased loans will be replenished by eligible loans or eligible substitute assets</li> </ul>

## Group operating profit of €216m – Core Bank with solid result

As of Sep 30, 2012

- Group operating profit of €216m – negatively affected by NCA
- Operating profit in Core Bank with €692m up by 19% q-o-q, partly supported by one-off effects
- Slight increase in NCI in light of positive market sentiment, while NII margin remains subdued
- Efficiency gains are paying-off – Group CIR below 70%
- RWA almost flat q-o-q at €206bn, Core Tier I ratio at 12.2%

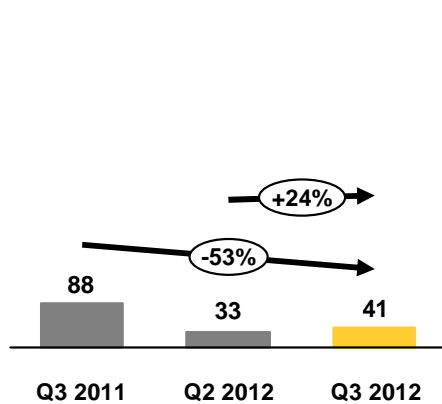
Source: Commerzbank - Group Finance (Figures as of Oct 31, 2012)

# Core Bank with solid operating result

As of Sep 30, 2012

## Private Customers – Operating profit

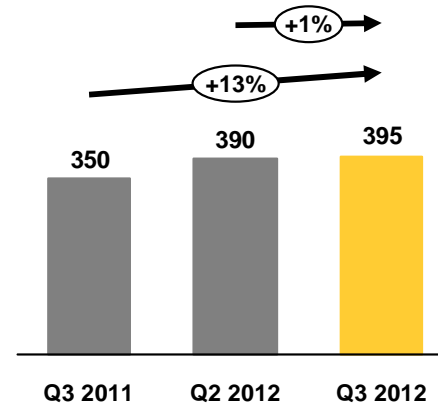
€m



- › Revenues still on a low level but increase in securities business

## Mittelstandsbank – Operating profit

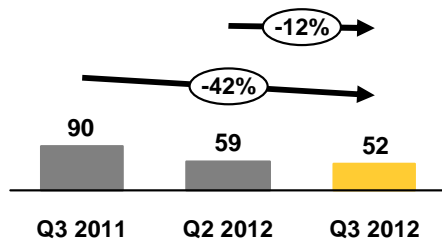
€m



- › Robust German economy reflected in low LLP level and net releases

## Central & Eastern Europe – Operating profit

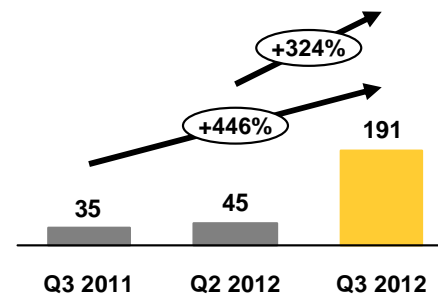
€m



- › Stable revenues in BRE and continuing growth in deposit volume

## Corporates & Markets – Operating profit

€m

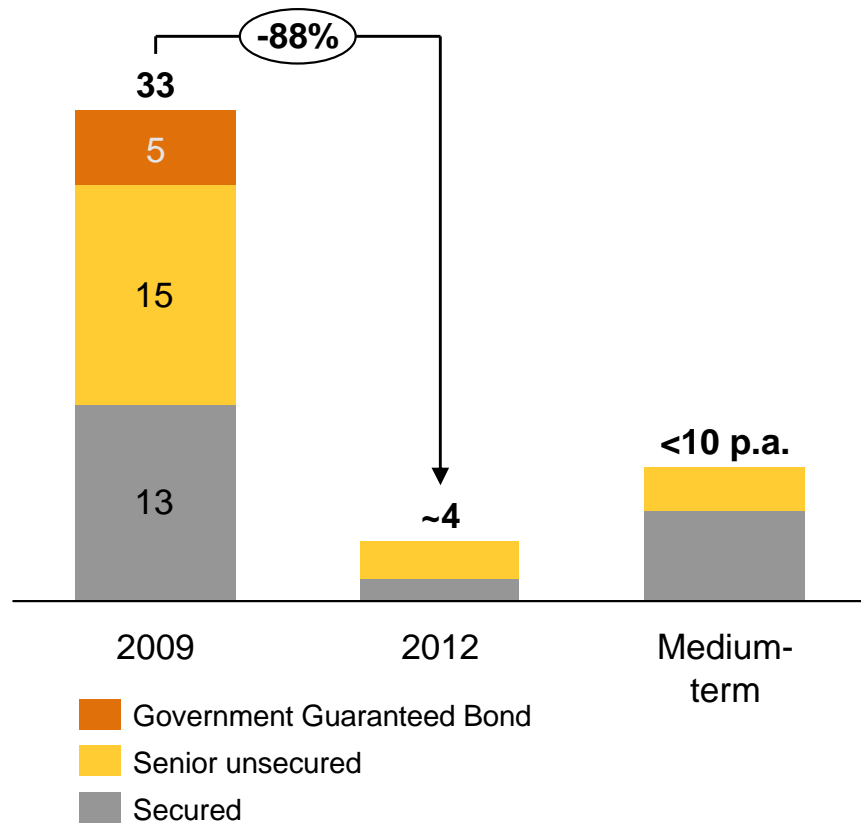


- › Improved market sentiment contributes to operating result
- › Figures for the first time including former PRU assets (Structured Credit Legacy)

# Due to run-down of NCA and strong increase in client deposits no significant capital market funding in the medium-term required

## Capital market funding

€bn

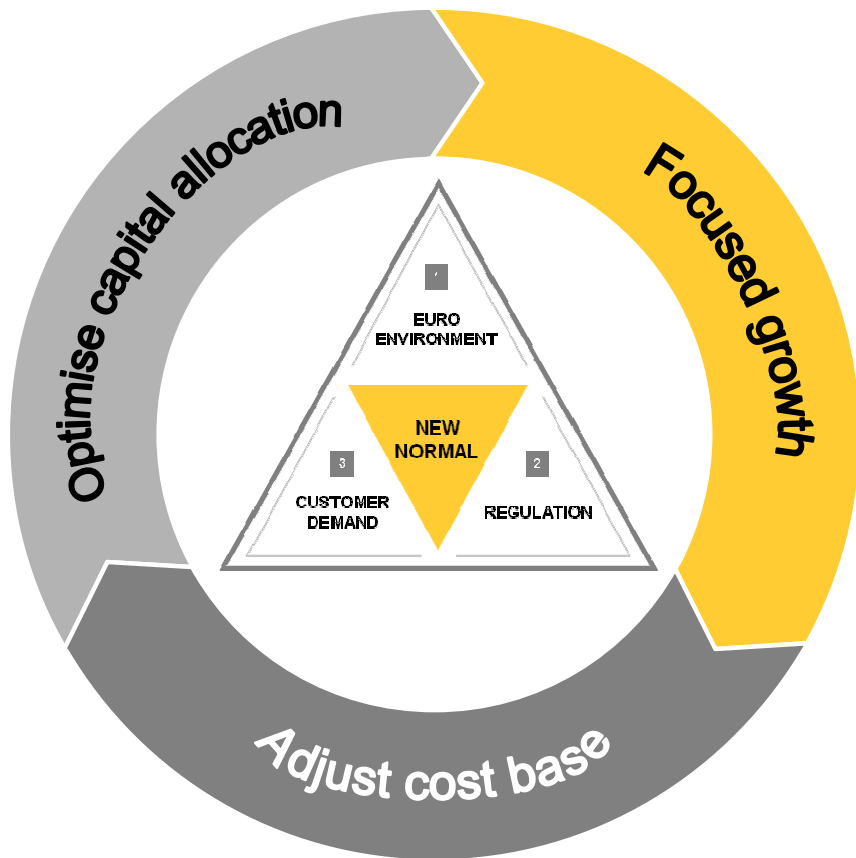


## Comments

- › Significant increase in customer deposits related to assets (from 31% in 2009 to 40% in Q3 2012)
- › Reduction of capital market and interbank funding related to assets (from 39% in 2009 to 33% in Q3 2012)
- › Currently no USD funding necessary
- › Medium-term capital market funding including planned business growth in the Core Bank

# 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%**

Source: Commerzbank - Group Finance 1) Based on implicit tax rate.



## Commerzbank's SME SCB programme at a glance



Dual recourse

1.

Obligation of Commerzbank AG

2.

Guarantee provided by the SPV in favor of the bondholders securing the payment obligations of Commerzbank



Guarantee, backed by a pool of SME loans, transferred to an insolvency remote SPV



Commerzbank registers the loans and any related mortgages\* in the Refinancing Register



Security Trustee of the SPV acts for the benefit of bondholder

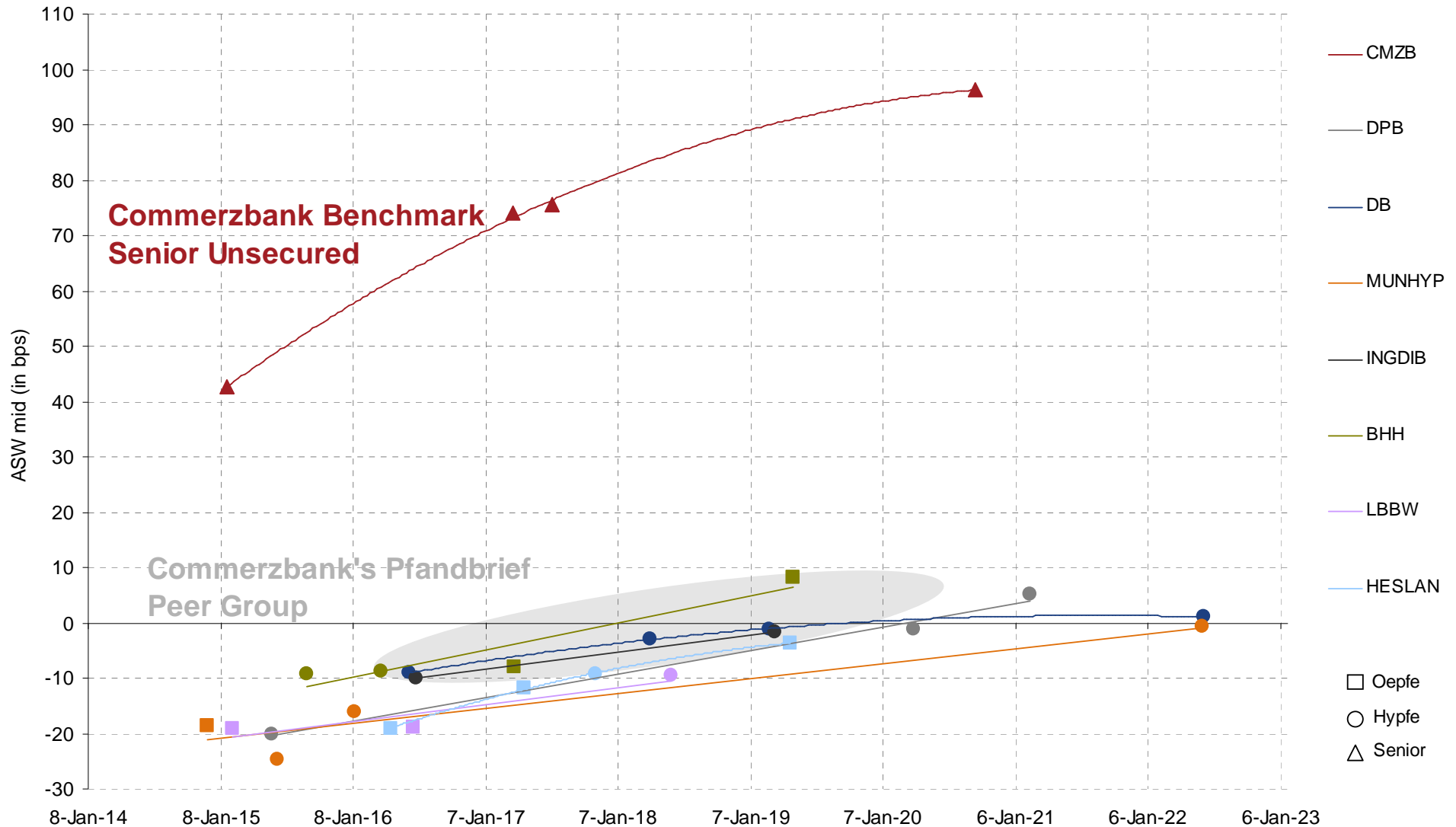
\* Other collateral, to the extent it is accessory, is attached to the registered loan

# Highlights of the SME Structured Covered Bond Programme

› Issuer	Commerzbank AG, Rating A(neg)/A3(neg)/A+(stable) (S&P, Moody's, Fitch)
› Guarantor	SME Commerz SCB GmbH is an insolvency remote limited liability company incorporated in Germany under German law and fully-owned by three German foundations
› Expected rating	The SME SCB Programme is expected to be rated Aa2 by Moody's and AA by Fitch
› Programme size	Up to EUR 5 billion, depending on Commerzbank's funding needs
› Programme type	Structured Covered Bond (SCB)
› Cover pool	Euro-denominated senior loans to German SME companies with an internal rating between 1.0 and 4.0
› Segregation of collateral	Collateral sold to the guarantor is segregated for the benefit of bondholders and other secured parties in the context of the programme
› Dual recourse	1 <sup>st</sup> : Repayment obligation by Commerzbank 2 <sup>nd</sup> : Cover pool with over-collateralisation of at least 11% on the SCB outstanding
› Refinancing register	All loans and any related collateral in the cover pool are registered in the Refinancing Register thereby segregating the collateral from the insolvency estate of Commerzbank for the benefit of bondholders
› Listing	Luxembourg Stock Exchange
› Governing law	German
› Trustee	Deloitte & Touche GmbH
› ECB Liquidity category	SCB will likely fall into category IV
› Basel III LCR compliance	In our view, it is likely not eligible as part of the Liquidity Buffer for the LCR
› Covered Bond Index inclusion	Strongly intended. Final decision on the part of index teams post issuance
› Transparency	Investor reports and other data will be provided on an on-going basis

Source: Commerzbank; Programme base prospectus

# Pricing environment for Commerzbank's inaugural SME SCB



Source: Commerzbank - Secondary Trading (levels as of Jan 08, 2013)

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# Commerzbank financials at a glance

As of Sep 30, 2012

<b>Group</b>	<b>Q3 2011</b>	<b>Q2 2012</b>	<b>Q3 2012</b>
Operating profit (€m)	-855	451	216
Core Tier I ratio B 2.5 (%)	9.4	12.2	12.2
RWA (€bn) <sup>1)</sup>	244	210	206
Leverage ratio (%)	22	19	19
<b>Core Bank (incl. O&amp;C)</b>	<b>Q3 2011</b>	<b>Q2 2012</b>	<b>Q3 2012</b>
Operating profit (€m)	868	580	692
Op. RoE (%)	16.4	12.6	12.9
CIR (%)	64.7	70.0	68.9
Risk density of EaD (bps)	31	28	27
LTD ratio (%)	85	78	77
<b>NCA</b>	<b>Q3 2011</b>	<b>Q2 2012</b>	<b>Q3 2012</b>
Operating profit (€m)	-1,511	-149	-476
EaD volume (€bn) <sup>2)</sup>	192	155	148
Risk density of EaD (bps)	36	51	58

Source: Commerzbank - Group Finance 1) excl. trading assets 2) EaD performing book only

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

As of Sep 30, 2012

## 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

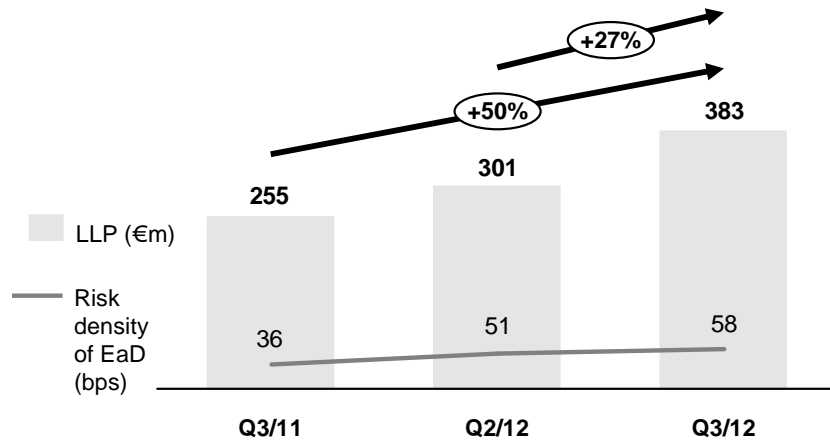
## Central & Eastern Europe

- › No. 3 bank in Poland (BRE Bank) with 4 million customers
- › Strong brand in retail business with mBank in Poland, Czech Republic and Slovakia

# NCA: continued portfolio reduction in PF and CRE

As of Sep 30, 2012

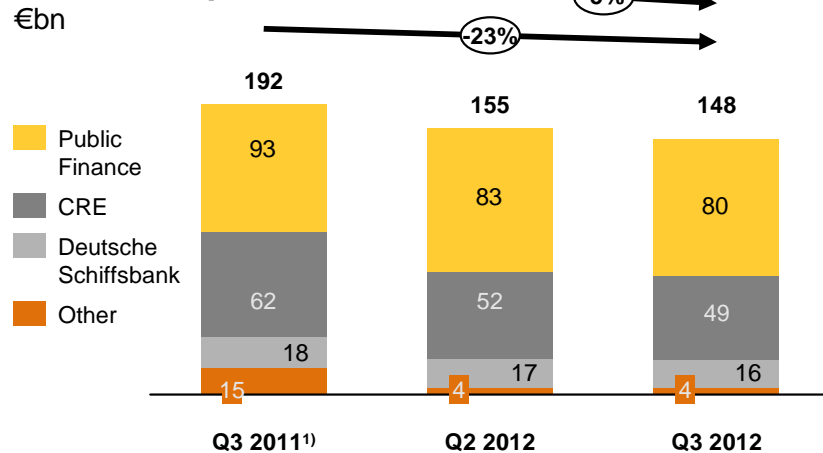
## LLP and Risk Density



▼ LLP increase in NCA of 27% q-o-q with ongoing high LLP in Deutsche Schiffsbank and LLP increase in CRE as expected

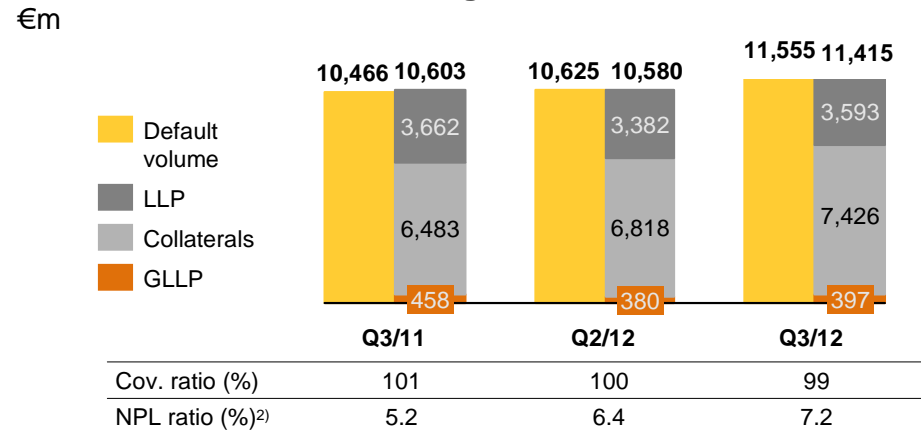
▲ Portfolio reduction of 5% in NCA q-o-q (-4% in PF and -6% in CRE)

## EaD Development



1) figures refer to Asset Based Finance.

## Default Volume vs. Coverage



	Q3/11	Q2/12	Q3/12
Cov. ratio (%)	101	100	99
NPL ratio (%) <sup>2)</sup>	5.2	6.4	7.2

2) as % of EaD.

Source: Commerzbank - Group Finance

# Focused growth: realisation of revenue potential in the Core Bank

## PC

- › Establish new business/revenue model based on fairness and competence toward customers
- › Increase customer base in comdirect benefiting from general trend toward direct banking

## MSB

- › Intensify customer acquisition in the small-cap segment
- › Increase share of wallet in the domestic mid- and large-cap segment
- › Promote international growth
- › Extend cash management and international business platform

## CEE

- › Grow with the market in BRE
  - Leverage new mBank offering with advanced online platform
  - Create one integrated sales network for corporate and retail offering

## C&M

- › Grow based on a focused offering as a large international niche player
- › Evolve product offering in Corporate Finance and EMC and expand institutional client base in FIC

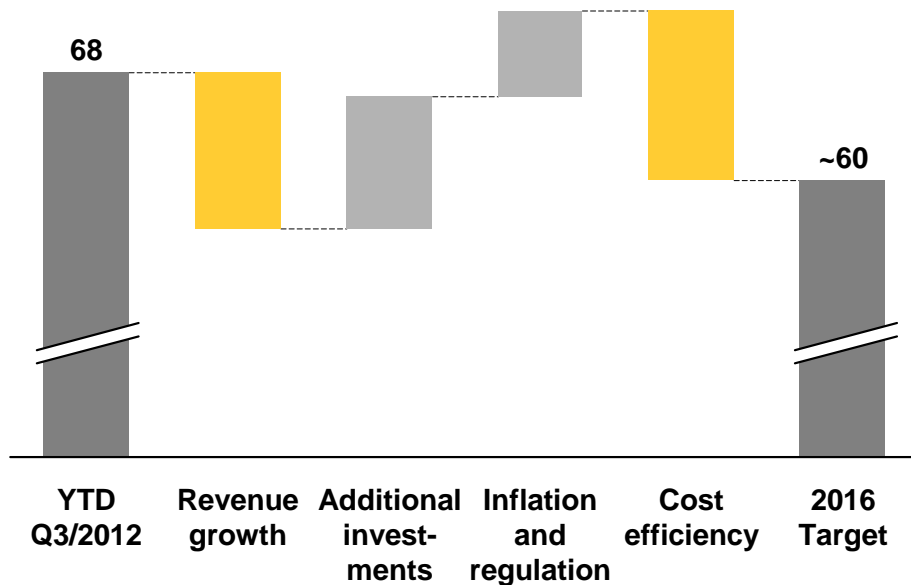


# Adjust cost base: cost management is an integrated part of Commerzbank's strategic agenda

As of Sep 30, 2012

## Cost/income ratio in Core Bank

%



- › Unmanaged, cost base to increase by €0.7bn-€0.8bn due to inflation and regulatory charges
- › In addition, investments to facilitate revenue growth, i.e. IT, new branch model



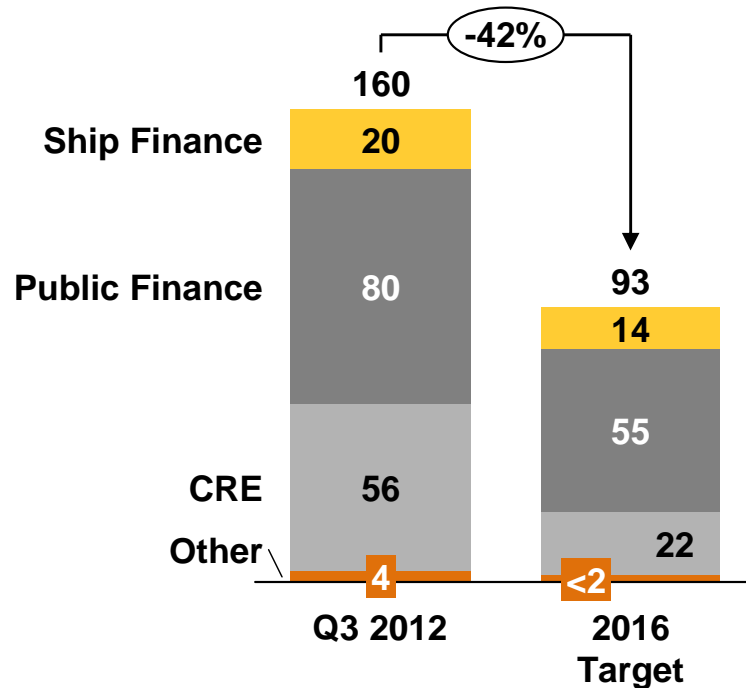
- › Cost management required
  - Flat cost base for Commerzbank Group
  - CIR of 60% in Core Bank in 2016
- › Main levers
  - Adjust sales distribution capacities
  - Reduce complexity
  - Adjust corporate centre capacities
  - Source/near-shore back-office activities

# Optimise capital allocation: RWA reduction in NCA results in significantly improved capital allocation in 2016

As of Sep 30, 2012

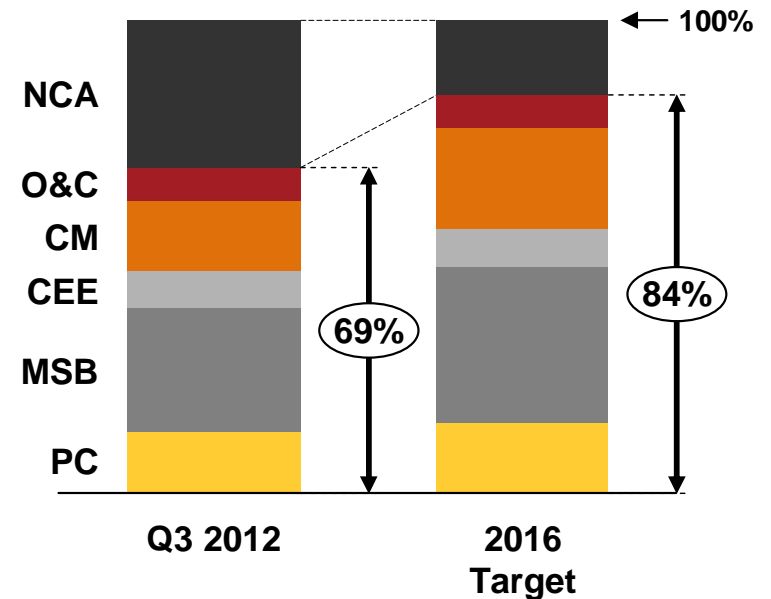
## Asset Run-Down

EaD (incl. NPL), €bn



## RWA Distribution

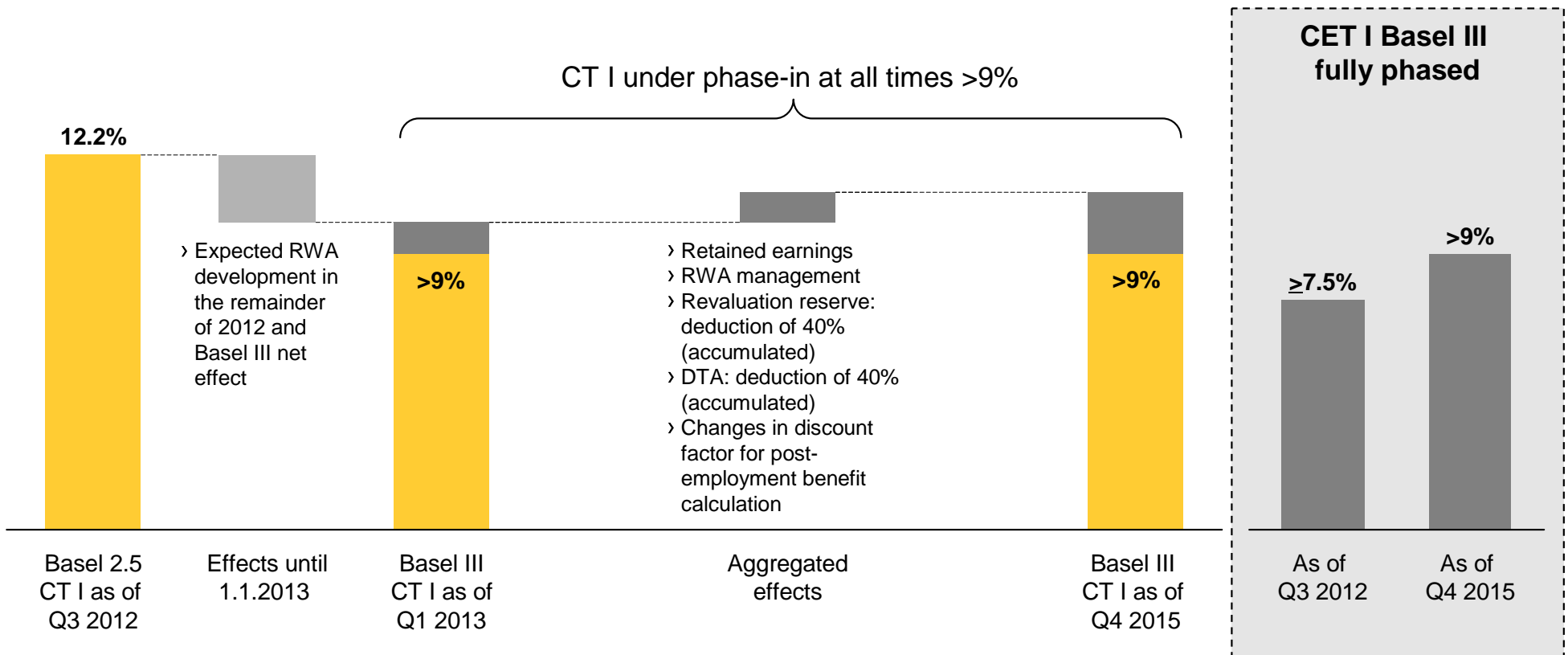
%, eop



# Basel III Core Tier I at all times >9% under phase-in

As of Sep 30, 2012

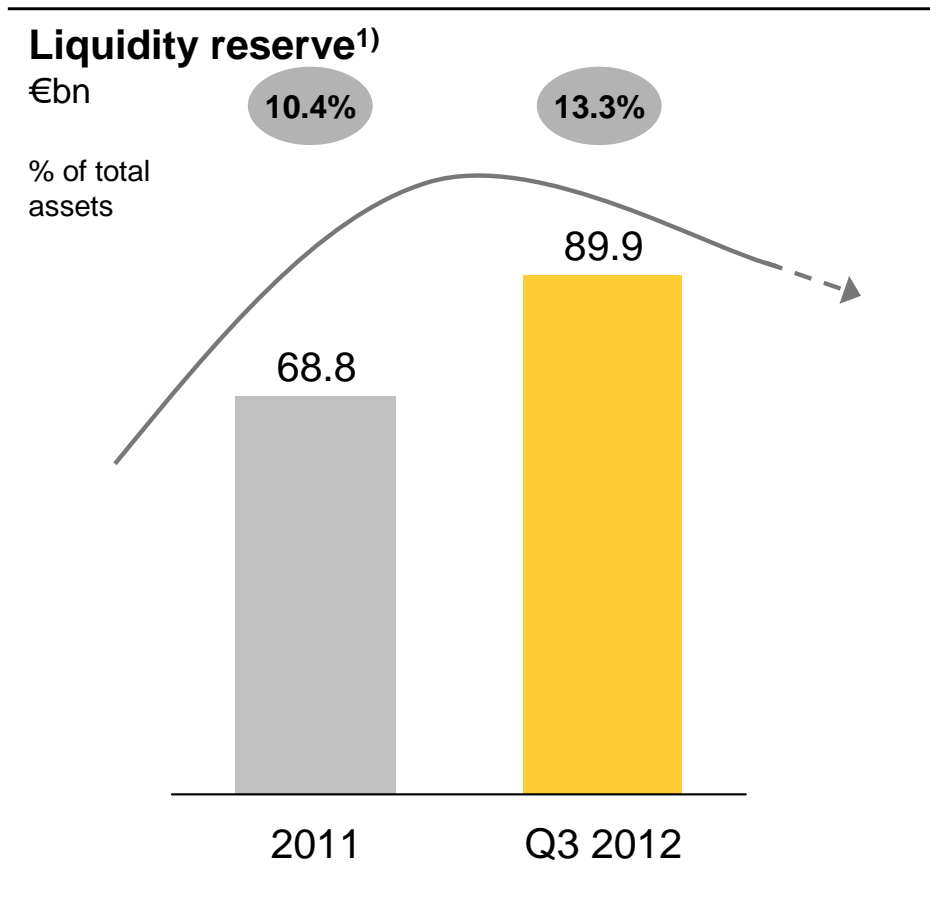
## Basel 2.5 Core Tier I and Basel III Core Tier I under phase-in



Source: Commerzbank - Group Finance Note: estimated impacts as of September 2012

# In light of turbulent market we have significantly increased our liquidity reserve

As of Sep 30, 2012



## Comments

- › Historically high liquidity reserve reflects very conservative approach
- › Central bank eligible assets with broad diversification
- › Due to significantly reduced risk of Euro break-up normalisation in liquidity management
- › Payback of LTRO I in Q1 2013 envisaged

Source: Commerzbank - Group Finance 1) including cash components

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# German economy has slowed down – but still outperforming Eurozone

## Current development

- › German economy has slowed down significantly since fall 2011
- › Investment in machinery and equipment in particular have lost steam, pointing to the uncertainty regarding the future of EMU as the main reason for the slow-down
- › Weak leading indicators are signaling the risk of a GDP decline in Q4
- › Downward-trend of unemployment has stopped

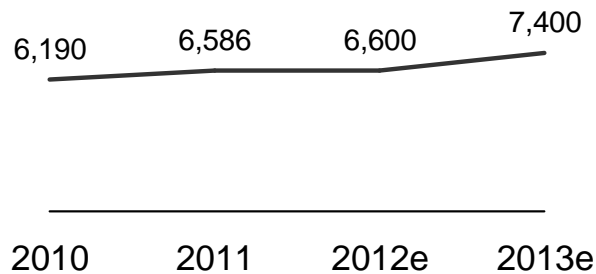
## Our expectation for 2012/2013

- › A still growing demand from outside the Euro area and expansionary monetary policy will prevent Germany from falling into a recession as the peripherals have already
- › Willingness of the ECB to buy peripheral bonds will reduce EMU break-up risk
- › Less uncertainty may lead to a revival of the German Economy in the course of 2013; chance of strong growth in 2014

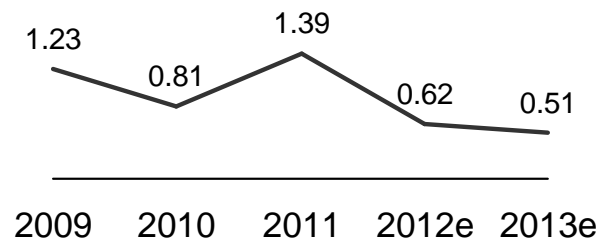
## Reasons for outperformance

- › No bubbles in the housing market
- › Low level of private sector debt
- › Less need for fiscal consolidation
- › Steadily improved competitiveness since start of EMU; however, the advantage is about to decline
- › Germany benefits from its strong positioning in Asian markets and Emerging Markets in general

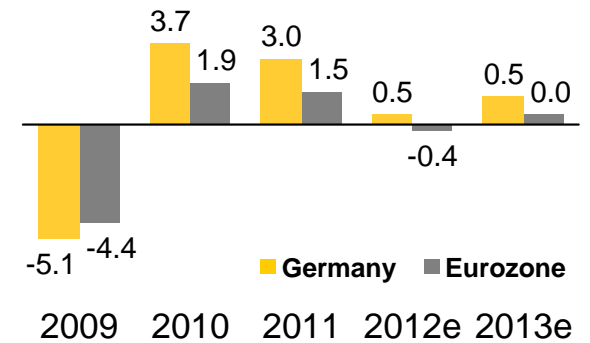
## DAX (average p.a.)



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



## GDP (Change vs previous year in %)



Source: Commerzbank - Economic Research

# The German Mittelstand: engine of the German economy I

## German Mittelstand at a glance

Scope	Growth	Contribution to society
<ul style="list-style-type: none"> <li>› Comprises more than 99% of all German firms</li> <li>› Contributes almost 52% to total economic output</li> <li>› Employs roughly 14 million people</li> </ul>	<p>The international turnover of the “German Mittelstand” has been growing by roughly 25% per year on average from 2000 onwards</p>	<p>The training provided by the “German Mittelstand” makes a major contribution towards the comparatively low level of youth unemployment (7.9%)</p>

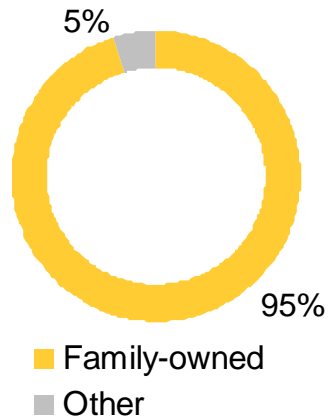
## Key success factors of the German Mittelstand

<p><b>Long-term oriented</b></p> <p>Almost all German SMEs are family-owned, of which many are owner-managed leading to long-term oriented business policies</p>	<p><b>Sound financing</b></p> <p>Relies on sound financing models, mainly equity and bank loans</p>	<p><b>Flexibility</b></p> <p>The high equity ratio and a cautious approach to expansion enable the companies to undertake medium-term and long-term investments, even in times of crisis</p>
<p><b>Government support</b></p> <p>Government supports the “German Mittelstand” on key issues like investment in R&amp;D, skills shortage, foreign trade and investment, financing needs, company start-ups and company hand-overs</p>	<p><b>Innovation-oriented strategy</b></p> <p>54% of German SMEs launched an innovation into the market in recent years</p>	<p><b>Focus on young talent</b></p> <p>SMEs employ 83.2% of trainees and thus tomorrows talents</p>

Source: German Federal Ministry of Economics and Technology, figures as of Dec 2010

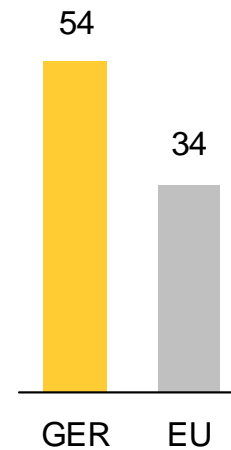
# The German Mittelstand: engine of the German economy II

## Share of family-owned firms among German SMEs



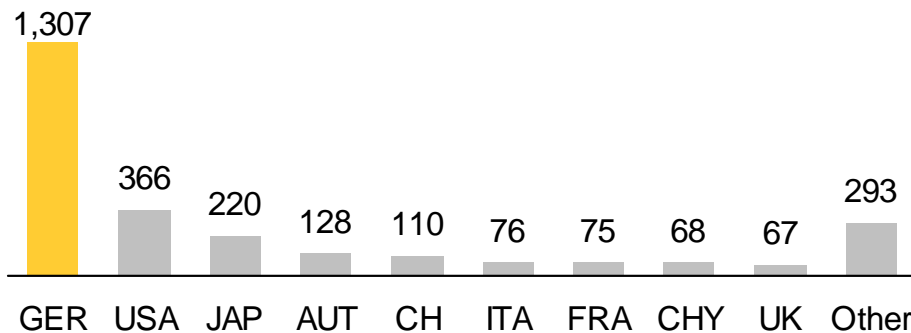
- › More than 99% of all 3.7 million companies in Germany belong to the Mittelstand
- › Roughly 95% of all German firms are family-owned, of which approx. 85% are owner-managed
- › German Mittelstand companies tend to take a particularly long-term approach to business, based on stable client relations, a continuous human resources policy, and strong ties to the region

## Innovation-driven backbone of the German economy



- › More than half of German SMEs introduced a product or process innovation during 2008-2010 vs. just a third in the whole EU
- › German SMEs are particularly likely to increase R&D spending. Their R&D investments rose by 71% between 2004 and 2010, vs. 19% for large corporations

## Number of “Hidden Champions\*” in the international comparison



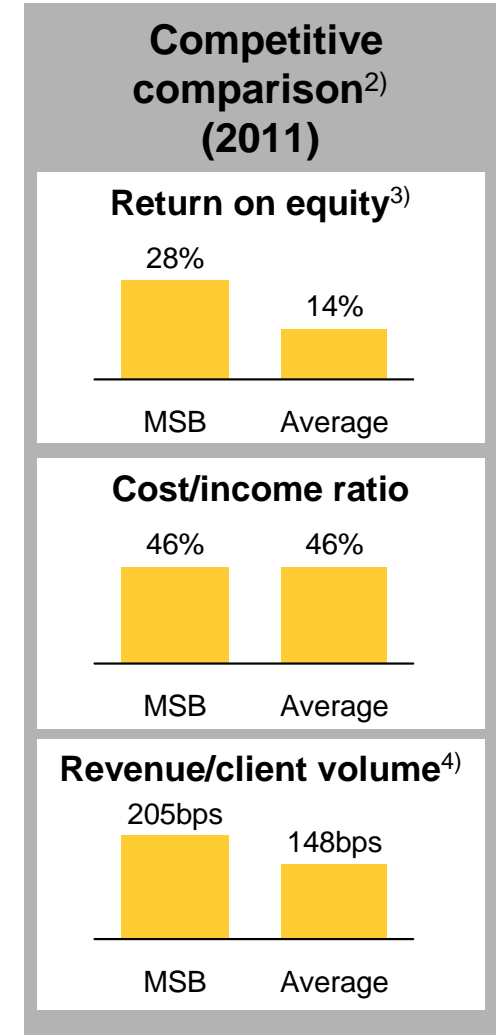
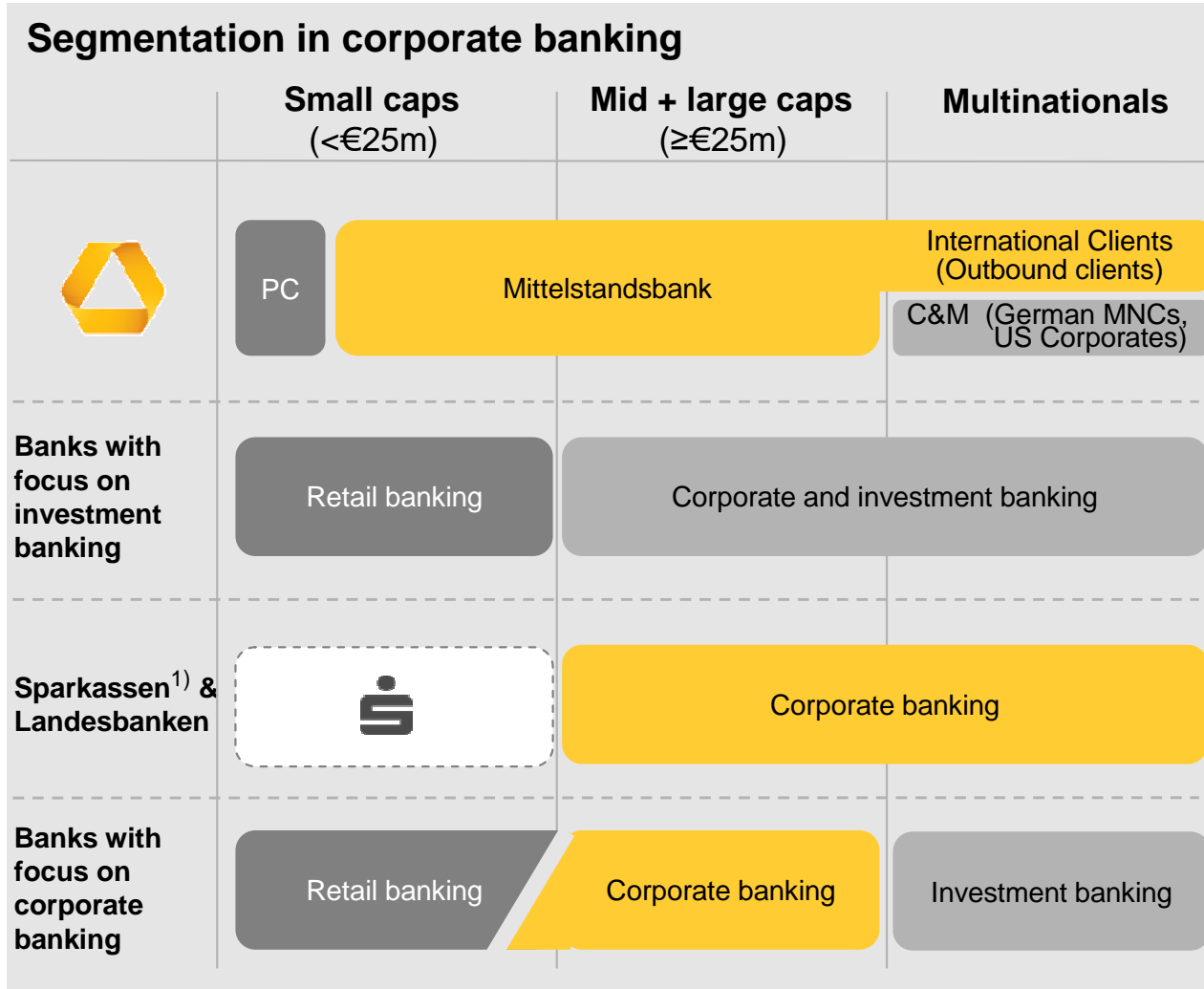
- › Their focus on niche markets, coupled with technological know-how leads to an above-average share of market leaders among German SMEs, compared to other countries
  - › Germany has produced more than three times as many of these “hidden champions” as the USA, the runner-up in the statistics
- › The strength of these market leaders lies in electrical engineering and industrial products

Source: German Federal Ministry of Economics and Technology, figures as of 2010 \* Niche-specific market leader



# Commerzbank Mittelstandsbank

Sustainable and strategic partner for the entire “Mittelstand”



1) Small caps mainly covered by local saving banks 2) Selected competitors with similar segmentation, source: annual reports 2011  
3) 7% regulatory capital requirement for risk-weighted assets assumed 4) 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



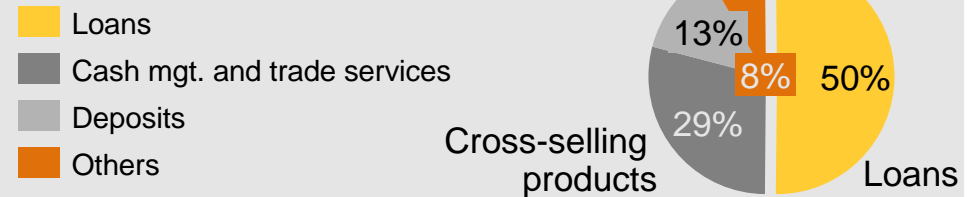
## Regional and international coverage

- › 150 locations; ~1,700 relationship managers; ~1,400 local specialists in domestic market
- › >30 international branches
- › >7,000 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>



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



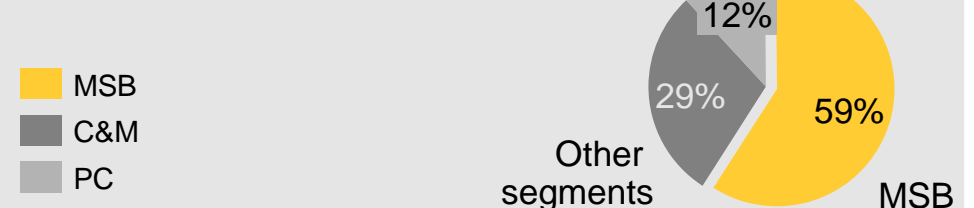
## Market share of export letters of credit<sup>2)</sup>

- › Germany: 30%
- › Eurozone: 10%

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



## C&M's client-related revenues 9M 2012



Source: Commerzbank – Mittelstandsbank 1) Basis: revenues 9M 2012 2) Source: SWIFT 2011

# Mittelstandsbank divisional split

As of Sep 30, 2012

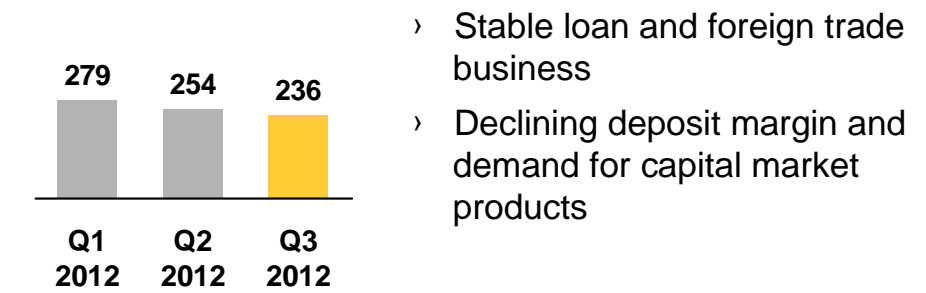
## Mittelstand Germany – Revenues before LLP

€m



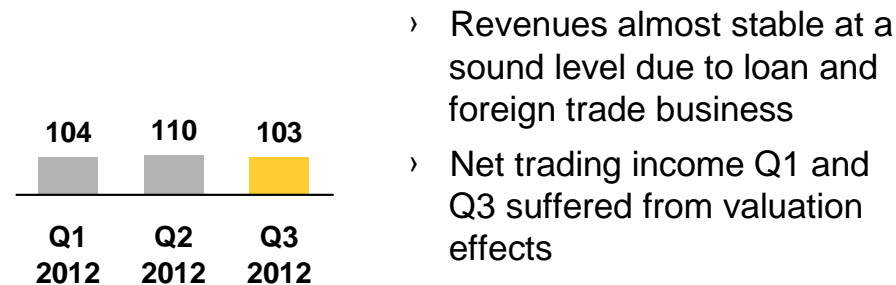
## Corporate Banking & International – Revenues before LLP

€m



## Financial Institutions – Revenues before LLP

€m

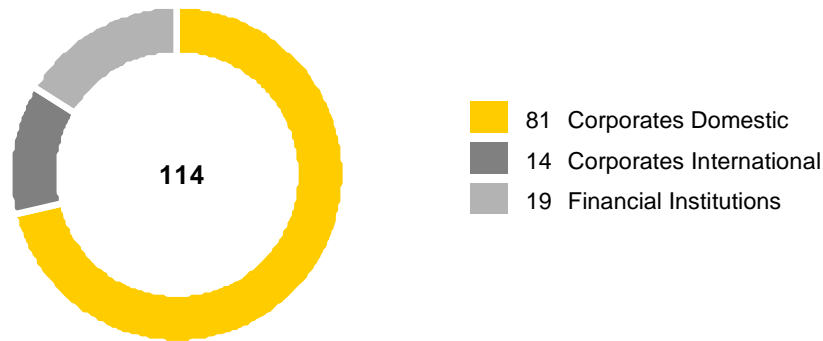


# Mittelstandsbank from a risk management perspective

As of Sep 30, 2012

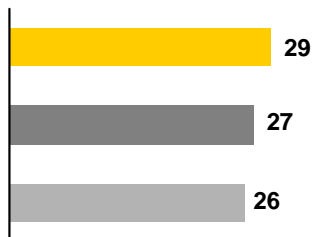
## Exposure at default

Sep 2012  
€bn



## Risk density

Sep 2012  
bp



Mittelstandsbank: 28 bp

	Dec 2010	Dec 2011	Sep 2012
<b>Credit RWA (€bn)</b>	63	53	50
<b>LLP (YtD, €m)</b>	279	188	-12
<b>Default portfolio (€bn)</b>	3.9	2.9	2.9
<b>Coverage ratio incl. GLLP (%)</b>	83	86	77

# Expansion of proven business model to capture growth opportunities

## Economic environment

- › Germany maintains position as economic engine in Europe, while other European countries suffer from euro crisis (real GDP in Germany in 2013<sup>1)</sup>: +0.5%, real GDP in eurozone in 2013<sup>1)</sup>: 0.0%)
- › The “Mittelstand” is the backbone of German economy (Share of overall turnover<sup>2)</sup> ~50%)
- › Competitors with internal challenges
- › Increasing internationalisation of customers and growing international trade flows (German exports in 2013<sup>3)</sup>: +6%)
- › Dynamic growth, especially in Asia (e.g. real GDP in China in 2013<sup>1)</sup>: +7.5%)

## Strategic implication

Further strengthen position in domestic market

Use windows of opportunities to increase market share in Germany

Expand reach in dynamic growth markets and ensure participation in growing international trade flows

Support internationalisation of customers and further enhance client retention with convincing solutions in cash management

1) Source: Commerzbank - Economic Research, 28.9.2012 2) Source: turnover statistics 2010, German Federal Statistical Office 3) Source: AHK-Weltkonjunkturbericht 2012/2013

# Mittelstandsbank with ambitious targets for 2016

As of Sep 30, 2012

- ▶ **Additional revenues of 4% p.a.**
- ▶ **Return on equity (ROE) greater than 20%<sup>1)</sup>**
- ▶ **Sustained cost efficiency, CIR below 45%**
- ▶ **Average equity around €7bn**
- ▶ **More than 15% growth in customer base<sup>2)</sup>**
- ▶ **Increased cross-selling, non loan ratio<sup>3)</sup> above 50%**
- ▶ **Growth in international revenues of 8% p.a.**

## Mittelstandsbank

- › **Mittelstandsbank with unique business model and market position in Germany**
- › **Building on our strengths we will grow in our domestic market and expand internationally**
- › **We stay the sustainable and strategic partner of the “Mittelstand”**

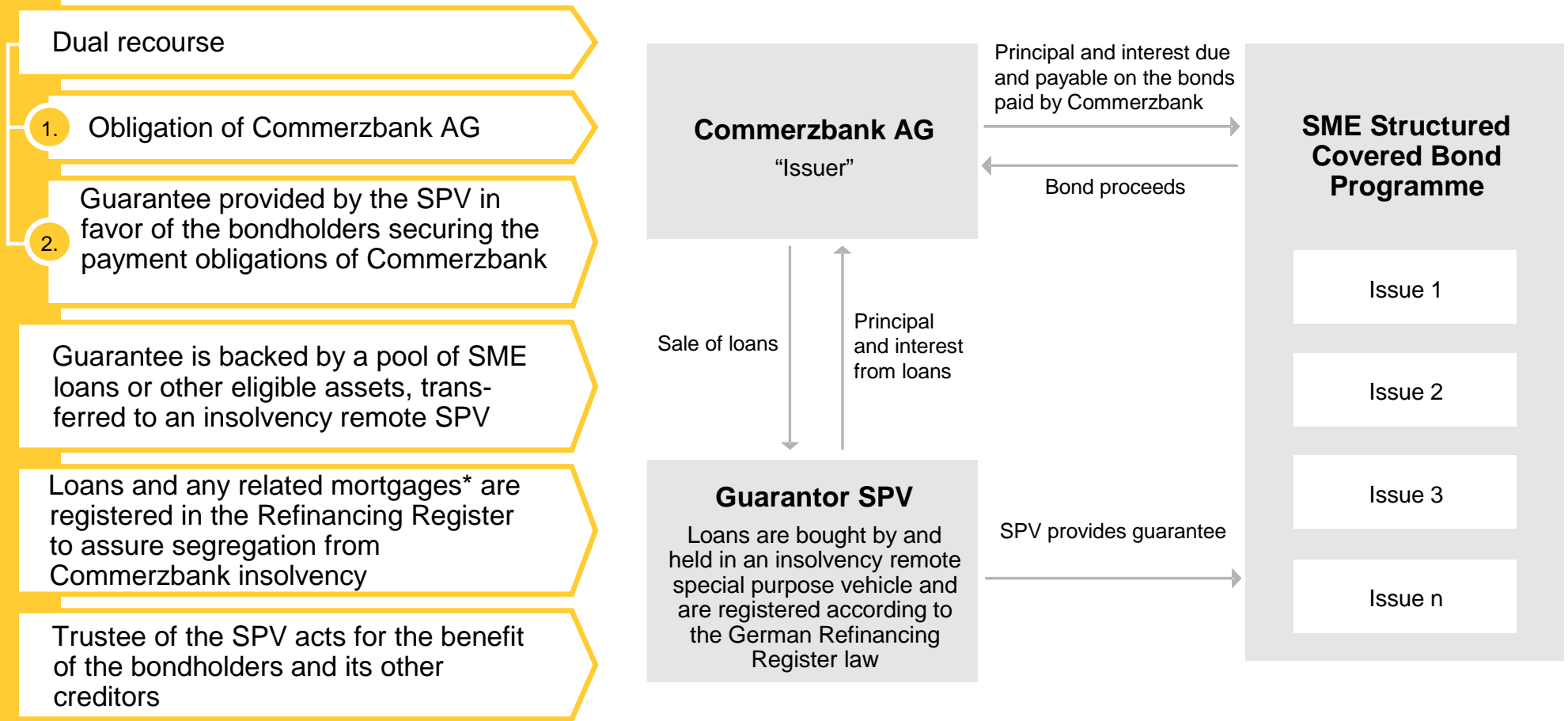
1) Assumed regulatory capital requirement for risk-weighted assets is 9% 2) Small and mid caps Germany; compared to expected 2012 figures  
 3) Non-loan ratio: Share of non-loan business-related revenues in total customer-related revenues

# Agenda

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5	The Cover Pool
6	Credit Process, Monitoring of SME Loans and Commerzbank's Internal Rating Methodology
7	Appendix

# Structural overview

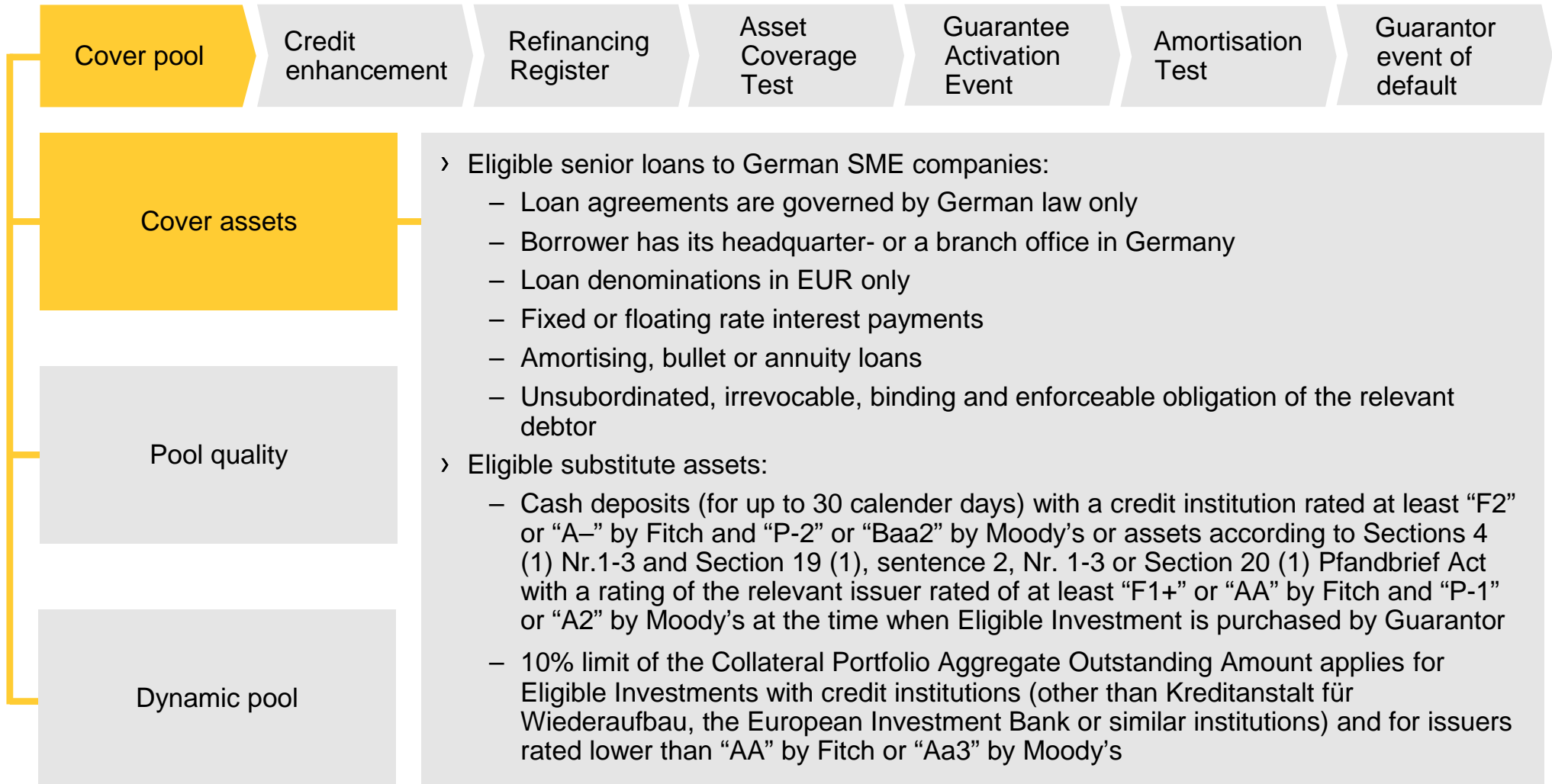
- › Similar to structured covered bonds in other jurisdictions
- › Uses the German Refinancing Register legislation to register the cover pool for the benefit of the Guarantor SPV
- › The structure and the inherent risk mitigation mechanisms address risks such as issuer default, credit quality of the cover pool, extension risk, time subordination



\* Other collateral, to the extent it is accessory, is attached to the registered loan

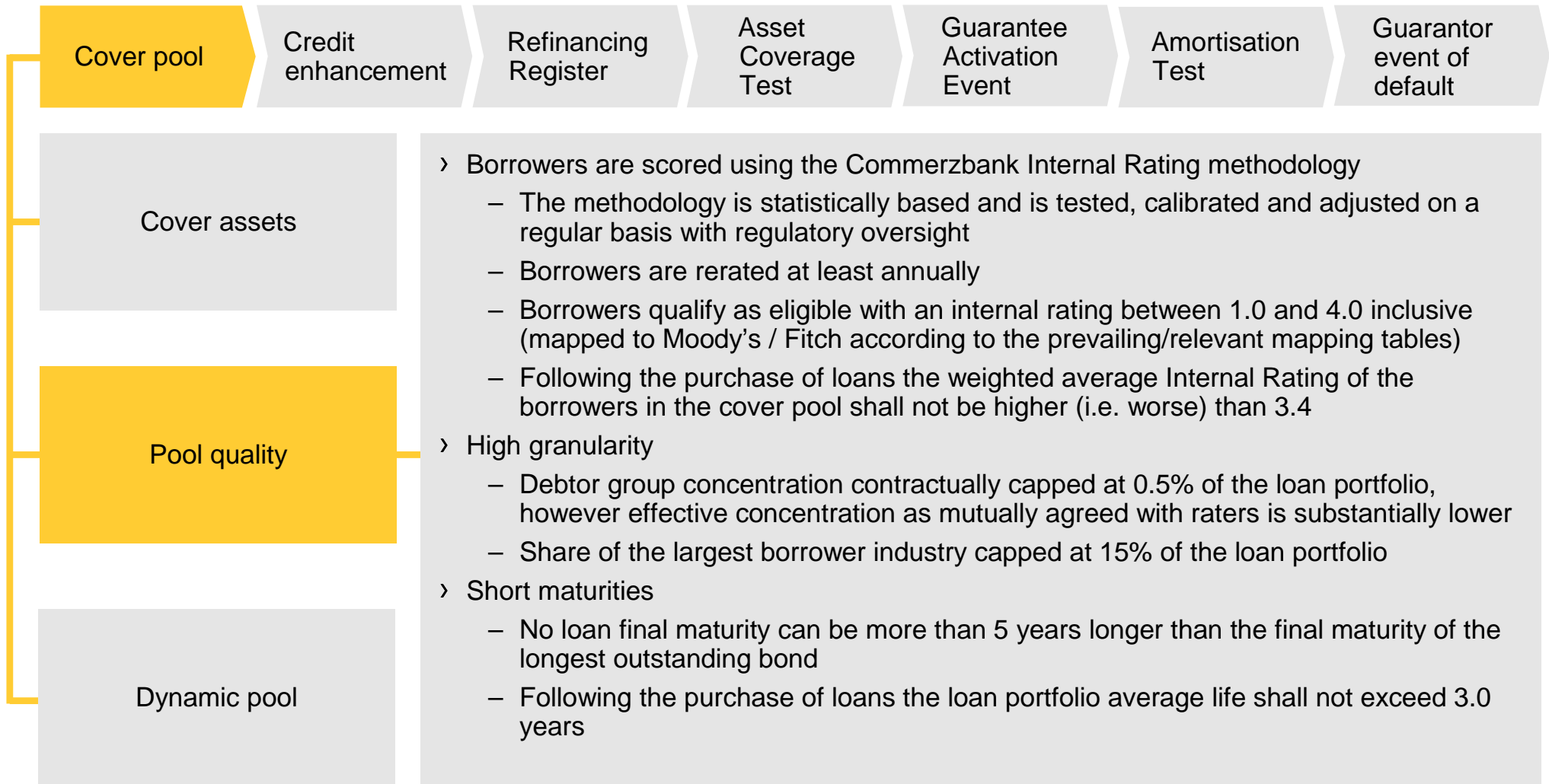


# Key structural features



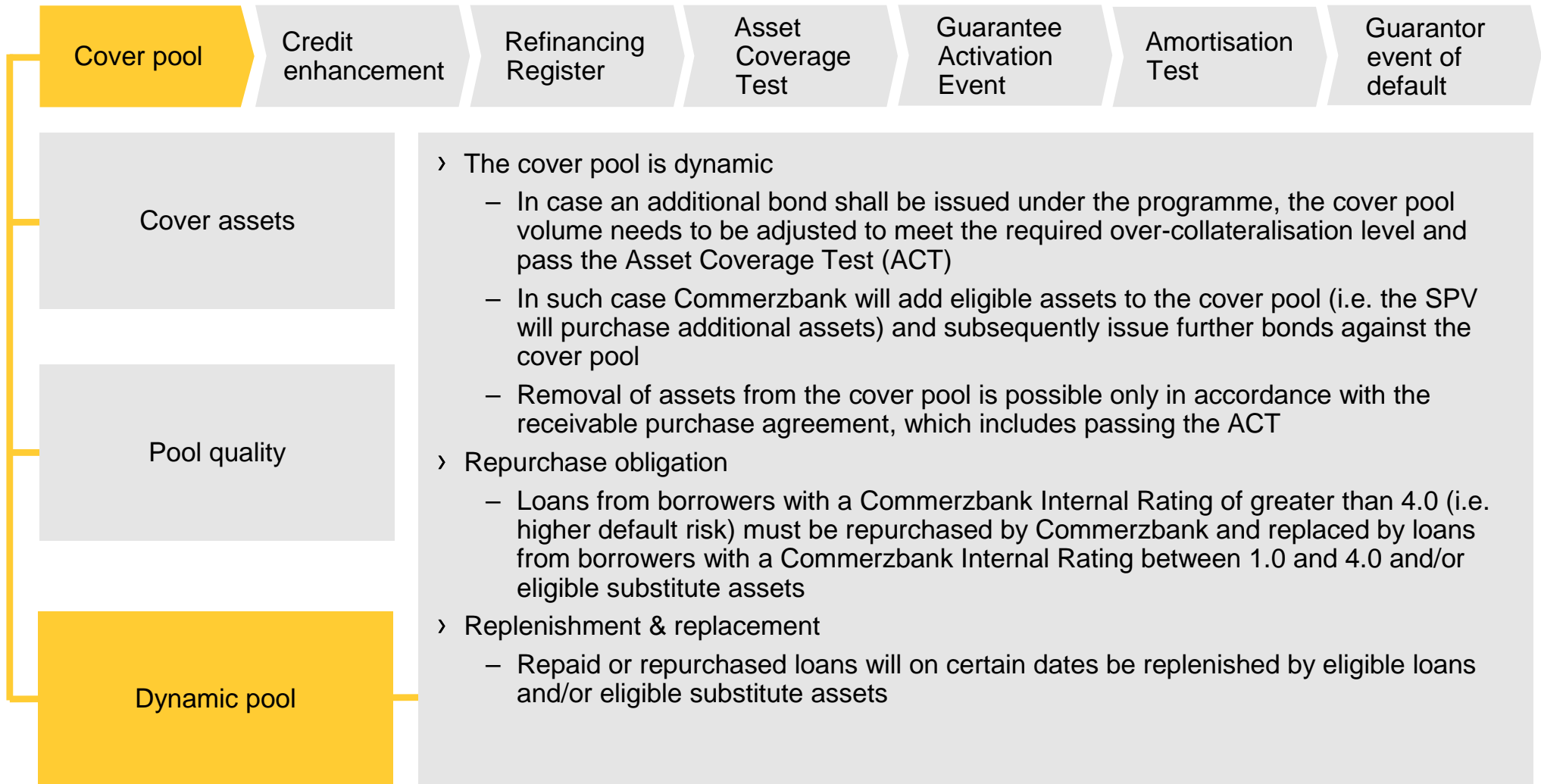
Source: Commerzbank; Programme base prospectus

# Key structural features



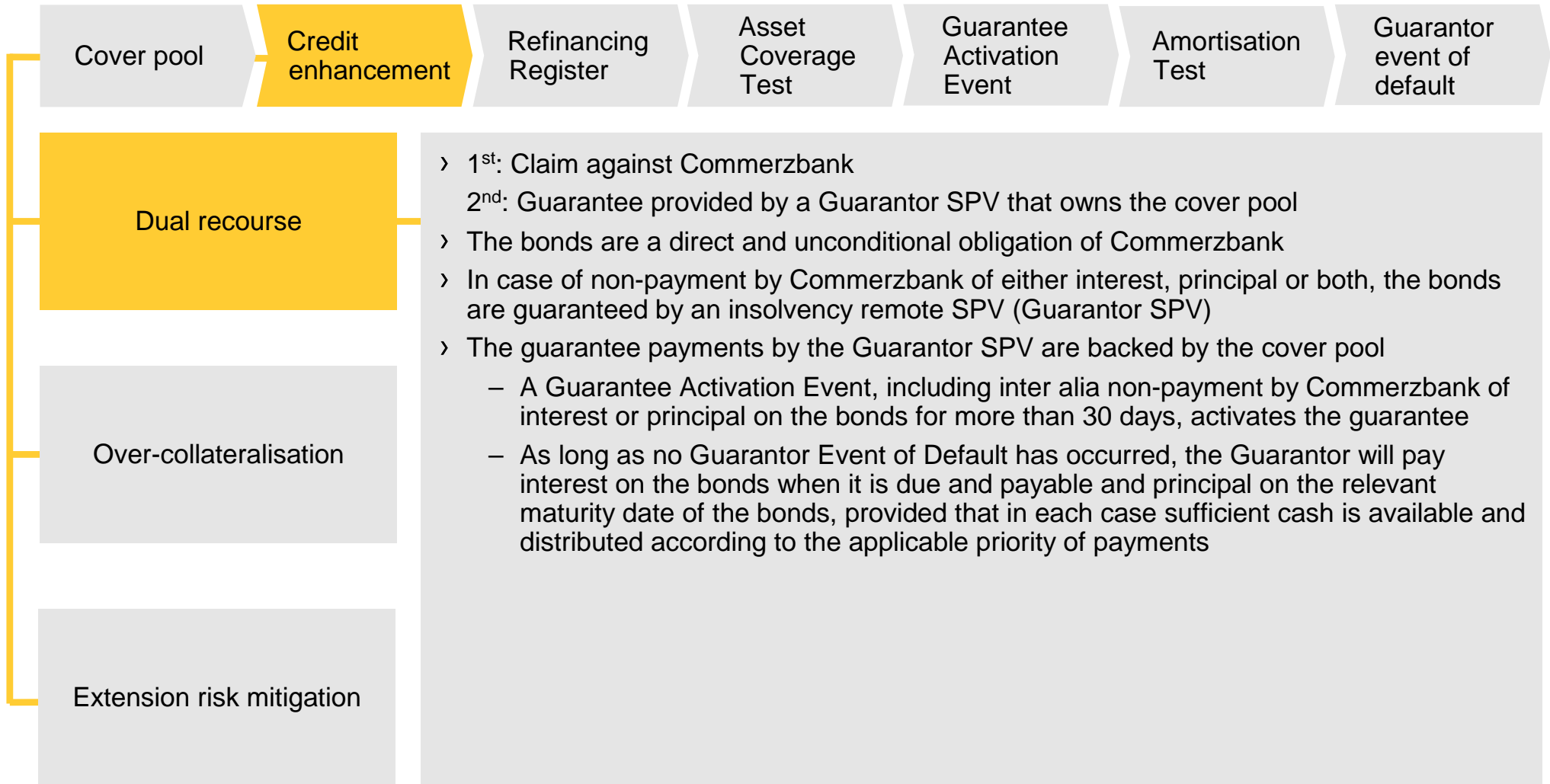
Source: Commerzbank; Programme base prospectus

# Key structural features



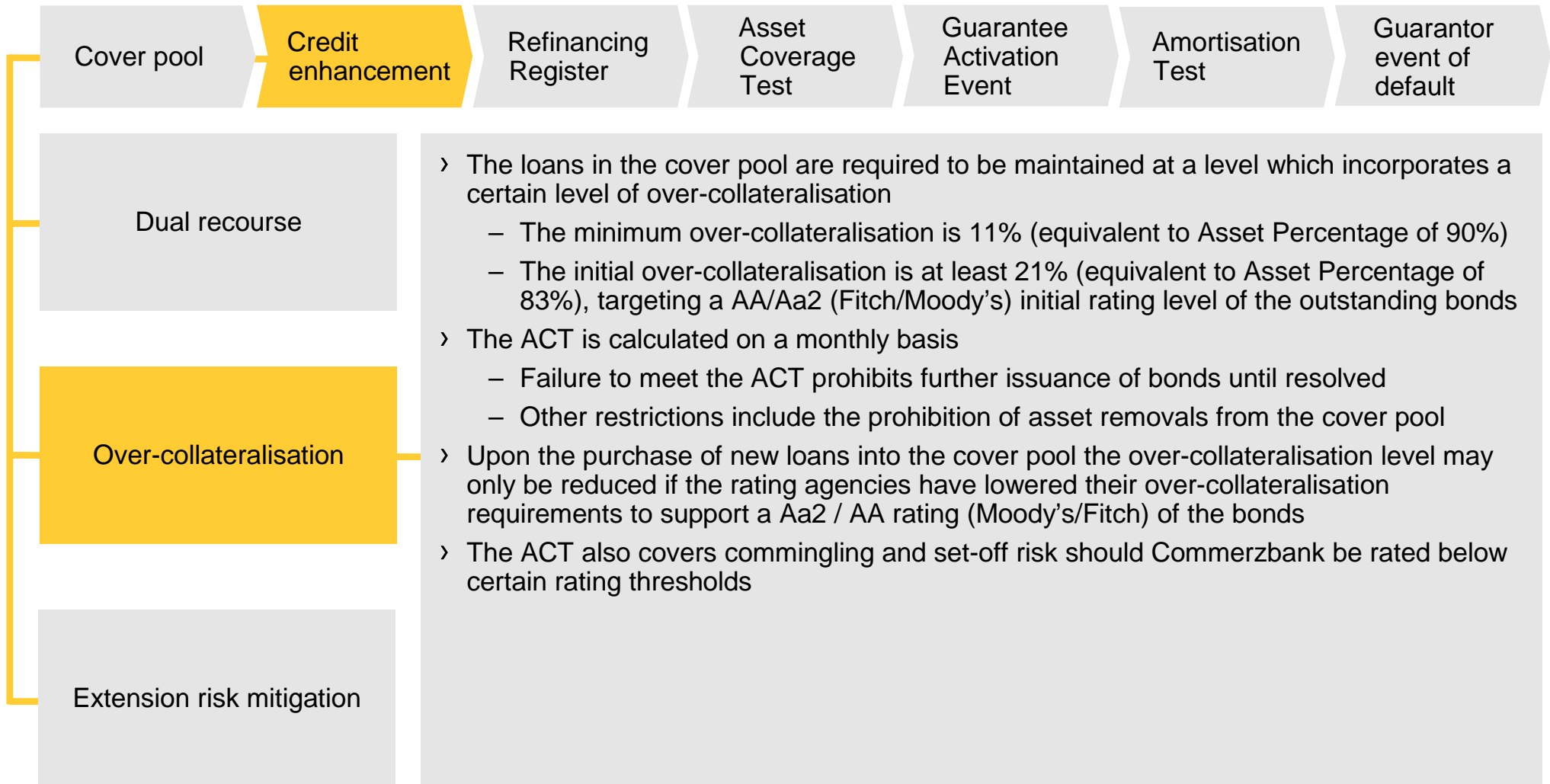
Source: Commerzbank; Programme base prospectus

# Key structural features



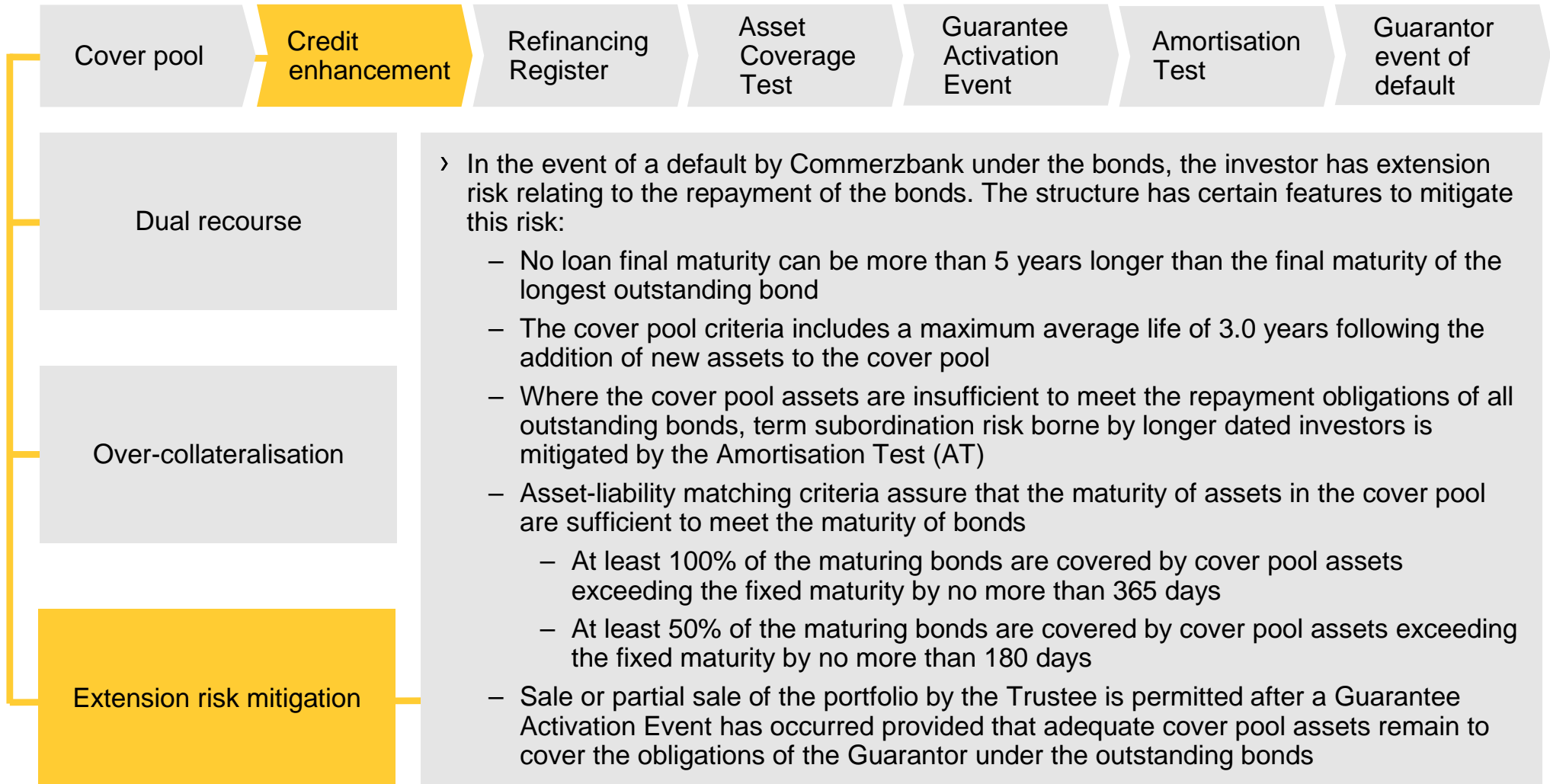
Source: Commerzbank; Programme base prospectus

# Key structural features



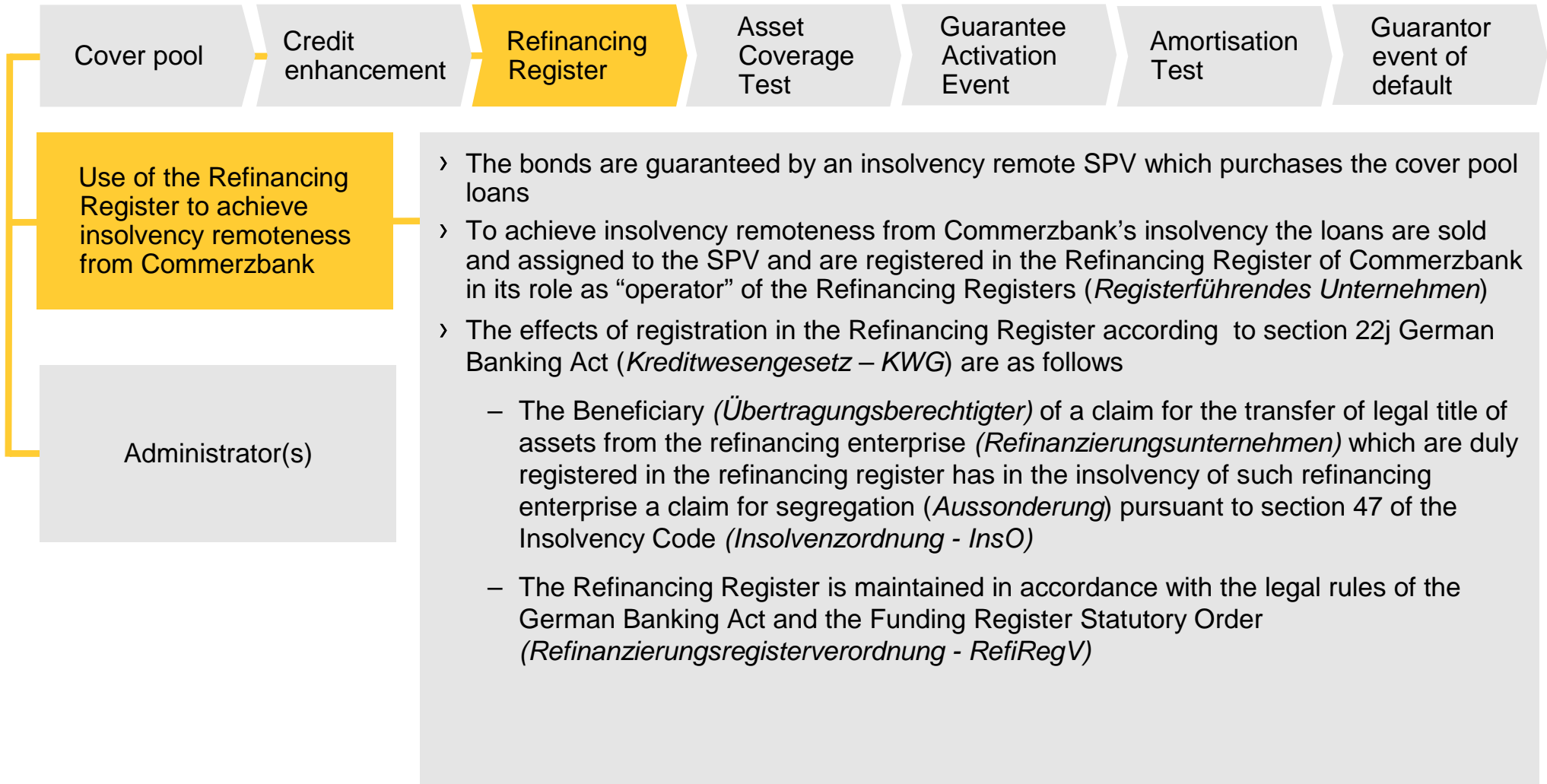
Source: Commerzbank; Programme base prospectus

# Key structural features



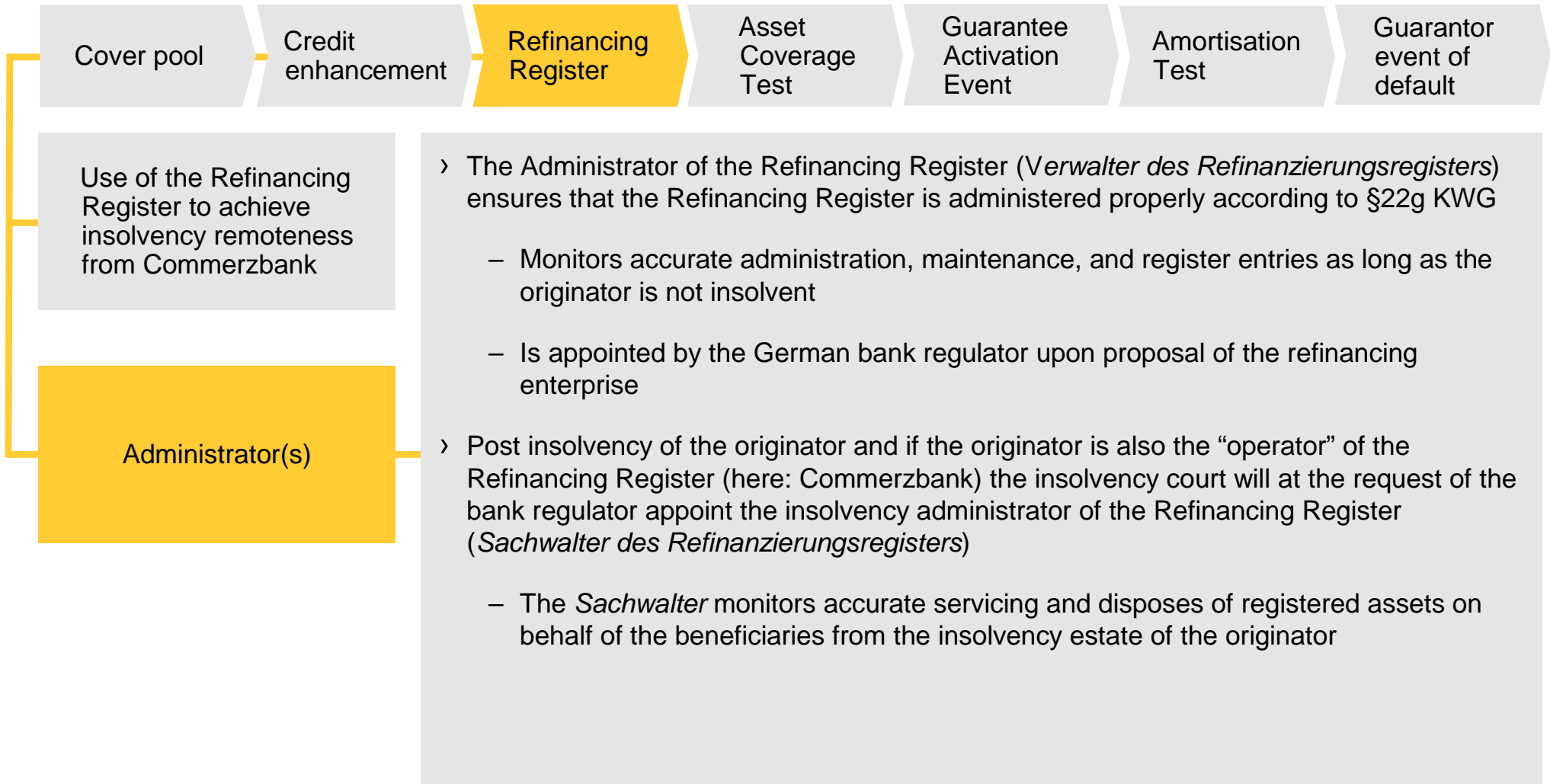
Source: Commerzbank; Programme base prospectus

# Key structural features



Source: Commerzbank; Programme base prospectus

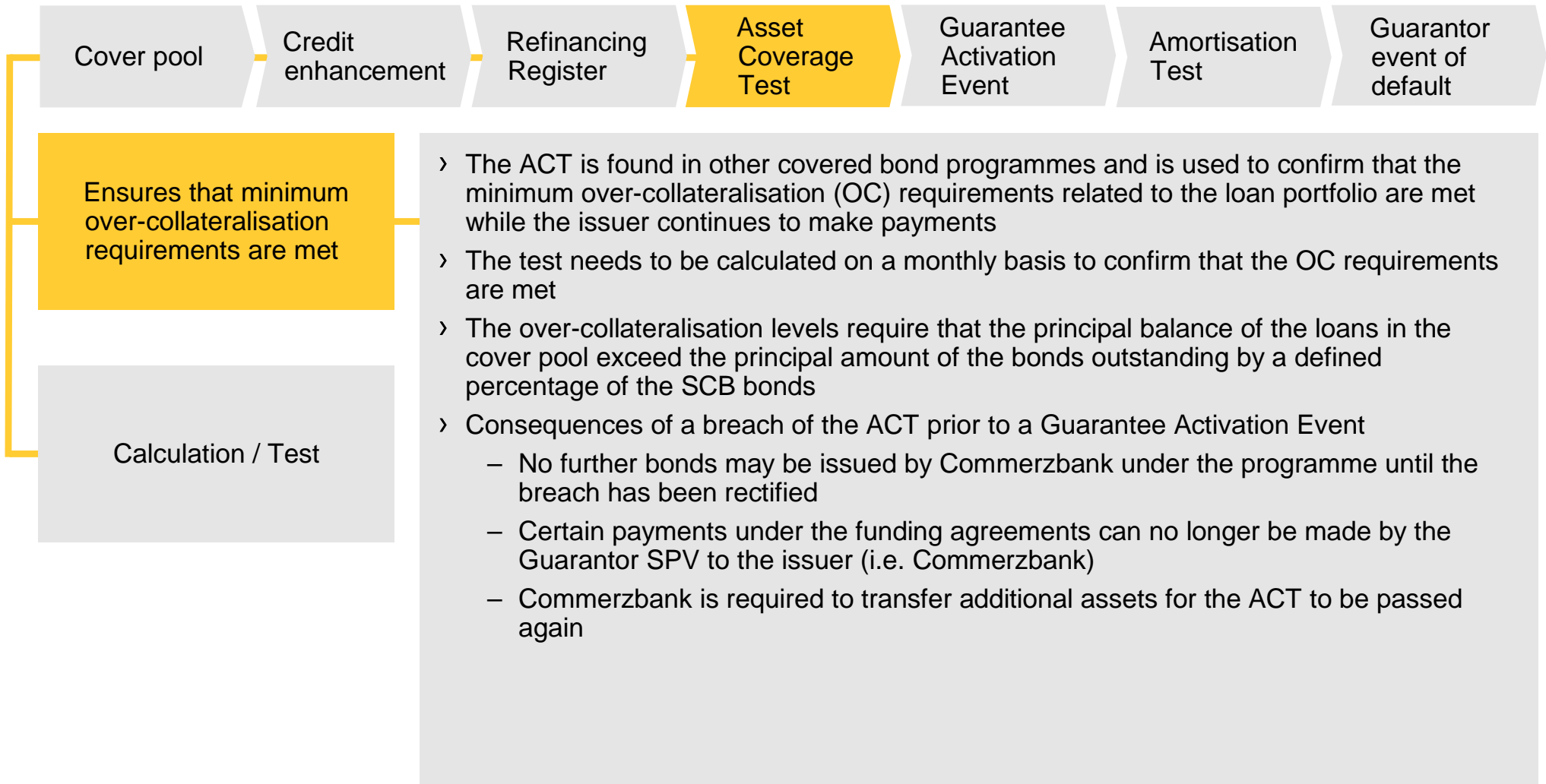
# Key structural features



Source: Commerzbank; Programme base prospectus



# Key structural features



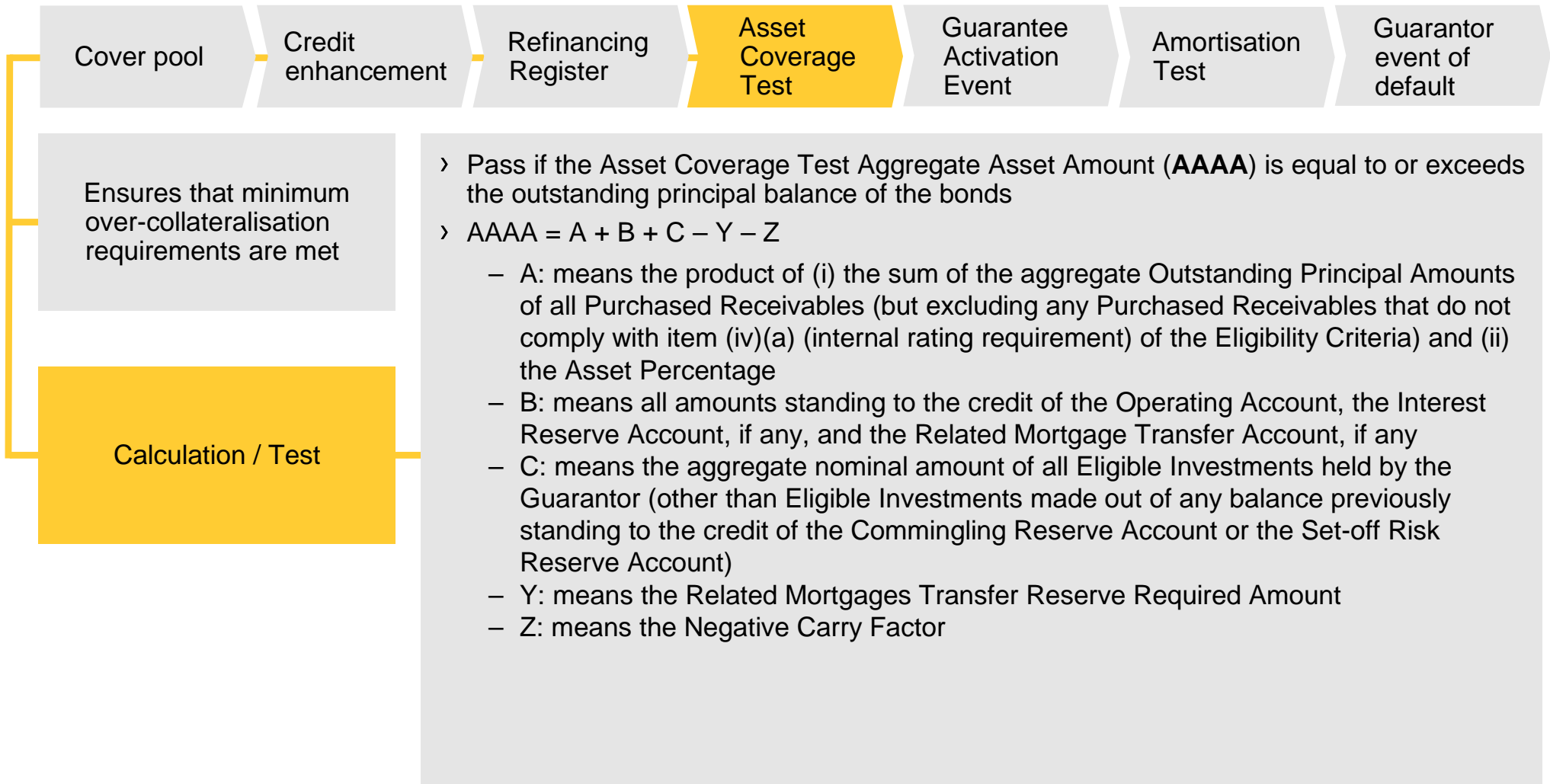
Ensures that minimum over-collateralisation requirements are met

Calculation / Test

- › The ACT is found in other covered bond programmes and is used to confirm that the minimum over-collateralisation (OC) requirements related to the loan portfolio are met while the issuer continues to make payments
- › The test needs to be calculated on a monthly basis to confirm that the OC requirements are met
- › The over-collateralisation levels require that the principal balance of the loans in the cover pool exceed the principal amount of the bonds outstanding by a defined percentage of the SCB bonds
- › Consequences of a breach of the ACT prior to a Guarantee Activation Event
  - No further bonds may be issued by Commerzbank under the programme until the breach has been rectified
  - Certain payments under the funding agreements can no longer be made by the Guarantor SPV to the issuer (i.e. Commerzbank)
  - Commerzbank is required to transfer additional assets for the ACT to be passed again

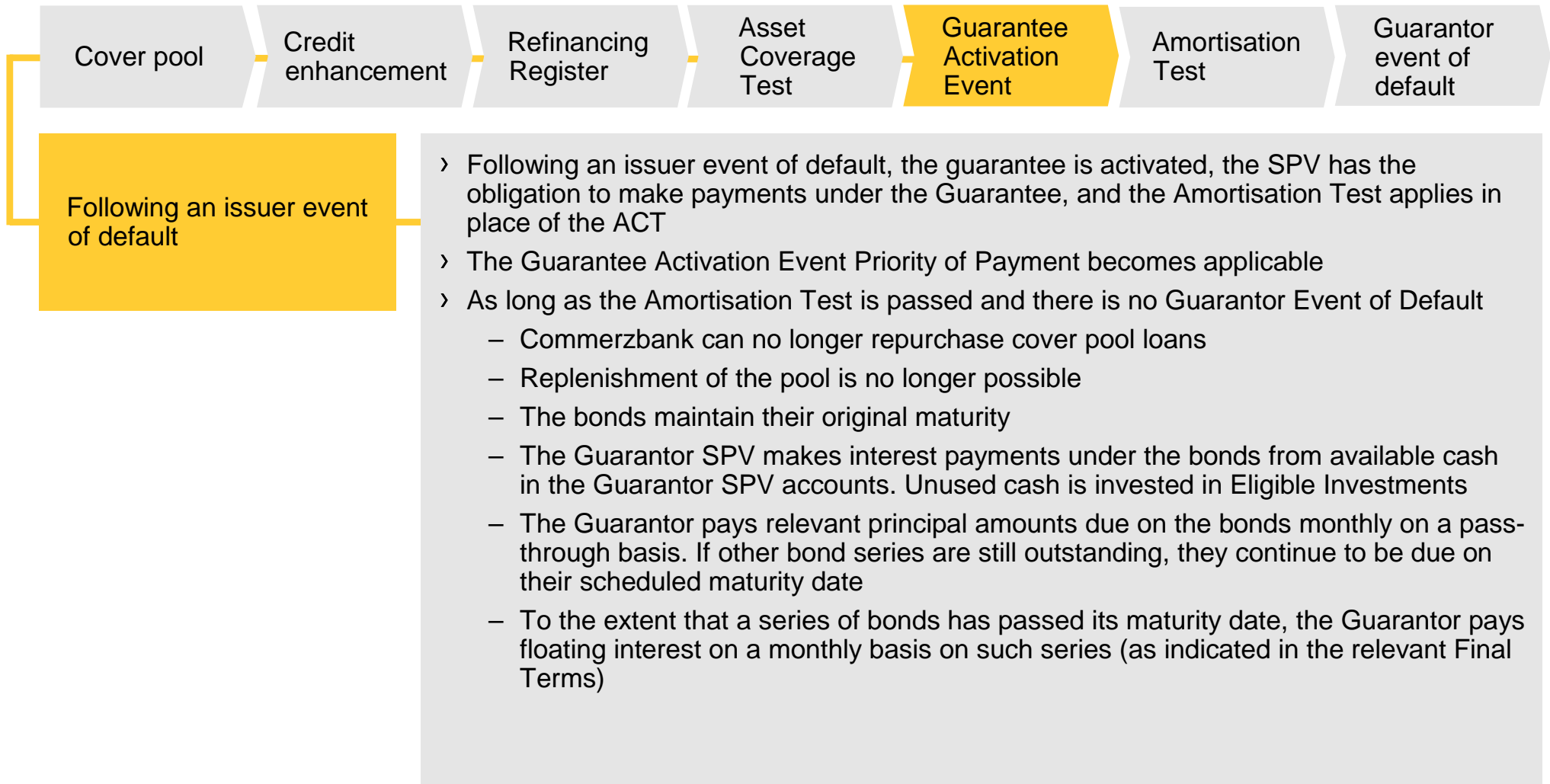
Source: Commerzbank; Programme base prospectus

# Key structural features



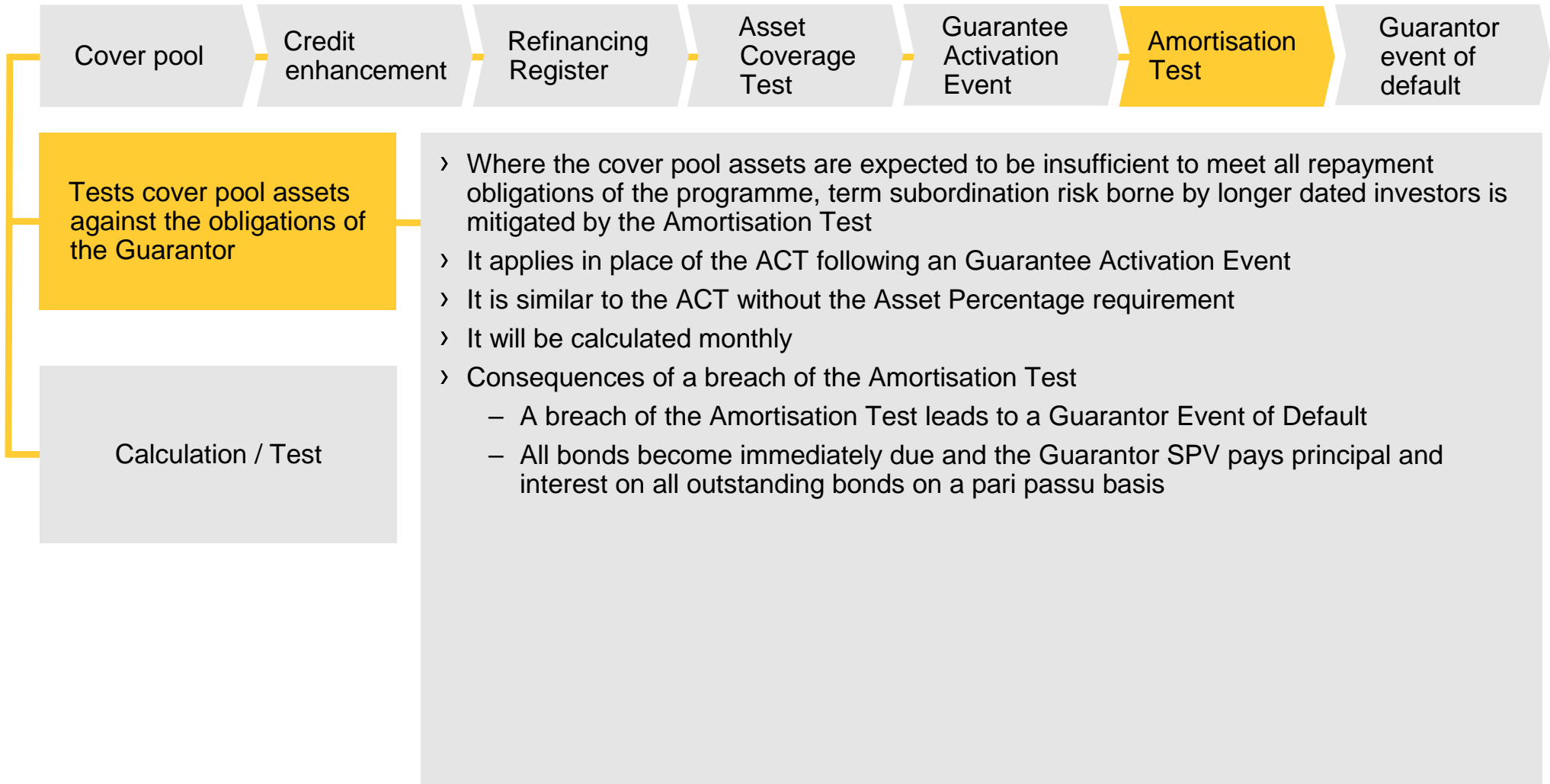
Source: Commerzbank; Programme base prospectus

# Key structural features



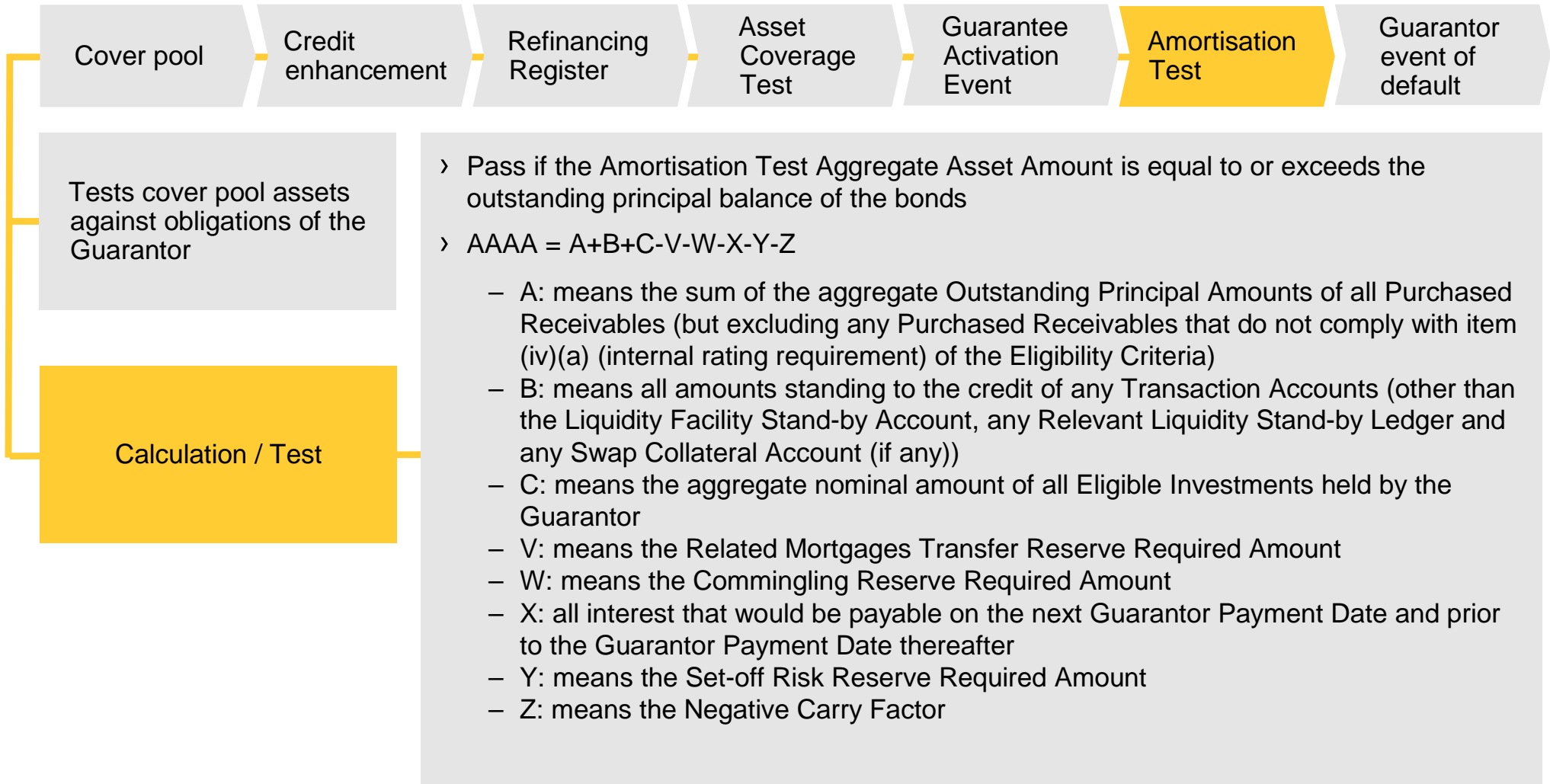
Source: Commerzbank; Programme base prospectus

# Key structural features



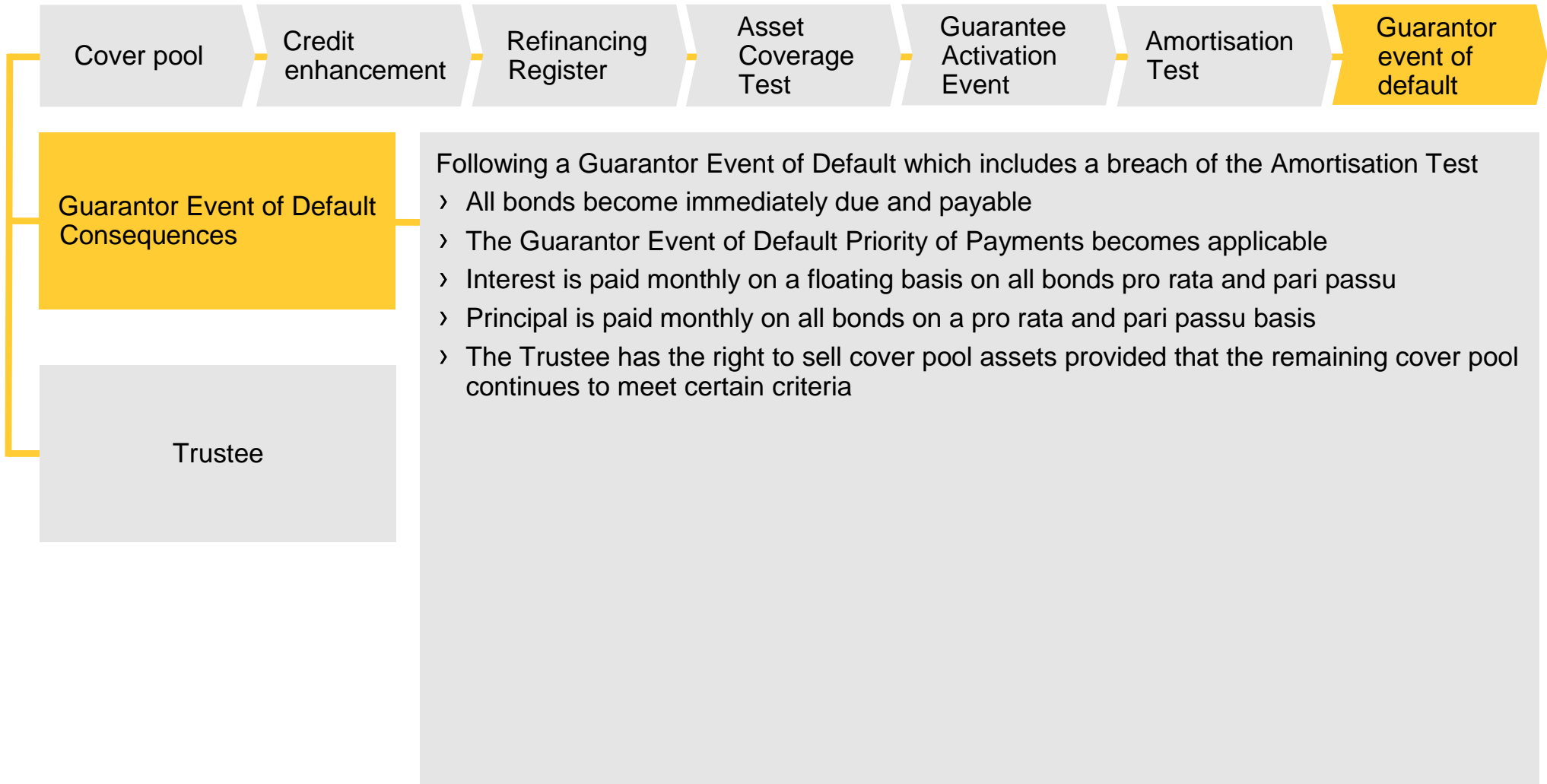
Source: Commerzbank; Programme base prospectus

# Key structural features



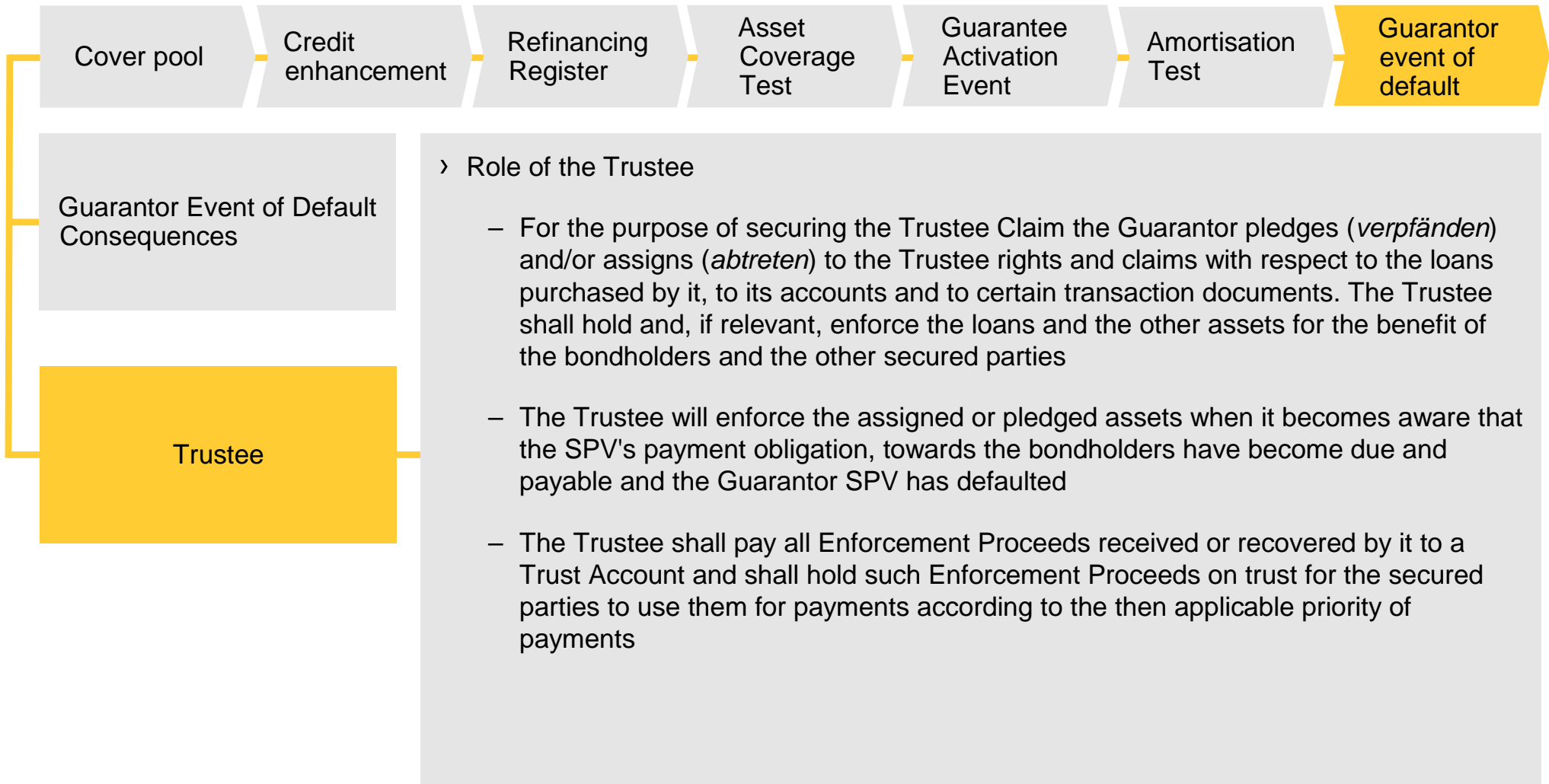
Source: Commerzbank; Programme base prospectus

# Key structural features



Source: Commerzbank; Programme base prospectus

# Key structural features



Source: Commerzbank; Programme base prospectus

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# Cover pool key statistics

Preliminary as of Oct 31, 2012

Aggregate principal balance (in Euro)	650,000,000
Number of debtor groups	486
Number of debtors	501
Number of loan receivables	571
Weighted average life (in years)	0.63
Average internal Commerzbank rating / Probability of default 1yr	Avg. Rating 3.0 / Avg PD 0.80%

# Cover pool break-down I

Preliminary as of Oct 31, 2012

Distribution by ...

	Fitch industry description	Number of purchased receivables	Aggregate outstanding principal amount in EUR	Percentage of aggregate principal balance
<b>Fitch industry sectors</b>	Industrial/manufacturing	86	96,722,393	14.9%
Moody's industry sectors	Retail (general)	68	70,373,814	10.8%
	Automobiles	55	58,829,643	9.1%
Commerzbank Internal Rating	Building & materials	50	57,462,098	8.8%
	Metals & mining	46	51,597,047	7.9%
Geography (Bundesländer)	Food, beverage & tobacco	43	51,017,236	7.8%
	Computers & electronics	31	37,889,106	5.8%
Size of turnover	Textiles & furniture	21	26,810,000	4.1%
	Chemicals	21	24,850,000	3.8%
Maturity of reference claims	Healthcare	19	19,788,670	3.0%
	Transportation	11	19,048,958	2.9%
Debtor group concentration (replenishment criteria)	Paper & forest products	14	18,203,695	2.8%
	Banking & finance	14	17,950,000	2.8%
	Pharmaceuticals	16	17,232,120	2.7%
	Business services	17	16,162,226	2.5%
	Broadcasting & media	13	14,430,772	2.2%
	Energy	10	13,946,464	2.1%
	Farming & agricultural services	12	12,096,600	1.9%
	Utilities	6	8,834,852	1.4%
	Environmental services	9	7,841,245	1.2%
	Gaming, leisure & entertainment	4	5,025,000	0.8%
	Consumer products	5	3,888,061	0.6%
	<b>Total</b>	<b>571</b>	<b>650,000,000</b>	<b>100.0%</b>

Source: Commerzbank - Mittelstandsbank

# Cover pool break-down II

Preliminary as of Oct 31, 2012

## Distribution by ...

Fitch industry sectors
<b>Moody's industry sectors</b>
Commerzbank Internal Rating
Geography (Bundesländer)
Size of turnover
Maturity of reference claims
Debtor group concentration (replenishment criteria)

Moody's industry description	Number of purchased receivables	Aggregate outstanding principal amount in EUR	Percentage of aggregate principal balance
Beverage, Food & Tobacco	75	85,351,278	13.1%
Capital Equipment	54	64,973,049	10.0%
Construction & Building	49	56,612,098	8.7%
Automotive	48	51,763,643	8.0%
Metals & Mining	46	51,597,047	7.9%
Chemicals, Plastics, & Rubber	43	49,723,422	7.6%
Consumer goods: Non-durable	47	48,440,493	7.5%
Services: Business	41	40,798,003	6.3%
Healthcare & Pharmaceuticals	27	27,830,109	4.3%
Retail	21	25,313,061	3.9%
Consumer goods: Durable	18	21,825,000	3.4%
High Tech Industries	16	19,050,000	2.9%
Transportation: Cargo	11	19,048,958	2.9%
Forest Products & Paper	14	18,203,695	2.8%
Containers, Packaging & Glass	11	12,709,202	2.0%
Energy: Oil & Gas	9	10,696,464	1.6%
Media: Advertising, Printing & Publishing	8	10,504,310	1.6%
Utilities: Water	6	8,834,852	1.4%
Environmental Industries	9	7,841,245	1.2%
FIRE: Finance	3	5,250,000	0.8%
Media: Diversified & Production	6	4,084,072	0.6%
Utilities: Oil & Gas	1	3,250,000	0.5%
Services: Consumer	3	2,700,000	0.4%
Hotel, Gaming & Leisure	3	2,400,000	0.4%
FIRE: Insurance	1	1,000,000	0.2%
Sovereign & Public Finance	1	200,000	0.0%
<b>Total</b>	<b>571</b>	<b>650,000,000</b>	<b>100.0%</b>

Source: Commerzbank - Mittelstandsbank

# Cover pool break-down III

Preliminary as of Oct 31, 2012

## Distribution by ...

Distribution by ...	Internal Rating Categories	PD Midpoint in %	Fitch mapped ratings	Moody's mapped ratings	Number of purchased receivables	Aggregate outstanding principal amount in EUR	Percentage of aggregate principal balance
Fitch industry sectors	1.0	0.00	AA- to A	Ba1	0	-	-
Moody's industry sectors	1.2	0.01	AA- to A	Ba1	0	-	-
Commerzbank Internal Rating	1.4	0.02	A+ to A-	Ba1	1	750,000	0.1%
	1.6	0.04	A to BBB+	Ba1	1	1,000,000	0.2%
Geography (Bundesländer)	1.8	0.07	A- to BBB	Ba1	11	13,180,000	2.0%
	2.0	0.11	BBB to BB+	Ba1	19	18,413,149	2.8%
	2.2	0.17	BBB- to BB	Ba1	28	37,374,377	5.7%
Size of turnover	2.4	0.26	BBB- to BB	Ba1	73	80,580,753	12.4%
	2.6	0.39	BB+ to BB-	Ba1	118	145,516,557	22.4%
	2.8	0.57	BB+ to BB-	Ba1	113	128,556,037	19.8%
Maturity of reference claims	3.0	0.81	BB to B+	Ba1	59	64,948,742	10.0%
	3.2	1.14	BB- to B	Ba1/Ba2	44	44,394,281	6.8%
	3.4	1.56	B+ to B-	Ba2	43	48,130,251	7.4%
Debtor group concentration (replenishment criteria)	3.6	2.10	B+ to B-	Ba2/Ba3	25	29,437,333	4.5%
	3.8	2.74	B to CCC+	Ba3	19	20,857,173	3.2%
	4.0	3.50	B to CCC+	B1	17	16,861,348	2.6%
	4.2	4.35	B- to CCC	B1	0	-	-
	4.4	5.42	B- to CCC	B2	0	-	-
	4.6	6.74	B- to CCC	B2	0	-	-
	4.8	8.39	B- to CCC	B2/B3	0	-	-
	5.0	10.43	CCC+ to CCC-	B3	0	-	-
	5.2	12.98	CCC+ to CCC-	B3/Caa1	0	-	-
	5.4	16.15	CCC to CC	Caa1	0	-	-
	5.6	20.09	CCC- to C	Caa1/Caa2	0	-	-
	5.8	47.34	C to D	Caa2	0	-	-
	6.1 - 6.5	100.00	D	D	0	-	-
<b>Total</b>					<b>571</b>	<b>650,000,000</b>	<b>100.0%</b>

Source: Commerzbank - Mittelstandsbank

# Cover pool break-down IV

Preliminary as of Oct 31, 2012

## Distribution by ...

	German Federal States	Number of purchased receivables	Aggregate outstanding principal amount in EUR	Percentage of aggregate principal balance
Fitch industry sectors	Baden-Wuerttemberg	84	102,363,020	15.7%
	Bayern	87	104,408,084	16.1%
	Berlin	12	9,990,693	1.5%
Moody's industry sectors	Brandenburg	5	3,949,821	0.6%
	Bremen	6	6,600,000	1.0%
	Hamburg	5	5,687,441	0.9%
Commerzbank Internal Rating	Hessen	57	64,261,608	9.9%
	Mecklenburg-Vorpommern	3	4,167,500	0.6%
	Niedersachsen	53	56,530,568	8.7%
Geography (Bundesländer)	Nordrhein-Westfalen	158	181,133,934	27.9%
	Rheinland-Pfalz	22	24,151,500	3.7%
	Saarland	0	-	0.0%
Size of turnover	Sachsen	29	37,093,254	5.7%
	Sachsen-Anhalt	12	10,505,963	1.6%
	Schleswig-Holstein	30	31,558,000	4.9%
Maturity of reference claims	Thuringen	8	7,598,613	1.2%
	Total	571	650,000,000	100.0%
	Debtor group concentration (replenishment criteria)			

Source: Commerzbank - Mittelstandsbank

# Cover pool break-down V

Preliminary as of Oct 31, 2012

## Distribution by ...

Fitch industry sectors
Moody's industry sectors
Commerzbank Internal Rating
Geography (Bundesländer)
Size of turnover
Maturity of reference claims
Debtor group concentration (replenishment criteria)

Purchased Receivables by Annual Turnover in EUR	Number of purchased receivables	Aggregate outstanding principal amount in EUR	Percentage of aggregate principal balance
up to 2.5 million	5	3,241,786	0.5%
2.5 - 50.0 million	209	214,444,360	33.0%
50.0 - 250.0 million	265	306,766,837	47.2%
250.0 - 500.0 million	43	58,511,145	9.0%
500.0 - 750.0 million	10	10,979,549	1.7%
more than 750.0 million	37	52,321,826	8.0%
n.a.	2	3,734,497	0.6%
<b>Total</b>	<b>571</b>	<b>650,000,000</b>	<b>100.0%</b>

Source: Commerzbank - Mittelstandsbank

# Cover pool break-down VI

Preliminary as of Oct 31, 2012

## Distribution by ...

	Purchased receivables by maturity (Weighted average life)	Number of purchased receivables	Aggregate outstanding principal amount in EUR	Percentage of aggregate principal balance
Fitch industry sectors	up to 3 months	374	434,391,931	66.8%
Moody's industry sectors	3 - 6 months	66	74,992,500	11.5%
	6 - 12 months	29	32,557,081	5.0%
Commerzbank Internal Rating	1 - 2 years	82	83,501,686	12.8%
	2 - 3 years	0	-	-
	3 - 4 years	0	-	-
Geography (Bundesländer)	4 - 5 years	0	-	-
	5 - 6 years	7	6,774,705	1.0%
	6 - 7 years	6	9,719,420	1.5%
Size of turnover	7 - 8 years	4	4,362,678	0.7%
	8 - 9 years	1	3,250,000	0.5%
	9 - 10 years	2	450,000	0.1%
<b>Maturity of reference claims</b>	<b>Total</b>	<b>571</b>	<b>650,000,000</b>	<b>100.0%</b>
Debtor group concentration (replenishment criteria)				

Source: Commerzbank - Mittelstandsbank

# Cover pool break-down VII

Preliminary as of Oct 31, 2012

## Distribution by ...

Fitch industry sectors
Moody's industry sectors
Commerzbank Internal Rating
Geography (Bundesländer)
Size of turnover
Maturity of reference claims
<b>Debtor group concentration (replenishment criteria)</b>

Debtor group by size range of principal balance in %	Number of debtor groups	Aggregate outstanding principal amount in EUR	Percentage of aggregate principal balance	Max percentage of aggregate principal balance
0.00 % to 0.25 %*	395	404,867,776	62.3%	100.0%
0.25 % to 0.35 %*	66	68,319,743	10.5%	70.0%
0.35 % to 0.45 %*	52	87,539,803	13.5%	35.0%
0.45 % to 0.50 %*	58	89,272,678	13.7%	25.0%
<b>Total</b>	<b>571</b>	<b>650,000,000</b>	<b>100.0%</b>	

\* % of Replenishment Cap (= EUR 650.000.000) (upper limit included)

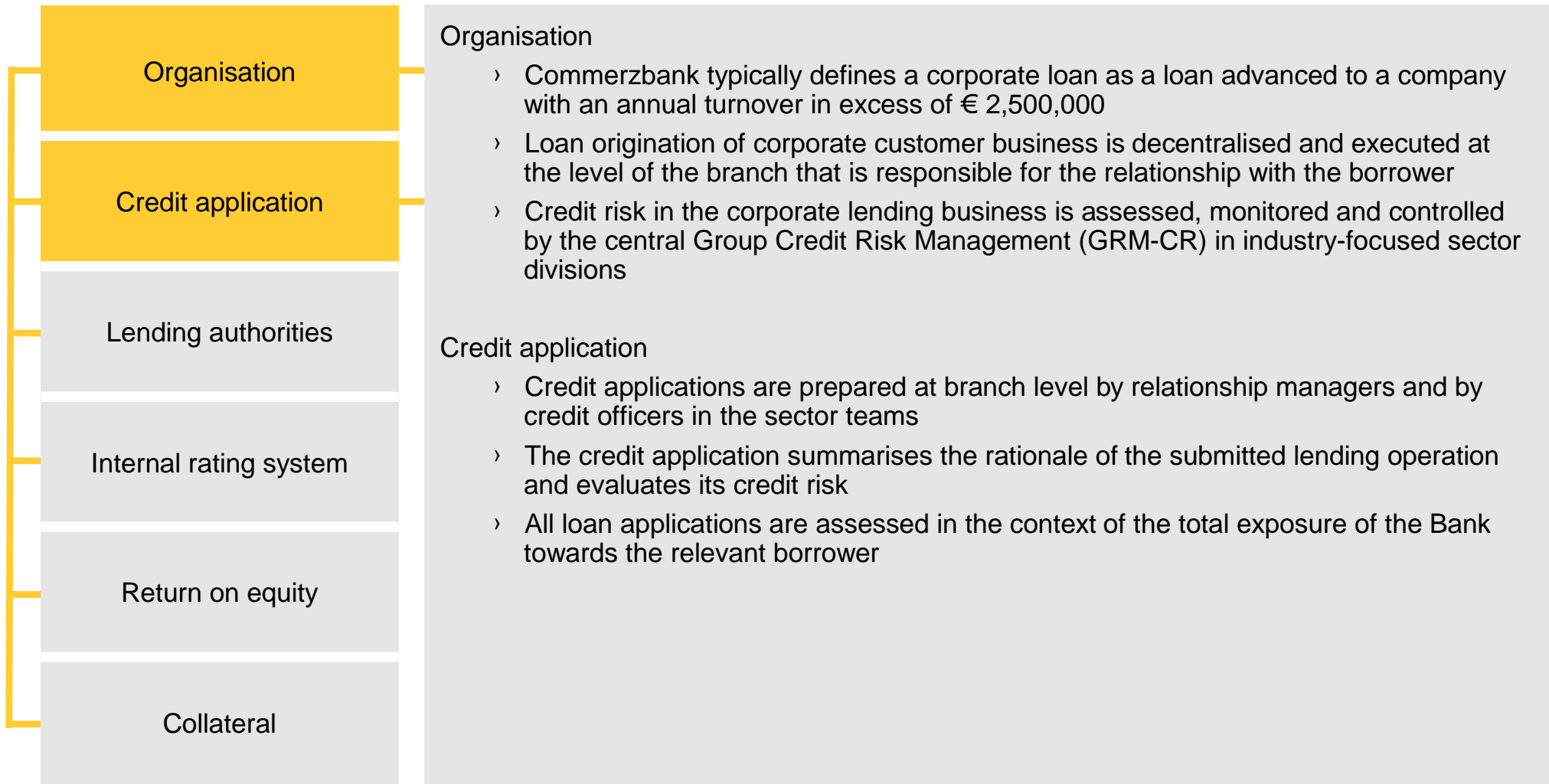
Maximum Single Debtor Group Concentration = 0.5%



# Agenda

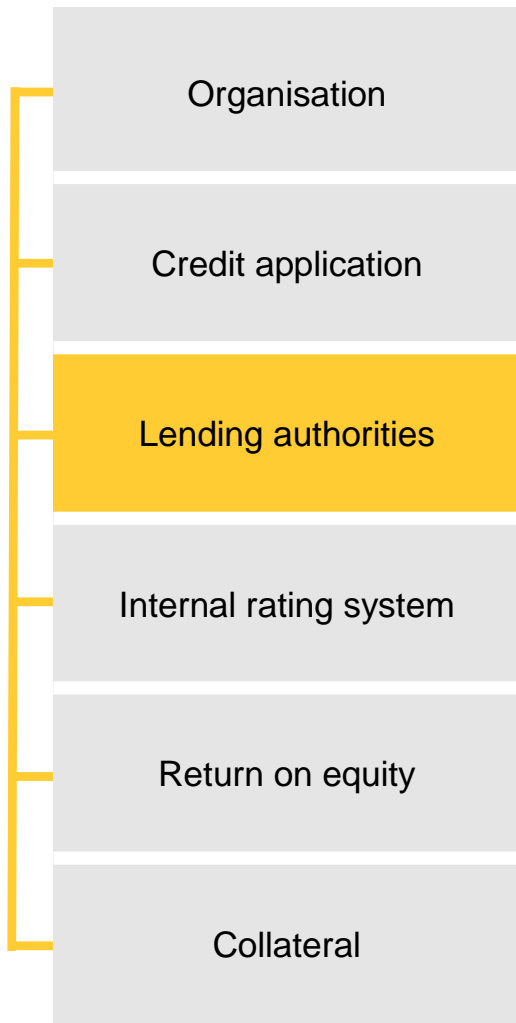
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# Credit process



Source: Commerzbank - Mittelstandsbank

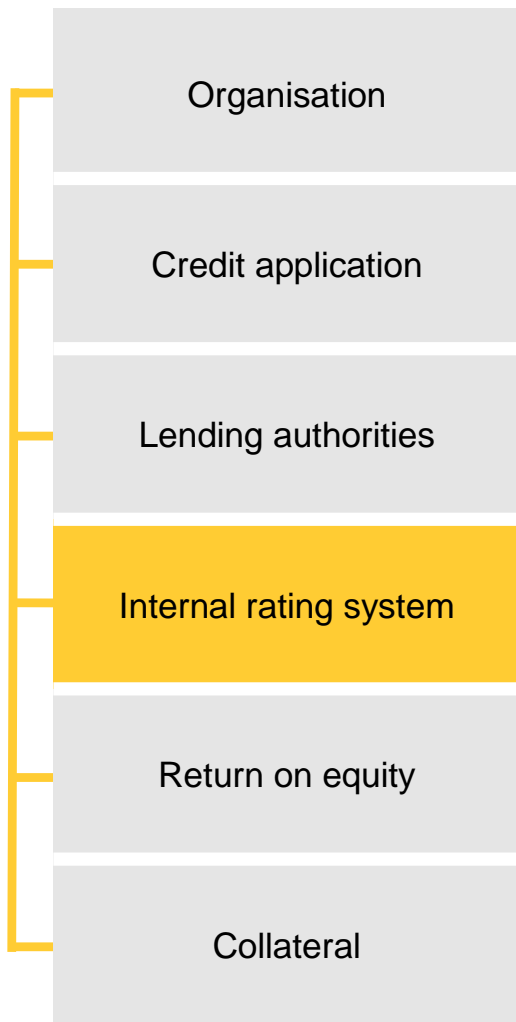
# Credit process



Depending on the borrower's exposure size, its internal PD-Rating and further credit risk parameters, the lending authorities are composed of:

- › A relationship manager (front office) and a credit officer (back office)
- › A segment credit committee (SKK) involving the segment CRO and two divisional managers (risk members) as well as two members of the segment board (market members)
- › Commerzbank's group credit committee (KK) including the group CRO (chairman) and one head of a corporate center (GRM-CC, GRM-MR, GRM-IC or GRM-CR) as members of the "Marktfolge" division and in a semi-annual rotating scheme the segment-CEO of Corporates & Markets, the Segment-CEO of Mittelstandsbank, the segment-CEO of Commercial Real Estate and an additional segment board member of the "Markt" division
- › In special circumstances, the supervisory board of the Bank reviews credit decisions

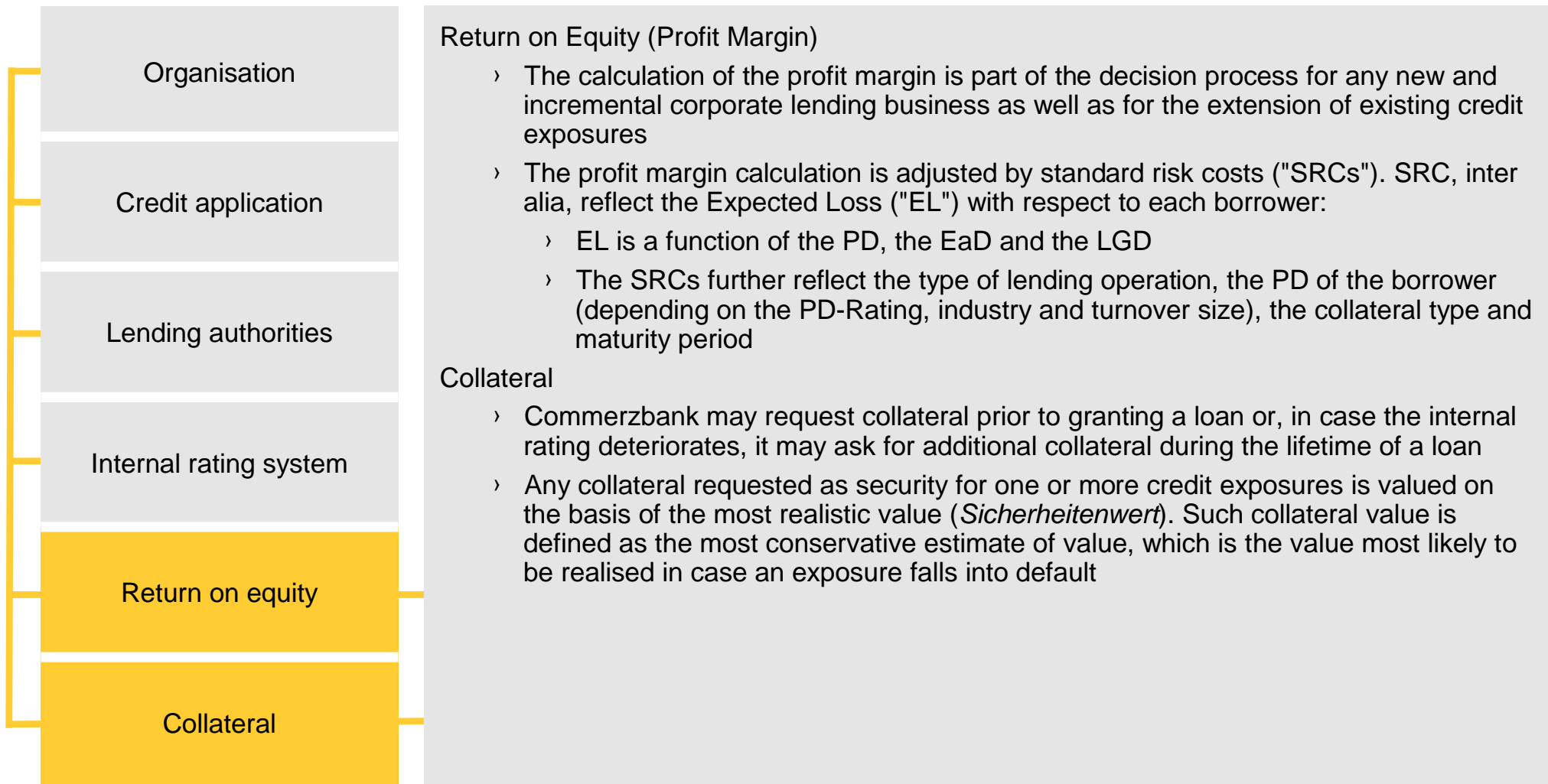
# Credit process



## The internal rating system R-Corp

- › Commerzbank has developed a fully integrated internal rating system (R-Corp) for medium-sized businesses, multi-nationals and large companies
- › This internal rating system generates two separate ratings for each borrower: a PD-Rating and a Credit Rating. Both ratings range on a scale from 1.0 to 5.8
- › The "PD-Rating" is an assessment of the Probability of Default ("PD") of each borrower
- › The "Credit Rating" or EL-Rating ("Expected Loss Rating") incorporates an assessment of loss severity based on an analysis of:
  - › Loss given Default ("LGD"): based on the credit imputation factor, the value of collateral and the capital recovery factor
  - › Exposure at Default ("EaD"): based on utilisation and unutilised limits

# Credit process



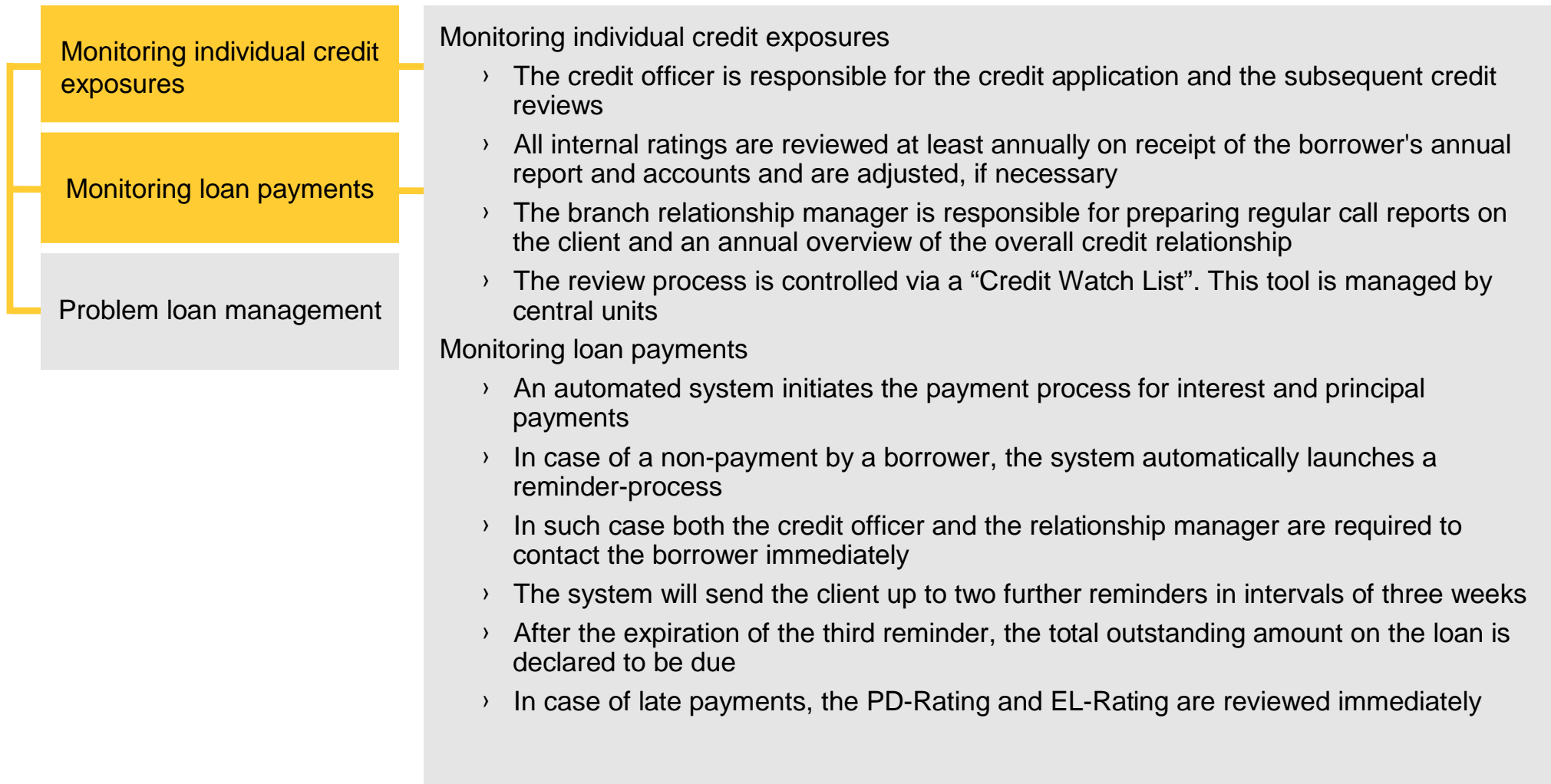
## Return on Equity (Profit Margin)

- › The calculation of the profit margin is part of the decision process for any new and incremental corporate lending business as well as for the extension of existing credit exposures
- › The profit margin calculation is adjusted by standard risk costs ("SRCs"). SRC, inter alia, reflect the Expected Loss ("EL") with respect to each borrower:
  - › EL is a function of the PD, the EaD and the LGD
  - › The SRCs further reflect the type of lending operation, the PD of the borrower (depending on the PD-Rating, industry and turnover size), the collateral type and maturity period

## Collateral

- › Commerzbank may request collateral prior to granting a loan or, in case the internal rating deteriorates, it may ask for additional collateral during the lifetime of a loan
- › Any collateral requested as security for one or more credit exposures is valued on the basis of the most realistic value (*Sicherheitenwert*). Such collateral value is defined as the most conservative estimate of value, which is the value most likely to be realised in case an exposure falls into default

# Monitoring and problem loan procedures



# Monitoring and problem loan procedures

Monitoring individual credit exposures

Monitoring loan payments

Problem loan management

The Bank classifies “impaired” loans into three classes

- › Class 1: Intensive Care (IC) loans with an internal credit rating of the borrower of 4.0 to 5.8
  - › Exposures have to be presented to IC when the borrower has a PD-Rating  $\geq 4.0$ , in case of a significant rating drift (more than 3 notches within 14 months, resulting in a new PD rating of  $\geq 3.0$ ) or in case of third-party debt enforcement measures
  - › The IC process is carried out in several local units. The IC-units assume exclusive responsibility from the branches for exposures that were transferred to IC. Exposures exceeding € 30 million are usually the responsibility of a centrally organized unit in IC
  - › To recover the loans, the steps taken by the IC teams (sometimes with the support of external advisors) include all kinds of credit enhancements (such as additional collateral, repayment, setting up of collateral, credit pools, etc.), enforcement measures, seizure, distressed sale of collateral and application to initiate insolvency proceedings
- › Classes 2 and 3: Loans for which provisions are to be made
  - › Problem loans (Restructuring) with an internal credit rating of 6.1 to 6.3
  - › Problem loans (Workout) with an internal credit rating of 6.4 and 6.5; these accounts are considered unlikely to repay the loans in whole or in part

# R-Corp: Commerzbank's internal rating system for rating corporates

- › Rating methods form an integral part of Commerzbank's risk management and are thus a core competence and forward-looking competitive factor
- › Since January 2010 the same rating systems are applied to Commerzbank and former Dresdner Bank customers (except for retail clients)
- › All rating systems are validated at least on a yearly basis:

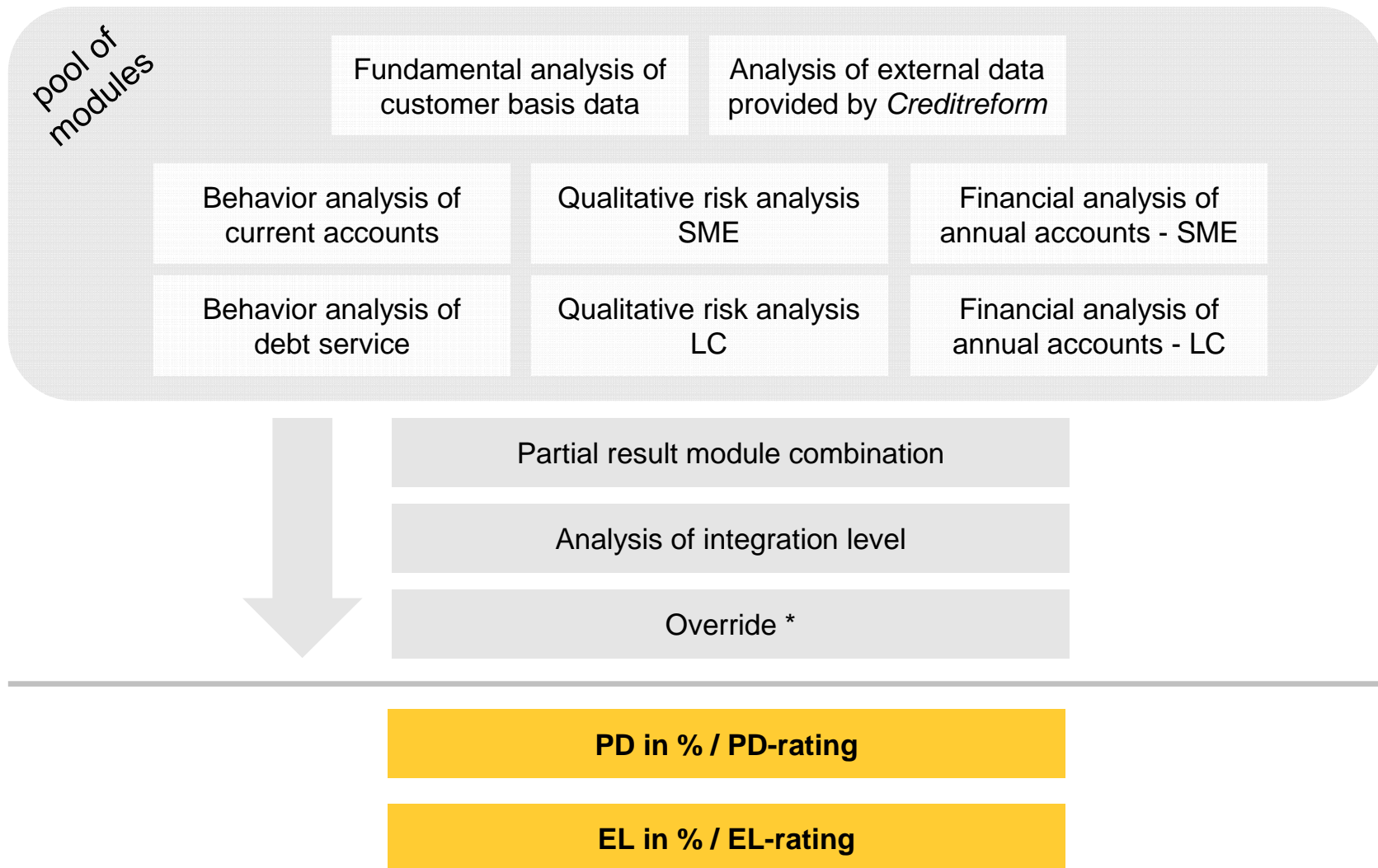
Retail	Retail customers Commerzbank Retail customers Dresdner Bank
Corporates	Rating corporates
Cash Flow	Specialized Finance (LBO, Project, ...) Commercial Real Estate (CRE) Shipping
Financial Institutions	Banks NBFI (Insurance, Broker, Fund, ...)
Public Finance	Sovereigns Municipalities



- › **Rating Corporates (R-Corp)** is the rating method applied to corporate borrowers including SME
- › R-Corp is certified for the advanced IRB (AIRB) approach



# R-Corp: a flexible combination of modules



Source: Commerzbank - Mittelstandsbank \* except "basis process"

# Commerzbank's internal rating system: Master Scale

Commerzbank Internal Rating	PD and EL midpoint (as %)	PD and EL range (as %)
1.0	0.00	0.00 - 0.00
1.2	0.01	0.00 - 0.02
1.4	0.02	0.02 - 0.03
1.6	0.04	0.03 - 0.05
1.8	0.07	0.05 - 0.08
2.0	0.11	0.08 - 0.13
2.2	0.17	0.13 - 0.21
2.4	0.26	0.21 - 0.31
2.6	0.39	0.31 - 0.47
2.8	0.57	0.47 - 0.68
3.0	0.81	0.68 - 0.96
3.2	1.14	0.96 - 1.34
3.4	1.56	1.34 - 1.81
3.6	2.10	1.81 - 2.41
3.8	2.74	2.41 - 3.10
4.0	3.50	3.10 - 3.90
4.2	4.35	3.90 - 4.86
4.4	5.42	4.86 - 6.04
4.6	6.74	6.04 - 7.52
4.8	8.39	7.52 - 9.35
5.0	10.43	9.35 - 11.64
5.2	12.98	11.64 - 14.48
5.4	16.15	14.48 - 18.01
5.6	20.09	18.01 - 22.41
5.8	47.34	22.41 - 99.99
6.1	100	> 90 days past due
6.2	100	Imminent Insolvency
6.3	100	Restructuring with Recapitalization Partial Waiving of Claims
6.4	100	Cancellation without Insolvency
6.5	100	Insolvency

Source: Commerzbank - Mittelstandsbank

## R-Corp: Mapping tables

### Mapped ratings used by Fitch and Moody's to assess required over-collateralisation

Commerzbank Internal Rating	Fitch	Moody's
1.0	AA- to A	Ba1
1.2	AA- to A	Ba1
1.4	A+ to A-	Ba1
1.6	A to BBB+	Ba1
1.8	A- to BBB	Ba1
2.0	BBB to BB+	Ba1
2.2	BBB- to BB	Ba1
2.4	BBB- to BB	Ba1
2.6	BB+ to BB-	Ba1
2.8	BB+ to BB-	Ba1
3.0	BB to B+	Ba1
3.2	BB- to B	Ba1 / Ba2
3.4	B+ to B-	Ba2
3.6	B+ to B-	Ba2 / Ba3
3.8	B to CCC+	Ba3
4.0	B to CCC+	B1
4.2	B- to CCC	B1
4.4	B- to CCC	B2
4.6	B- to CCC	B2
4.8	B- to CCC	B2 / B3
5.0	CCC+ to CCC-	B3
5.2	CCC+ to CCC-	B3 / Caa1
5.4	CCC to CC	Caa1
5.6	CCC- to C	Caa1 / Caa2
5.8	C to D	Caa2
6.1	D	D
6.2	D	D
6.3	D	D
6.4	D	D
6.5	D	D

- › As of Oct 31, 2012
- › Mapping tables may be reviewed by Fitch and/or Moody's

# Agenda

1	Executive Summary
2	Commerzbank Credit
3	The German Mittelstand's Role and Commerzbank's Franchise
4	The SME Structured Covered Bond
5	The Cover Pool
6	Credit Process, Monitoring of SME Loans and Commerzbank's Internal Rating Methodology
7	Appendix

# Frequently asked questions

## Structure

Does the bondholder have recourse to Commerzbank?	Yes, direct recourse
Who owns the cover assets?	The insolvency remote Guarantor SPV (SME Commerz SCB GmbH)
Is the issuer also the originator of the assets?	Yes, all loans in the cover pool are originated by Commerzbank and its affiliates (including by way of acquisition by a third party) and serviced by Commerzbank

## Legal Framework

Are the bonds governed by a special covered bond framework?	No. The security structure (the guarantee) is based on contractual arrangements which include the use of the Refinancing Register
What's the legal framework for insolvency of the issuer of the bonds?	General German insolvency law including banking specific rules

# Frequently asked questions

## Legal Framework (cont'd)

What is the legal framework providing the Guarantor and ultimately the SCB holders with security over the cover pool?

The loans in the cover pool are segregated from the insolvency of Commerzbank by a sale to the Guarantor SPV, who is registered as the beneficiary (*Übertragungsberechtigter*) of the loans under the German Refinancing Register legislation

The provisions of the Act, which in our view are applicable, are laid down in sections 22a to 22o KWG and in section 1 (24) to (26) KWG. The main provision for the “insolvency-proof” position is section 22j KWG. Accordingly, the beneficiary (*Übertragungsberechtigter* i.e. the SPV) with a claim for the transfer of legal title of assets and related mortgages of the refinancing enterprise (*Refinanzierungsunternehmen* i.e. Commerzbank) which are duly registered in the refinancing register has in the insolvency of such refinancing enterprise a claim for segregation pursuant to section 47 of the Insolvency Code („*Insolvenzordnung – InsO*“)

## Cover assets

What type of assets other than eligible substitute assets are included in the cover pool?

- › In general, senior loans to German SME companies with a turnover per Borrower Group ranging from EUR 2.5 – 750.0m
- › Loan agreements are governed by German law only
- › Borrower has its headquarter- or a branch office in Germany
- › Loan denominations in EUR only
- › Fixed or floating rate interest payments
- › Amortising, bullet or annuity loans
- › Unsubordinated, irrevocable, binding and enforceable obligation of the relevant debtor

# Frequently asked questions

## Cover assets (cont'd)

How long is the average life of the cover pool loans?

As of 31 October 2012 the average life of the provisional cover pool provided is 0.63 years. A large percentage of loans in the cover pool have an original maturity of less than 1 year

What is the geographical scope of the cover pool loans?

Loans in the cover pool may be originated in Germany only under Commerzbank's standard credit and collection policies

What will be the reporting requirements?

An investor report relating to the composition and performance of the cover pool, the Asset Coverage Test (ACT) and the Amortisation Test (AT) will be provided on quarterly

Are there credit criteria for inclusion in the Cover Pool?

Repaid or repurchased loans must be replenished monthly by loans from borrowers with a Commerzbank Rating between 1.0 and 4.0 inclusive

Loans from borrowers with a Commerzbank Rating of greater than 4.0 must be purchased back by Commerzbank on a monthly basis and replaced by a new loan from a borrower with a Commerzbank Rating between 1.0 and 4.0 inclusive

As an Advanced-IRB bank all borrowers and the loans are scored using the Commerzbank Internal Rating Methodology, which for performing loans ranges from 1.0 to 5.8 (1.0 is best)

Loans that are in default, expected to go into default, or have not been re-rated in the last 12 months are rated 6.1 or higher. The methodology is statistically based and is tested, calibrated and adjusted on a regular basis. Borrowers are re-rated at least annually

# Frequently asked questions

## Cover assets (cont'd)

<p>Is there a third party looking to the Commerzbank SME internal rating process?</p>	<p>As an Advanced-IRB bank the internal rating process and model is subject to ongoing regulatory oversight</p>
<p>Is there a mandatory over-collateralisation requirement?</p>	<p>There is an over-collateralisation requirement of at least 11% (or the equivalent of an Asset Percentage of 90%) on the cover pool relative to the amount of the outstanding bonds. Typically, rating agency requirements are higher than that (over-collateralisation initially around 20%)</p>
<p>Is there any grace period in case of a breach of the cover test?</p>	<p>The issuer will have 30 days to rectify any breach of the Asset Coverage Test</p>
<p>What is the consequence of not fixing a breach in the cover test?</p>	<p>If the cover test is breached and not rectified within a 30 day period the cover pool will be fixed and cash proceeds from the amortisation of the cover pool will be re-invested in qualifying liquid instruments (substitute assets). Commerzbank continues to be responsible for payments of principal and interest under the bonds. No further bonds can be issued under the programme until the breach is rectified</p>



# Frequently asked questions

## Monitoring and supervision

Is there third party supervision over the cover pool and the Refinancing Register?

The administration of the register is supervised by an administrator (*Refinanzierungsregisterverwalter*) who is appointed by the German bank regulator. The administrator is neither in charge of checking the accuracy of the registered assets belonging to the refinancing enterprise nor whether they are at all eligible for registration

## Segregation of assets and insolvency remoteness

Do the bonds automatically accelerate if Commerzbank goes insolvent?

No, the bonds will not accelerate unless there has been a Guarantor Event of Default

How are the bondholders protected against claims from other creditors in case of the insolvency of Commerzbank?

Preferential claim by law under the Refinancing Register legislation as well as legal sale of the loans to an insolvency remote SPV. The satisfaction of the bondholder is not limited to the cover pool assets. Creditors may also participate in the insolvency proceedings of Commerzbank

Can the cover pool assets be sold in the case of the insolvency of Commerzbank?

Only if the sale meets certain requirements to cover the obligations of the Guarantor SPV to all bondholders

# Frequently asked questions

## Segregation of assets and insolvency remoteness (cont'd)

<p>Is there recourse to Commerzbank's insolvency estate upon a cover pool default?</p>	<p>Yes, pari passu with unsecured creditors of Commerzbank</p>
<p>Are derivatives included in the cover pool?</p>	<p>No derivatives are included</p>

## Other questions

<p>Which trading desk will trade the bonds?</p>	<p>Banks have indicated that they will trade this instrument from their Financial Institutions / Covered Bond desk</p>
<p>How many rating agencies will provide a rating?</p>	<p>Initially the bonds will be rated Aa2 by Moody's and AA by Fitch using their Covered Bond ratings approach</p>
<p>Are all the bonds treated pari passu in the event of a default of Commerzbank?</p>	<p>In the event of a default of Commerzbank the outstanding bonds will be repaid in order of priority determined by their Scheduled Maturity Date unless all bonds that have passed their targeted maturity date or a Guarantor Event of Default has occurred in which case all outstanding bonds will be repaid pari passu</p>

# Frequently asked questions

## Other questions (cont'd)

How will regulators treat this product?

Banking: It is our view that this transaction may be treated as a secured bank bond (however not governed by a specific covered bond legislation). As such, it probably will not be an eligible instrument for the Liquidity Buffer under the proposed Basel III Liquidity Coverage Ratio.

It is our view that the bonds will be viewed as ECB-eligible instruments under category IV for ECB

Insurance: Is not expected to be assigned the lower solvency charge associated with Covered bonds

Will the programme be included in any of the recognised indices?

Inclusion in the major indices is determined by the managers of those indices and for new programmes this is usually determined after the issuance of the first bonds