

Remuneration report 2010

According to the German InstitutsVergV

Group Human Resources

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New requirements for remuneration systems of financial institutions

In 2010, the banking sector was characterised by dynamic change in the requirements for remuneration systems. At European level, binding rules were published such as the Capital Requirements Directive III (CRD III) and the Guidelines on Remuneration Policies and Practices of the Committee of European Banking Supervisors (CEBS Guidelines). In Germany, the German InstitutsVergV (Remuneration Regulation for Institutions) came into effect on 13 October 2010 as the last stage in the Federal Government's three-stage package of measures to implement the FSB Principles and Standards and the remuneration-related rules in CRD III as quickly as possible. Further rules relating to remuneration are contained in the Regulatory Requirements for the Remuneration Systems of Institutions and Insurance Companies Act (VergAnfG) of 21 July 2010 and the Restructuring Act (RStruktG) passed in December 2010.

Commerzbank has already introduced new remuneration models for non-pay scale employees for the financial year 2010 which meet the requirements of circular 22/2009 of the Federal Financial Supervisory Authority (BaFin). All models include long-term variable components which encourage appropriate handling of risks, sustainability and transparency. They are aimed at Commerzbank's long-term success and geared to individual employee performance.

In designing its remuneration models, Commerzbank always sticks to the principle of remuneration in accordance with the market, which applied within the whole bank. Total remuneration includes:

- base salaries in line with the market,
- results and performance-oriented variable remuneration,
- attractive fringe benefits (e.g. company car), and
- employee benefits (e.g. pension schemes).

The aim of market and performance oriented remuneration reflecting the bank's performance and success is to serve the interests of Commerzbank, its employees and shareholders equally, and to ensure the sustainable and positive development of Commerzbank.

Commerzbank's remuneration system for financial year 2010

In the financial year 2010, Commerzbank developed and introduced a new remuneration system with the support of external consultants. The core of the new remuneration system consists of three remuneration models tailored to different groups of employees.

- **Management model:** for the bank's first and second management levels,
- **Investment Banking model (IB model):** for non pay-scale employees of the segment Corporates & Markets and Group Treasury, and the
- **NPS model:** for all other non-pay scale employees.

The bank ensures results and performance-oriented remuneration at all levels with these models. In addition, the bank took the opportunity to harmonise structures in the context of the Dresdner Bank integration and create a forward-looking solution for Commerzbank.

This provides Commerzbank with an innovative remuneration system which sends a signal to the market by its alignment with both the sustainable success of Commerzbank and the individual performance of its employees. All remuneration models ensure an appropriate relationship between fixed and variable remuneration, with one or more sustainability components.

Commerzbank 2010 remuneration models

Management model

The management model applies to the first and second Commerzbank management levels (excluding Corporates & Markets and Group Treasury) and to individual employees with project management responsibility. For these groups of employees, variable remuneration consists of 60 percent individual and 40 percent group components. The two components are offset against each other in line with their weighting, so that a negative group performance can reduce the individual performance component (malus).

Deferral¹ (with threshold): if variable remuneration exceeds €50,000, half of the amount in excess of €50,000 is converted into Commerzbank Share Awards² and paid out after three years.

¹ Deferral: retained part of variable remuneration.

² Commerzbank Share Awards: virtual shares which reflect the change in the Commerzbank share price (plus dividends) and are paid out after a deferral period.

IB model

The IB model applies to all management and non pay-scale employees in the segment Corporates & Markets and Group Treasury. It contains not one but two sustainability components in view of the proximity to the capital market and high level of responsibility of this group of employees for results.

Bonus bank: one third of the total budget for variable remuneration is initially deposited in a so-called bonus bank. From the year after the introduction of the bonus bank, half of the bonus bank credit is paid out annually under the remuneration process as variable remuneration based on individual performance. If the budget for variable remuneration in the segment is negative in a given financial year based on group and segment performance, and is smaller than the existing bonus bank balance, this negative amount is deducted directly from the previous year's balance, and half of the remaining amount is paid out. If the budget for variable remuneration in the segment is negative in a given financial year based on group and segment performance, and is greater than the existing bonus bank balance, the balance is set to zero, so that no variable remuneration is paid out from the bonus bank for the relevant financial year. However, the bonus bank itself cannot go negative. This sustainability component is intended to promote joint responsibility for results of the individual employees and help avoid individual adverse incentives in Investment Banking.

Deferral (with threshold): two thirds of the budget for variable remuneration is distributed at employee level in accordance with individual performance. If the variable remuneration exceeds €50,000, half of the amount in excess of €50,000 is converted into Commerzbank Share Awards and paid out after three years.

NPS model

The NPS model applies to all other Commerzbank non pay-scale employees, including the third and fourth management levels (excluding Corporates & Markets and Group Treasury). In this model again, the amount of the variable remuneration depends on both individual and group performance. It consists of an individual performance-oriented remuneration component and a group component. The amount to be distributed as a group component depends on the total amount of individual performance-oriented remuneration paid out and is discretionary.

Deferral (with threshold): if an employee's variable remuneration exceeds €100,000, half of the amount in excess of €100,000 is converted into Commerzbank Share Awards and paid out after three years.

Pay-scale remuneration³

Commerzbank pay-scale employees can receive a profit sharing component as variable remuneration. The amount will depend on the return on equity (RoE) of the whole bank. No variable remuneration was paid in the form of profit-sharing for 2010 because the minimum RoE performance hurdle was not achieved. Instead, pay-scale employees received a recognition award of €650 each.

³ In addition to fixed remuneration under the collective agreement for the banking industry, pay-scale employees receive a profit sharing component governed by a works council agreement.

Remuneration of the Board of Managing Directors

The members of the Board of Managing Directors are covered by a separate remuneration model. Details of this model and related information on remuneration were published in the 2010 Annual Report (p. 51ff.).

Adjustments to the contracts of members of the Board of Managing Directors required according to the German InstitutsVergV will be made in the 2011 financial year.

Compensation governance at Commerzbank 2010

Commerzbank set up two remuneration committees in the course of revising the remuneration model in 2010, namely the Executive Compensation Committee (ECC) and the Compensation Committee (CC). These two committees review the group-wide remuneration policy for conformity with current regulatory requirements, decide on the amount and distribution of variable remuneration components, and advise on decisions in individual cases. The ECC deals with issues concerning all employee groups including the first management level, whereas the CC is formally subordinate to the ECC and acts primarily as an advisory body for employee groups other than the first management level. The aim of both committees is to reduce risks in remuneration decisions while maintaining a balance between shareholder interests and corporate policy.

The ECC consists of the Board of Managing Directors and the Divisional Board Member for Group Human resources. The CC is composed of the Board Member for Group Human Resources, the Chief Financial Officer, Chief Risk Officer, and the Divisional Board members for Group Human Resources, Group Compliance, Group Support, Corporates & Markets, Group Corporate Finance and Group Audit, and the Chief Executive Officer of Eurohypo AG.

The remuneration committees have proved their worth as institutions for implementing and reviewing the group-wide remuneration policy, and will continue their work in future. However, their structure and tasks have been modified in response to new regulatory rules.

Adjustments of Commerzbank's remuneration models according to the German InstitutsVergV in 2011

The German InstitutsVergV came into effect in Germany on 13 October 2010. Its rules on variable remuneration go beyond those in the BaFin circular 22/2009, requiring conceptual and material modifications to the remuneration system introduced at Commerzbank in 2010. The main purposes of the rules are:

- risk alignment of variable remuneration,
- establishing special payment conditions for variable remuneration of employees who have a material influence on the bank's overall risk profile (risk takers),
- establishing effective control functions (compensation governance), and
- documenting and publishing remuneration information (disclosure).

Commerzbank's remuneration models have been adjusted to changes in statutory regulations with the support of external consultants although the basic structure of the remuneration system remains unchanged. They shall apply for the first time for the 2011 financial year, i.e. they shall form the basis for the variable remuneration for the 2011 financial year (payment in 2012).

Definition of risk takers

In the remuneration models adjusted to regulations of the German InstitutsVergV, employees who have a material influence on Commerzbank's overall risk profile will be identified every year at the start of the remuneration process. These so-called risk takers will be identified by their position in the hierarchy (Executive Board, first management level or chair of important committees) and by their function's potential influence on the bank's overall risk profile. The first identification of risk-taker status according to the German InstitutsVergV led to 257⁴ risk takers in the Commerzbank Group. Due to their particular importance for the bank's overall result special regulations apply to these employees in terms of measuring their performance and determining their variable remuneration.

⁴ Status: 30 April 2011; excluding the Board of Managing Directors of Commerzbank AG (see Annual Report 2010, p. 55ff.).

Modification of the compensation governance structure

Commerzbank has modified the compensation governance structure introduced in 2010 (Compensation Committee and Executive Compensation Committee) to meet the new requirements of the German InstitutsVergV. This included the dissolution of the ECC and creation of a new committee, the Performance Evaluation Committee (PEC). In addition, changes were made to the composition and responsibilities of the Compensation Committee.

Compensation Committee (CC)

The Compensation Committee is constituted under rules of procedures approved by the Board of Managing Directors. The rules of procedures list all the responsibilities and rules to be followed, and specifically describes the goals of the CC, its responsibilities and composition, quorum and frequency of meetings.

The CC will evaluate the appropriateness of the Commerzbank Group's remuneration systems and will review them for further development, application and suitability for promoting the achievement of Commerzbank's strategic goals on a sustainable basis.

The Compensation Committee consists of a chair (Divisional Board member for Group Human Resources) and ten other members. The permanent members are from various organisational units (e.g. Group Finance, Group Legal, Group Risk Management, market and trading units). The associated control functions (Group Audit) act as non-voting advisors. Further internal managers or external experts can be invited as guests (non-voting), as required.

The CC is headed by a chair, who represents the committee in dealing with the Supervisory Board and the Board of Managing Directors. Committee members follow the principles of collegiality, notifying each other of any important events and measures relating to the purpose of the CC.

The CC advises the Board of Managing Directors and makes recommendations on the introduction, modification or termination of programmes for remuneration and benefits. It reviews the remuneration systems for necessary further development, appropriate application and relevance for sustainability and long-term corporate strategy.

As part of its responsibilities, the CC analyses and evaluates possible future influences on the remuneration systems. The Compensation Committee makes a report to the Board of Managing Directors and the Supervisory Board at least once a year.

Performance Evaluation Committee (PEC)

While the Compensation Committee monitors the appropriateness of the Commerzbank Group's remuneration systems in general, the PEC prepares specific proposals for decision by the Board of Managing Directors and reviews the consistency of goal achievement and variable remuneration.

The Performance Evaluation Committee consists of a chair (Board Member for Group Human Resources) and the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer and the Divisional Board member for Group Human Resources.

It evaluates and reviews material aspects of remuneration and benefits of general or special interest. The PEC makes recommendations on the transfer of funds to provisioning and prepares decisions for the Board of Managing Directors.

Remuneration information for 2010 according to the German InstitutsVergV

The Commerzbank Group is subject to disclosure obligations according to Sections 7 and 8 of the German InstitutsVergV. The information on risk takers in table 2 accordingly also includes remuneration information on Managing Directors who constitute “significant institutions” under Section 1 of the German InstitutsVergV within the Commerzbank Group⁵.

Remuneration information for 2010 according to Section 7 of the German InstitutsVergV: All employees

Table 1

Business segments €m	Private Customers	Mittel- standsbank	Central & Eastern Europe	Corporates & Markets	Asset Based Finance	Portfolio Restruc- turing Unit	Others and Con- solidation	Group total
	Amount/ Number	Amount/ Number	Amount/ Number	Amount/ Number	Amount/ Number	Amount/ Number	Amount/ Number	Amount/ Number
Total remuneration	1,356.00	474.00	235.00	485.00	190.00	17.00	1,661.00	4,418.00
Number of beneficiaries	18,963	5,157	9,487	1,790	1,820	45	17,926	55,188
thereof:								
Fixed remuneration	1,319.00	429.00	197.00	318.00	170.00	9.00	1,539.00	3,981.00
Variable remuneration	37.00	45.00	38.00	167.00	20.00	8.00	122.00	437.00

Amounts in €m (rounded); number of employees in absolute figures (headcount).

⁵ Status: 30 April 2011; excluding the Board of Managing Directors of Commerzbank AG (see Annual Report 2010, p. 55ff.).

Remuneration information for 2010 according to Section 8 of the German InstitutsVergV: Risk takers⁶

Table 2

Business segments €m	Private Customers	Mittel- standsbank	Central & Eastern Europe	Corporates & Markets	Asset Based Finance	PRU ¹ , Others and Con- solidation	Managing Directors ²	Group total
	Amount/ Number	Amount/ Number	Amount/ Number	Amount/ Number	Amount/ Number	Amount/ Number	Amount/ Number	Amount/ Number
Total remuneration	12.94	15.96	8.84	37.45	7.04	38.88	3.94	125.05
Number of beneficiaries	38	42	14	51	19	86	7	257
thereof:								
Fixed remuneration	7.11	8.14	3.71	15.22	3.55	17.71	1.74	57.18
Variable remuneration	5.83	7.82	5.14	22.23	3.49	21.17	2.21	67.88
thereof:								
Cash remuneration	3.11	3.89	2.59	11.07	1.85	10.39	1.11	34.02
Retained remuneration	2.71	3.93	2.54	11.15	1.64	10.79	1.09	33.86
thereof:								
Compensation being reduced by use of Malus-/Clawback-Rules	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Compensation depending on the institutes sustainable performance (e.g. Share price)	1.26	1.73	2.19	7.62	0.91	5.61	0.52	19.85
Guaranteed variable remuneration awarded in the context of hiring new employees								
Total Amount	k.A. ¹	k.A. ¹	k.A. ¹	k.A. ¹	k.A. ¹	k.A. ¹	k.A. ¹	1.09
Number of beneficiaries	k.A. ¹	k.A. ¹	k.A. ¹	k.A. ¹	k.A. ¹	k.A. ¹	k.A. ¹	3
Contract-based severance payments awarded in the context of termination of employment								
Total Amount	k.A. ¹	k.A. ¹	k.A. ¹	k.A. ¹	k.A. ¹	k.A. ¹	k.A. ¹	3.21
Number of beneficiaries	k.A. ¹	k.A. ¹	k.A. ¹	k.A. ¹	k.A. ¹	k.A. ¹	k.A. ¹	5
thereof:								
Highest award to a single person	k.A. ¹	k.A. ¹	k.A. ¹	k.A. ¹	k.A. ¹	k.A. ¹	k.A. ¹	1.63

¹ With regard to the materiality, protection and confidentiality principle of Section 26a paragraph 2 of the German Banking Act A detailed remuneration information has not been disclosed.

² Managing Directors of significant financial institutions within Commerzbank Group; without Board of Managing Directors of Commerzbank AG (see Annual Report 2010, p.55ff.).

Amounts in €m (rounded); number of employees in absolute figures (headcount).

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Commerzbank Aktiengesellschaft

⁶ Status: 30 April 2011; excluding the Board of Managing Directors of Commerzbank AG (see Annual Report 2010, p. 55ff.).

Commerzbank AG

Head Office
Kaiserplatz
Frankfurt am Main
www.commerzbank.com

Postal address
60261 Frankfurt am Main
Tel. +49 (0) 69 / 136-20
info@commerzbank.com

