



# Workshop Mittelstandsbank

Commerzbank's key performance driver

## Mittelstandsbank is Commerzbank's key performance driver

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### **A Sustainable, client-driven business model and leading SME franchise**

- › Market leader in Germany with 18 – 20% market share (mid caps)
- › Specialized product expertise and broad regional coverage with >150 locations for corporate clients
- › International approach for cross-border corporate clients with connectivity to the German market
- › Full service approach for Financial Institutions supported by 40 representative offices worldwide

### **B Proven track record of profitability, impressively resilient results in times of stress**

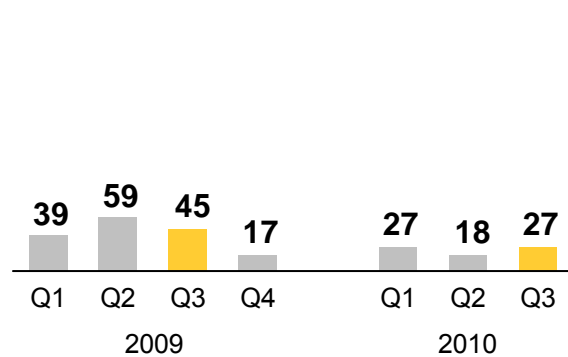
### **C Focus on prudent credit risk standards**

### **D Well on track for operating profit 2012 target of €1.8bn**

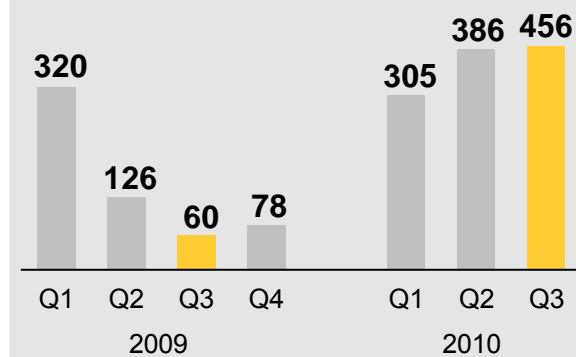
# Mittelstandsbank is the main profit contributor

Operating profit, in € m

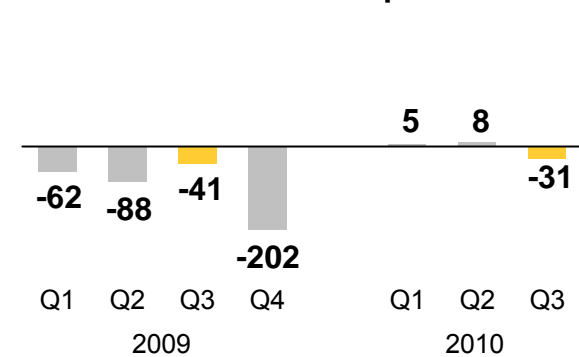
## Private Customers



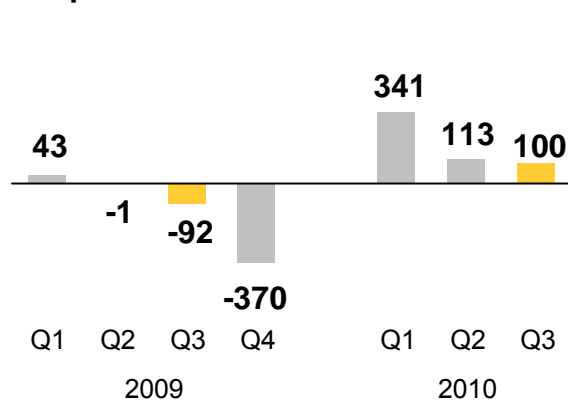
## Mittelstandsbank



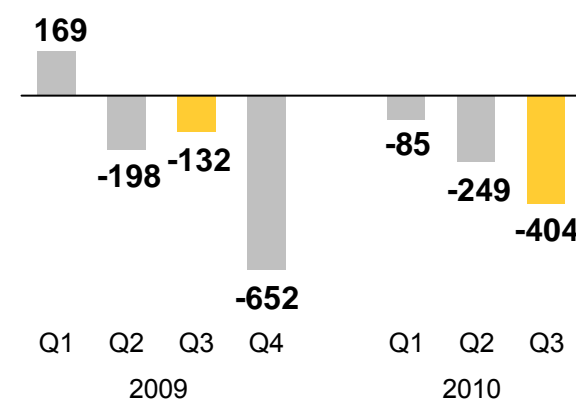
## Central & Eastern Europe



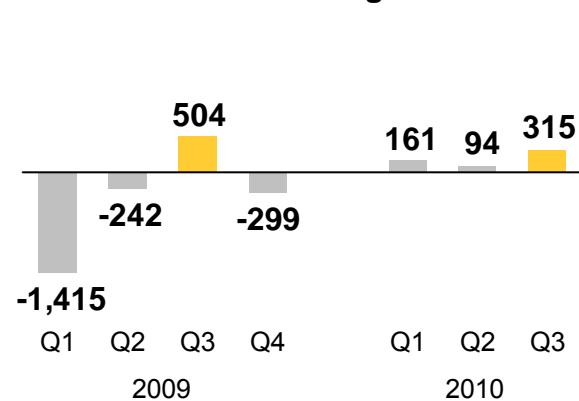
## Corporates & Markets



## Asset Based Finance



## Portfolio Restructuring Unit



All operating segments on a full period base, Q1/09-12-day-effect adjusted in O&C





## **Sustainable, client-driven business model**

## Success factors of our business model

1. **Attractive home market** – Germany is the economic engine of the Eurozone

2. **Size** – we have a leading position in our home market serving 60,000 client groups

3. **Client segmentation** – we address the potential of our clients by a state-of-the-art, segment specific sales approach and a dense branch network

4. **International approach** – we support our German clients' international operations and the operations of our international clients in Germany

5. **Financial Institutions network** – our FI network provides us with access to all the main import / export markets across the world

6. **Capital Markets** – we successfully leverage the expertise of our Investment Bank

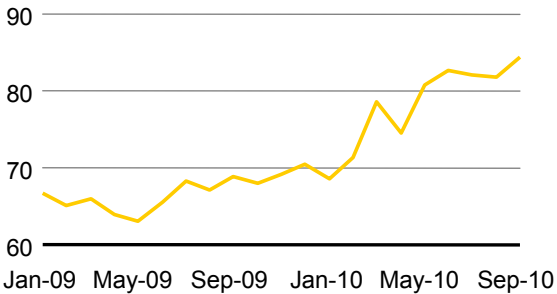
# The Mittelstand – backbone of Germany’s economic growth

## Exports

- › Exports of Mittelstand companies are the main driver of the German economy
- › Exports are at pre-crisis levels due to
  - Strong demand from emerging markets
  - Favourable exchange rates
- › Progress clearly confirms the competitiveness of German corporates and their products

## Exports

in € bn; seasonally adjusted



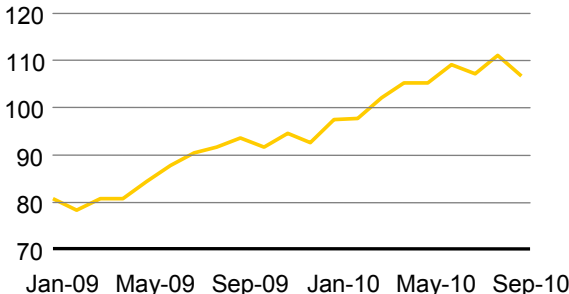
Source: BDI / Statistisches Bundesamt / Deutsche Bundesbank

## Order pipeline

- › Very positive trend of order inflows for German corporates
  - Foreign orders up ~45% since January 2009
  - Domestic orders up ~20% since January 2009

## Total order inflows

manufacturing industry; 2005 = 100; seasonally adjusted



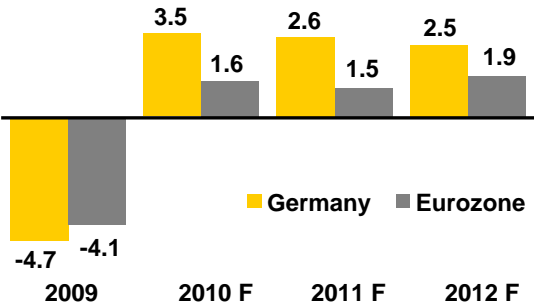
Source: BDI / Statistisches Bundesamt / Deutsche Bundesbank

## Status quo

- › Germany is the economic engine of the Eurozone
- › Stable economic situation
  - Low level of private sector debt
  - Low inflation risk
  - No bubbles, low spreads
- › Highest employment ever in Germany
- › Recovery expected to continue

## GDP

change vs previous year in %



Source: Commerzbank Economic Research



# State-of-the-art, segment-specific client approach (1/2)

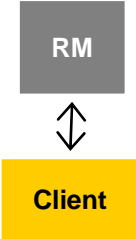
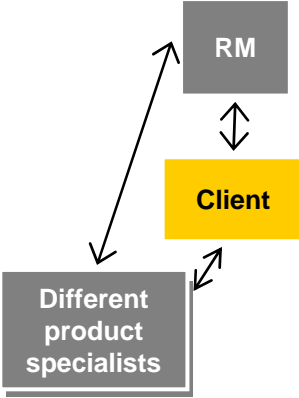
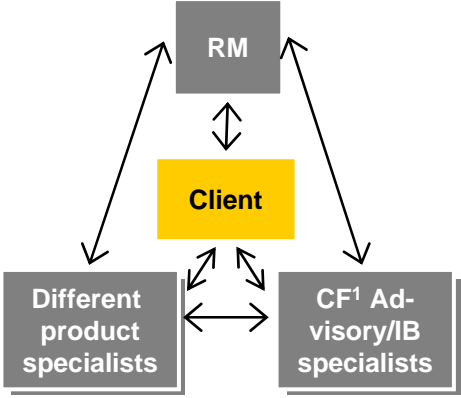
## Service model of the Mittelstandsbank

Product specialists	Corporate Banking			FI
	Small & Mid Caps	Large Corporates Domestic	Large Corporates International	Financial Institutions
	1,715 RM 106 branches 150 locations	270 RM 7 locations		
Cash Mgmt. & International Business (CMIB)	1,050 PS 26 locations	115 PS 7 locations	232 PS 21 locations (incl. NY & CEE)	111 RM and PS at the Frankfurt location
Interest, Currency & Liquidity Mgmt. (ICLM)	320 PS 18 locations	20 PS 7 locations	Corporates & Markets	+
Financial Engineering/ Corporate Finance	135 PS 11 locations	Corporates & Markets		89 RM 40 international representative offices

RM = Relationship Manager  
PS = Product Specialist

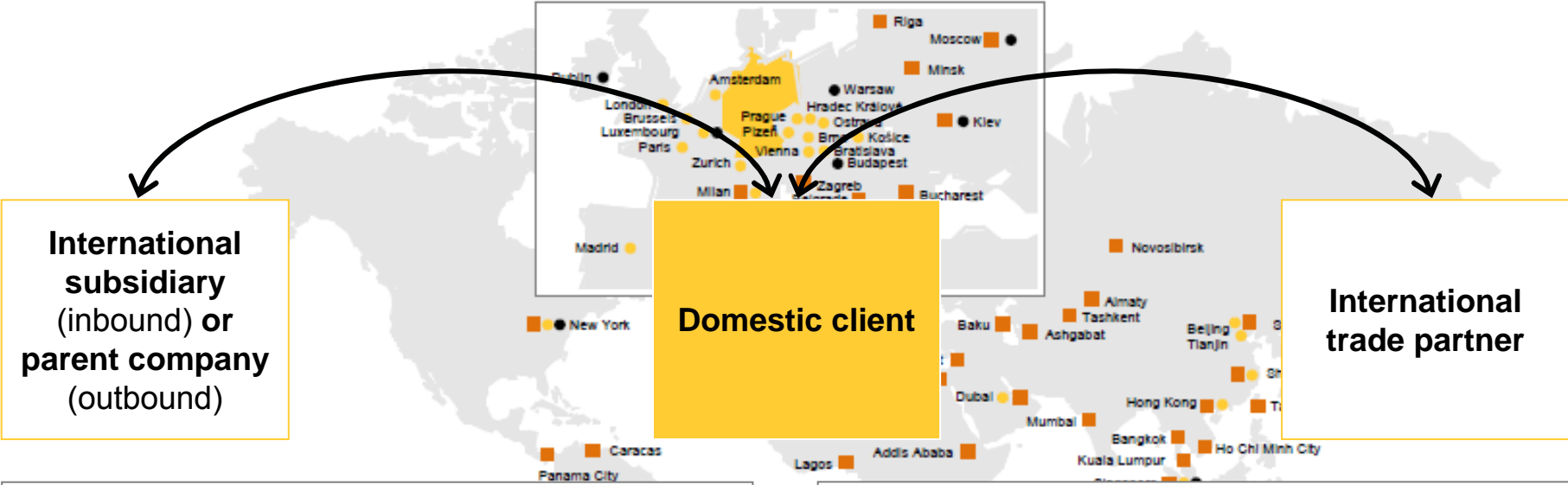


# State of the art, segment-specific client approach (2/2)

	Small Caps	Mid Caps	Large Corporates
<b>Client Approach</b>			
<b>Client Approach</b>	<ul style="list-style-type: none"> <li>› Client coverage by dedicated relationship manager and multi channel support</li> <li>› Standard product &amp; service offering</li> </ul>	<ul style="list-style-type: none"> <li>› Extended Service Team incl. product specialists, Financial Engineering and IB know-how</li> <li>› Broad product &amp; service range</li> </ul>	<ul style="list-style-type: none"> <li>› Client Service Team with full IB and sector competence</li> <li>› Full product &amp; service offering</li> </ul>
<b>Main Competitors</b>	<ul style="list-style-type: none"> <li>› Savings banks</li> <li>› Cooperative banks</li> </ul>	<ul style="list-style-type: none"> <li>› Larger savings banks</li> <li>› Landesbanks</li> <li>› HVB Unicredit</li> </ul>	<ul style="list-style-type: none"> <li>› Deutsche Bank</li> <li>› Landesbanks</li> <li>› International banks</li> </ul>

1 Corporate Finance

# International approach – we serve our clients worldwide



**Support of MSB International**

- › Connectivity as value proposition of our cross border business
- › No stand-alone local business

**Product expertise of Financial Institutions**

- › Serving client needs with state-of-the-art product offerings in Cash and Trade Services

**Drawing on the expertise of our product unit for Cash Management & International Business**

## International approach – our corporate model as ‘domestic and international partner’

### International

- › **Transfer of our domestic business model Large Corporates** to Western Europe and Asia
- › **Focussing on cross-border business** with parent/subsidiary companies of our customers in the home market
- › **High coverage** of the relevant markets (incl. CEE and US). ~75% of German imports and exports



### Inbound

Serving subsidiaries of German Corporates out of our foreign branches (i.e. the Chinese subsidiary of a German manufacturer is served out of Commerzbank Shanghai)

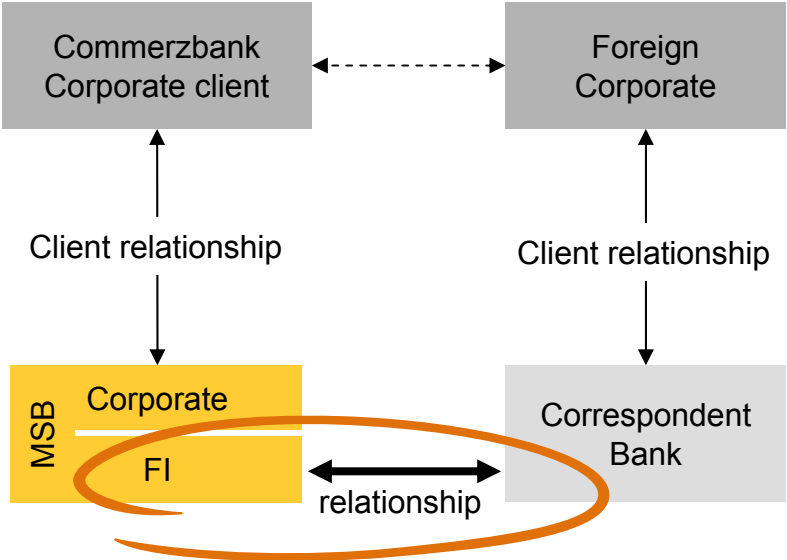
### Outbound

Non-German Corporates with a subsidiary / production facility in our core markets Germany and Poland (e.g. a French corporate with a German subsidiary is served out of Paris)



**Commerzbank as reliable partner for international business with connectivity to Germany**

# Our business model Financial Institutions – complementing our Corporate Banking model by tapping international trade flows



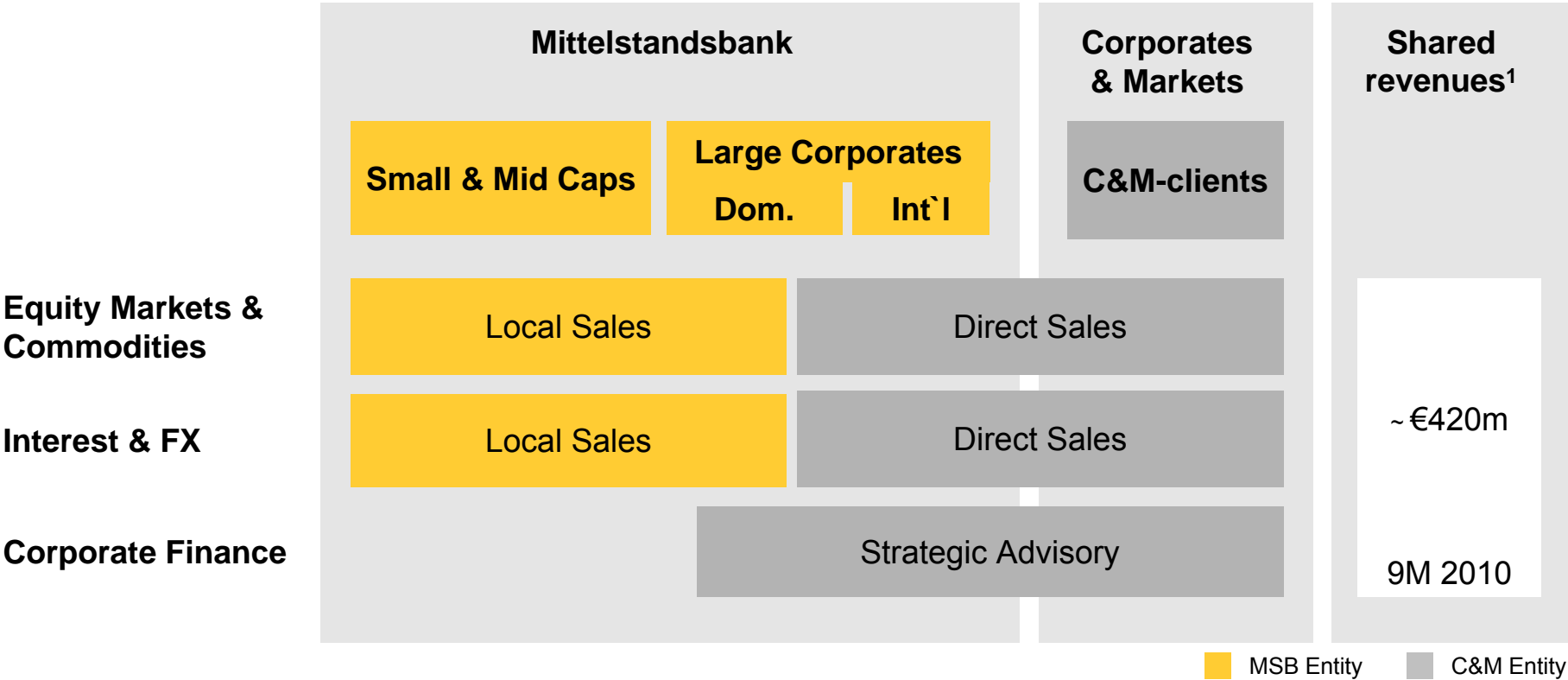
### FI value proposition

- › Facilitating Transactions between Corporates in different countries that lack expertise or technical means to interact directly with each other in terms of
  - Payments (→ Cash products)
  - Foreign Trade (Letters of credit / guarantees etc.)

### FI expertise

- › Through our network of 40 representative offices worldwide: intimate knowledge of the relevant markets and risks of
  - our 7,000 correspondent banks
  - the surrounding economic environment
- › Continuous expertise and leadership in global financial institutions services and products
- › Knowledge of the needs of our corporate clients through close cooperation with local Corporate Banking units

# Capital Markets – we leverage the expertise of our Investment Bank



 **Our use of high-quality IB products leads to significant shared revenues & underlines the importance of C&M for our business**

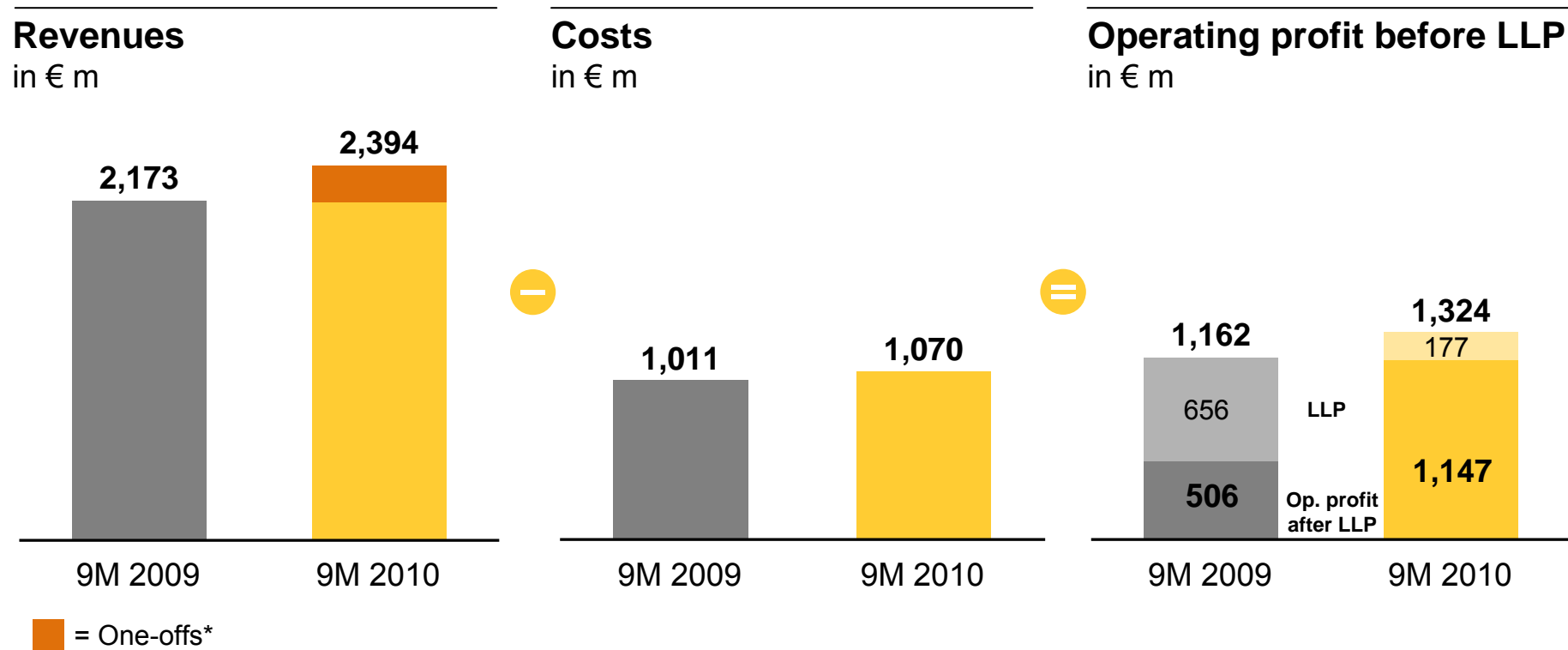
<sup>1</sup> Incl. Financial Institutions





## Proven track record of profitability

## MSB with more than €1.1bn profit – economic upswing leading to decreased loan loss provisions



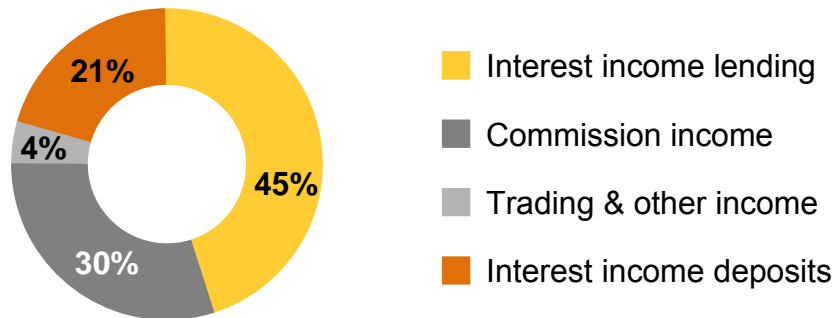
**Significant profit increase due to lower loan loss provisions and stable operating revenues**

\*valuation effects due to trading & investment income and other income

## Interest earnings still at high levels after record margins during the crisis

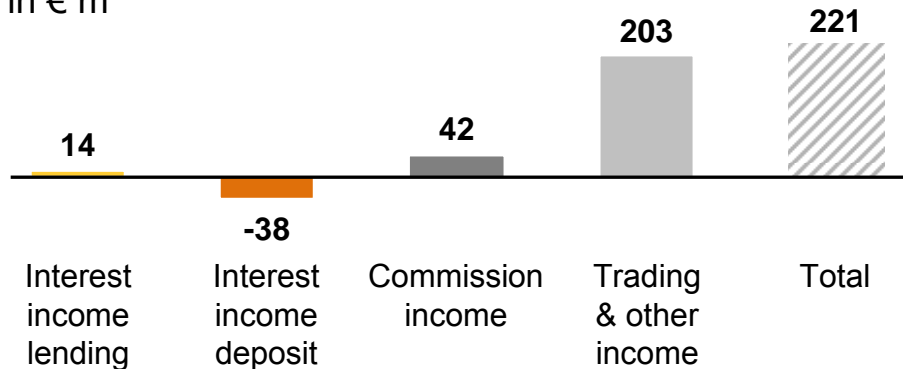
### Revenues as of Sep 2010

in %



### Deltas as of Sep 2010 (y-o-y)

in € m



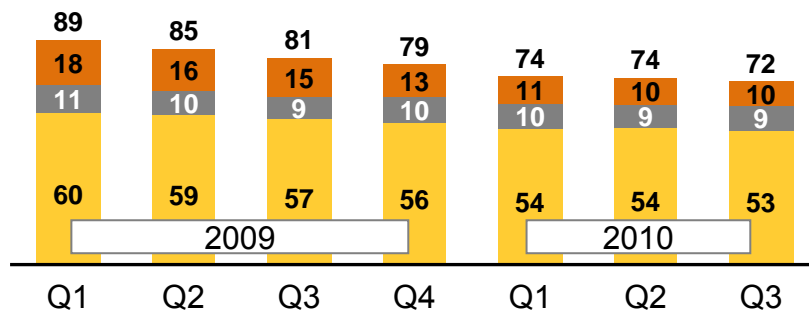
- › Stable revenues despite demanding economic environment
- › Interest income – Lending
  - Two effects of current economic situation:
    - Significant increase in margins in short-term credit
    - Shrinking volume in short-term credit
  - Large share of long-term financing in Germany stabilises revenues
  - Selective volume increase in FI business
- › Interest income – Deposits
  - Earnings shortfall due to very low interest rate environment and intense price competition
- › Commission income expected to profit from economic recovery and German export business
- › Trading & other income resulting from CDS hedges and valuation effects in equity positions



## Lending revenue analysis: Increased margins did compensate for declining volumes

### Lending volume

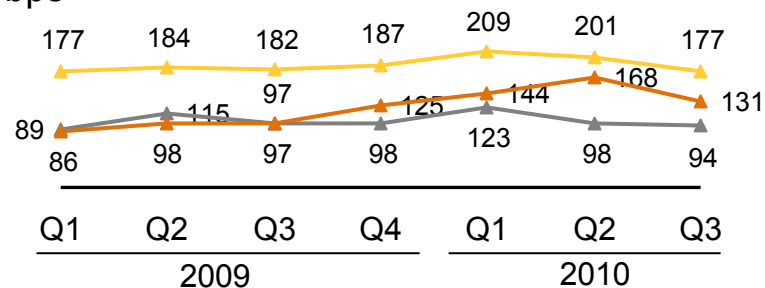
in € bn



- › Decreasing lending volume due to:
  - Further de-risking measures for bulk risks and non-strategic clients
  - Stagnating loan demand
- › Usage of credit lines show further potential for working capital financings in 2011

### Lending margin

in bps



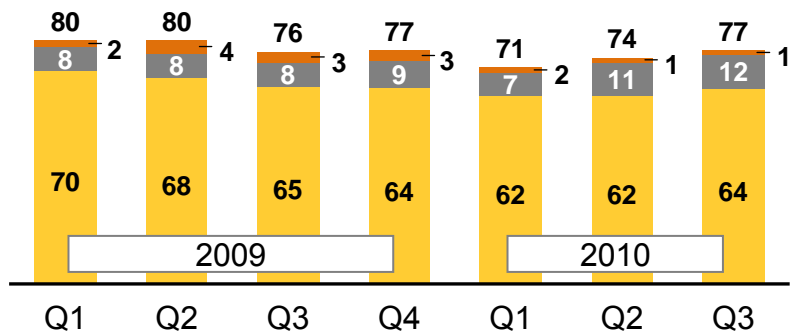
- › Significant increase in margins observed in 2009 / 2010
- › Due to a more competitive environment we expect margins to decrease slightly

■ Corporates Germany      ■ Corporates International  
■ Financial Institutions

# Deposit revenue analysis: Margins down – but recovery has already started

## Deposit volume

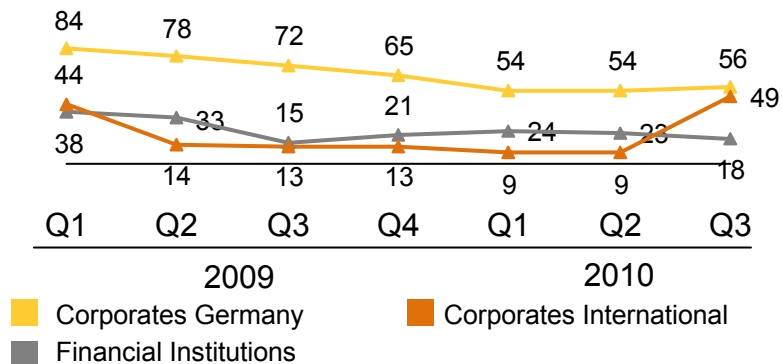
in € bn



- › Decrease in volume observed in 2009 due to degree of self-financing
- › In 2010 increased volume with further upswing expected in corporate deposits

## Deposit margin

in bps

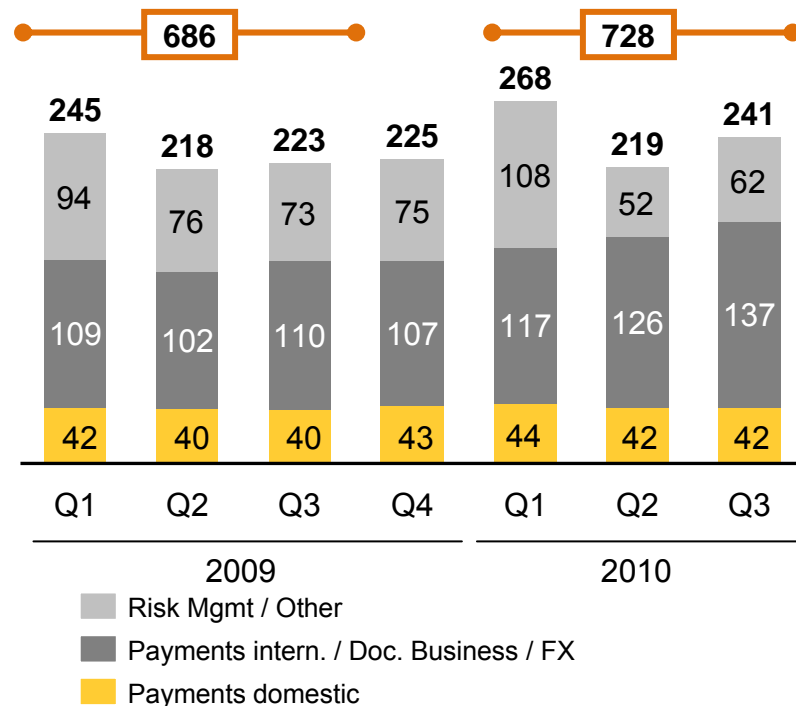


- › Decreasing margins driven by the money market interest rate environment
- › Increasing margins expected in a rising interest environment

## Commission income: Stable revenues with upside potential

### Commission income

in € m



#### ■ Domestic Cash Management

- › Efficient, transparent processing of domestic and international payments including liquidity management
- › Stable cash flows with little short-term dependency on economic environment

#### ■ International Business

- › International cash management
- › Trade services (letters of credit etc.), structured trade finance
- ➔ Dependent on economic circumstances and development of exports → significant upside potential in current economic environment

#### ■ Risk Management / Other

- › Managing client's balance sheet exposures (interest rates, currencies, liquidity) & securities transactions
- ➔ Significant upside potential in current environment

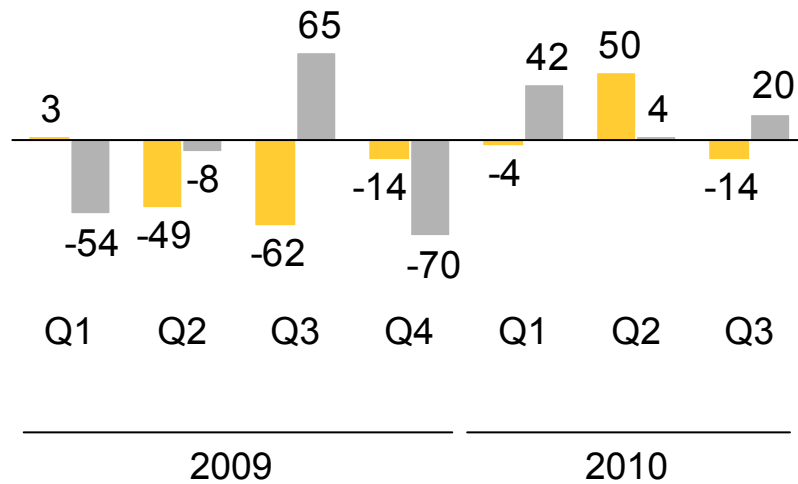
Stable

Driver of growth

## Trading & Investment result: well above previous year – but volatile

### Trading and investment result

in € m



■ Trading result  
■ Investment & Other result

### Our story

#### Trading

- › Mark-to-market valuations of single-name and macro hedges in Mittelstandsbank

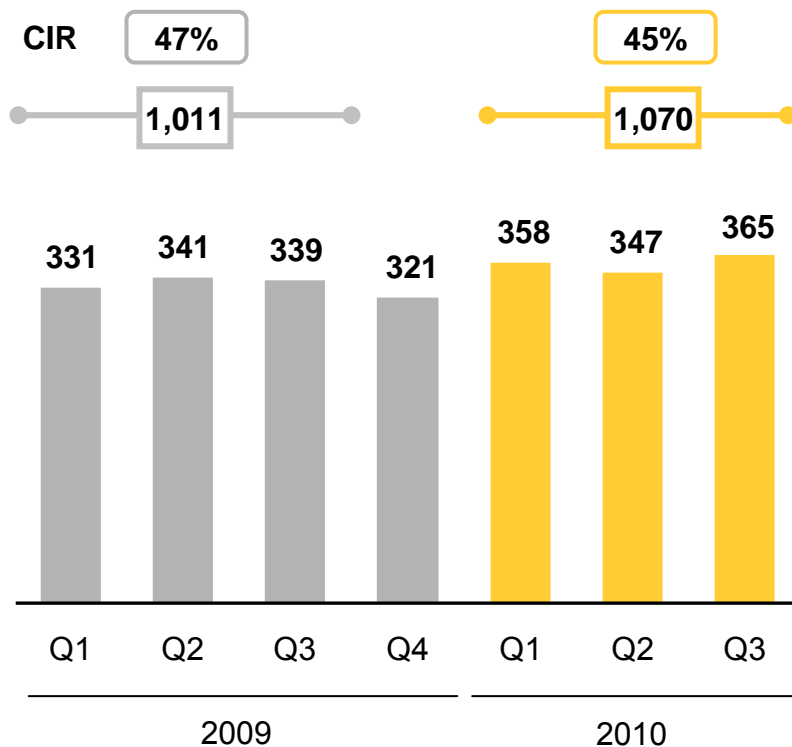
#### Investment

- › Mark-to-market valuation of existing equity positions
- › One-time effects from special provisions

## Costs: well on track to achieve our 40% CIR target in 2012

### Costs

in € m



› **Personnel costs:** on track for realization of planned integration synergies

– Front office synergies fully effective in 2012

– Back office with a time lag

– Other **integration-related costs** will decrease significantly after realization of client and product migration

› Investments into growth

› Increase of **regulatory costs** observed, further increase expected e.g. deposit insurance

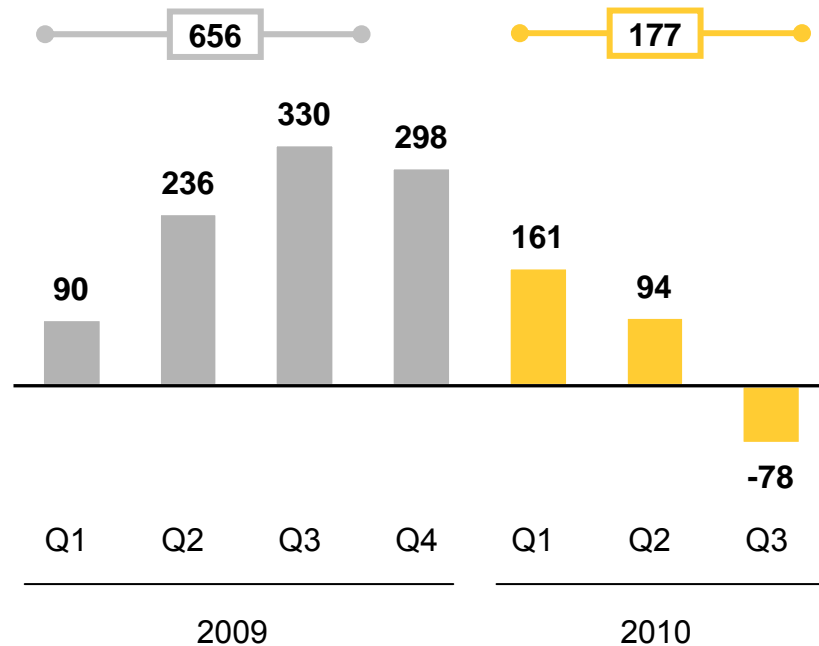
## Integration: Fully on track – MSB integration will be finalized in Q2 2011

<b>Domestic</b>	
Personnel-related implementation	Over 4,300 regional employees have been transferred to the target organization
Relationship management	All 60,000 client groups have target relationship managers
Products and prices	Products and prices are largely harmonized
Locations	Regional teams have been consolidated in one of the 150 target locations to a large extent
IT	Successful launch of important software releases
<b>MSB-I</b>	The integration of foreign offices in Asia has been completed — offices in Western Europe are close to completion
<b>MSB-FI</b>	Integration and manual data migration have been completed in all 40 locations

## Loan loss provisions declined significantly

### Loan Loss Provisions

in € m

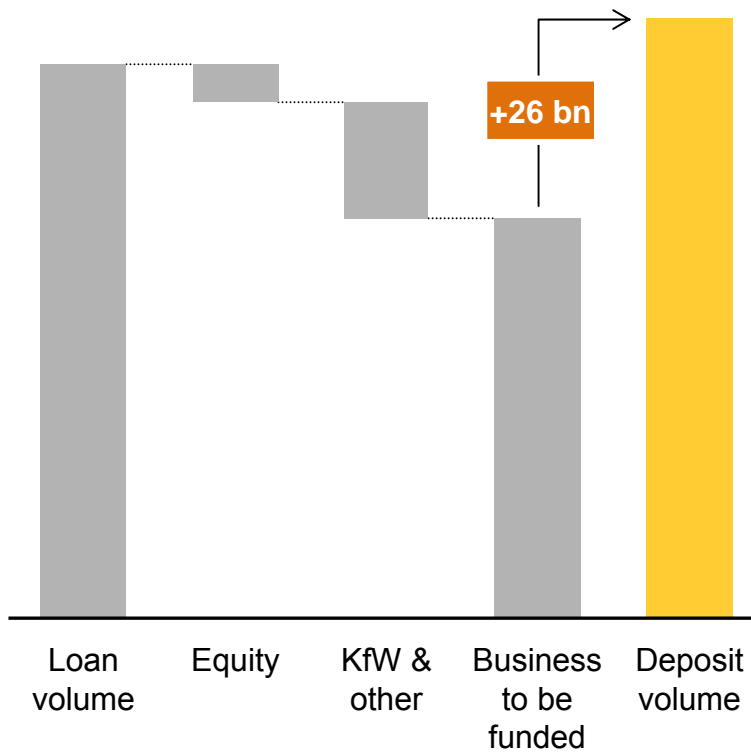


- › The rapid economic recovery is reflected in declining loan loss provisions
- › Provisions Q1–Q3 are only about a third of provisions for the same period in 2009, a year marked by the financial and economic crisis
- › Q3 2010 LLP was driven by a one-time effect due to the release of a single case (–€100m)
- › Overall, we expect a stable economic environment and further decrease in insolvencies

## Funding: we are self-funded

### Funding mix of Mittelstandsbank

in € bn as of Sep 2010



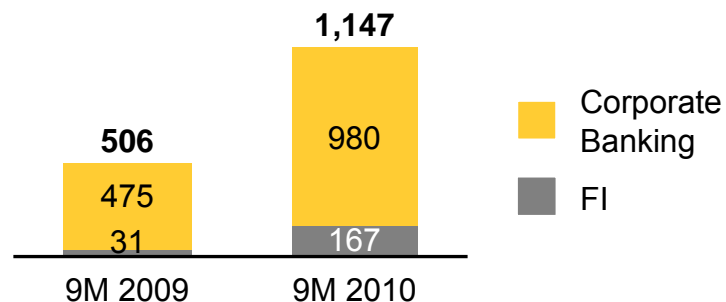
**MSB further reduces its dependency on capital markets by proactive asset&liability management**

- Leverage public loan programmes (KfW, etc.) that provide funding support
- Foster deposits as reliable and stable funding source
- Use of funding sources within Commerzbank Group



## Summing it up: Operating profit >€1.1bn and RoE of 28% underline sound performance

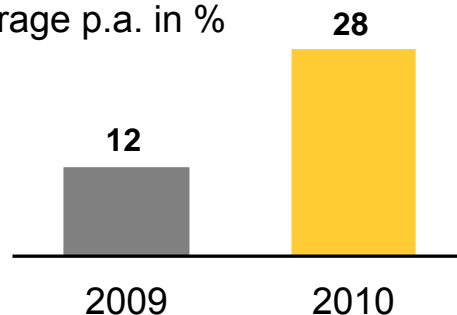
### Operating profit in € m



#### Comment:

- › Impressive rebound from 2009
- › Corporate Banking main profit contributor

### Operating return on equity<sup>1</sup> average p.a. in %



#### Comment:

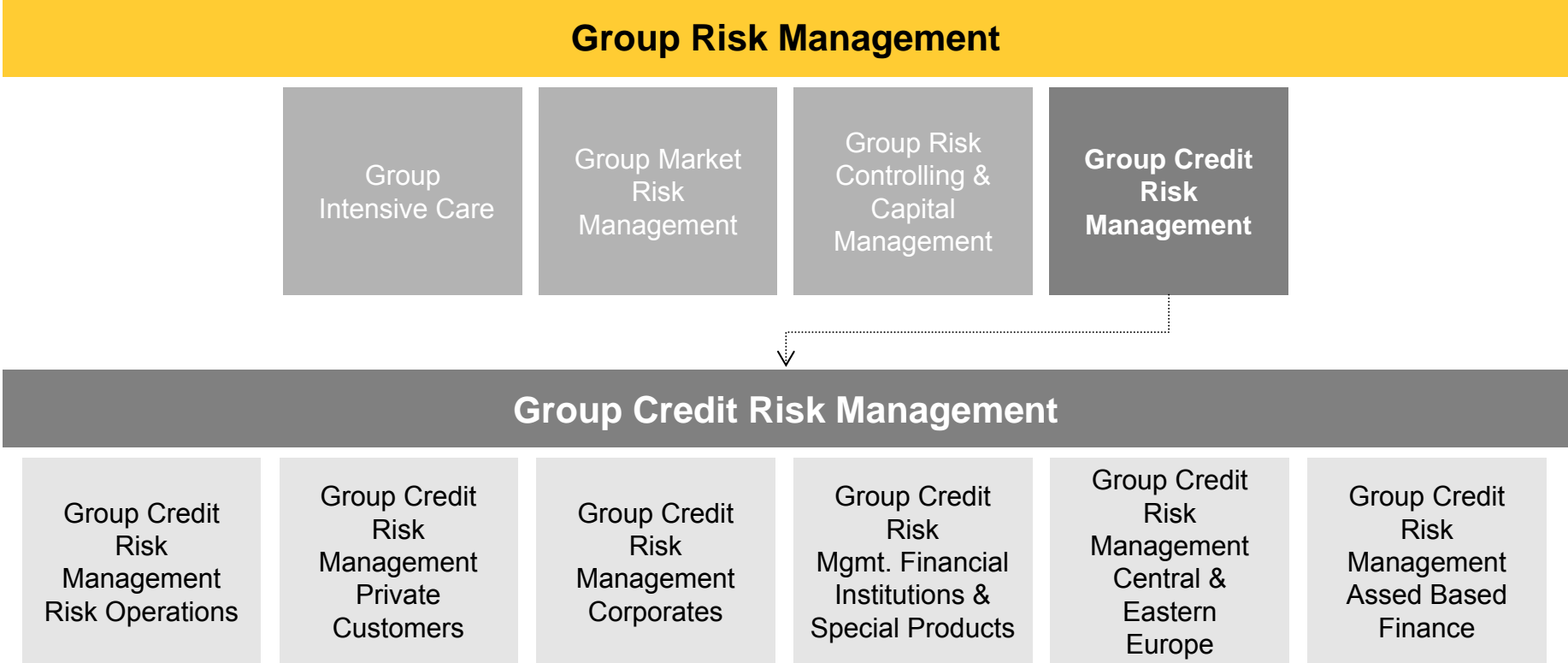
- › Positive performance reflected in strong Return on Equity
- › RoE more than doubled

1) annualized 9 months figures



## Focus on prudent credit risk standards

# Credit Risk Management Organisation



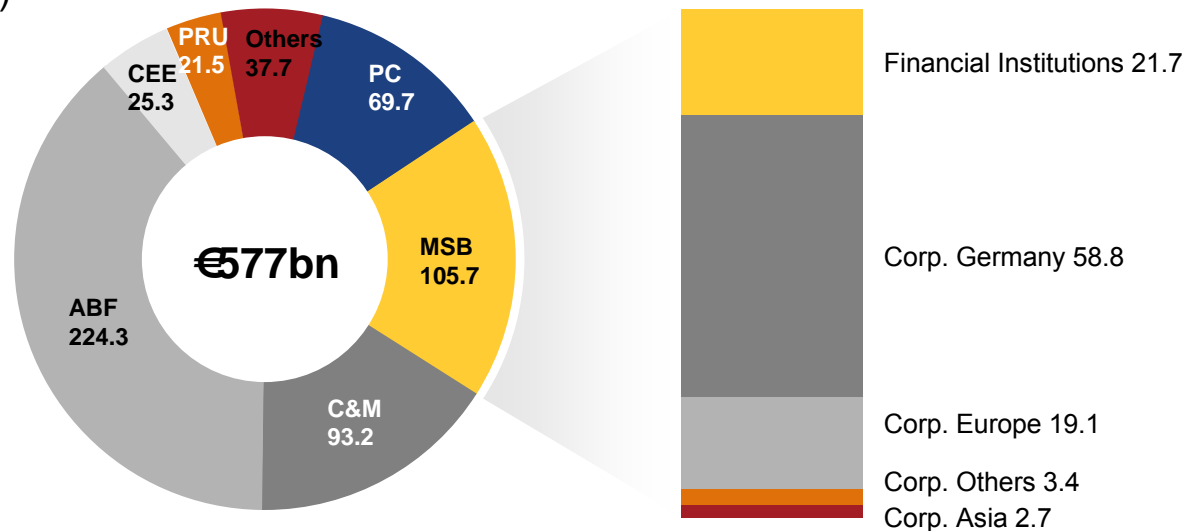
## State-of-the-art risk architecture

- › Functional organisation of risk management allows for comprehensive measurement and assessment of risks
- › Methodical knowledge and portfolio expertise are interlinked so that analysis and steering of sub-portfolios with focus on e.g. bulk risks, efficient work-out and an overall risk-optimised allocation of capital are facilitated
- › Following merger and integration with Dresdner Bank, risk strategies, risk policies and risk process have been unified, streamlined and improved
- › Risk-return based management of risk
- › Strong focus on efficiency, quality and short time-to-market

## Mittelstandsbank portfolio well diversified

### EaD-Allocation within Commerzbank\*

(as of 09/2010 in € bn)



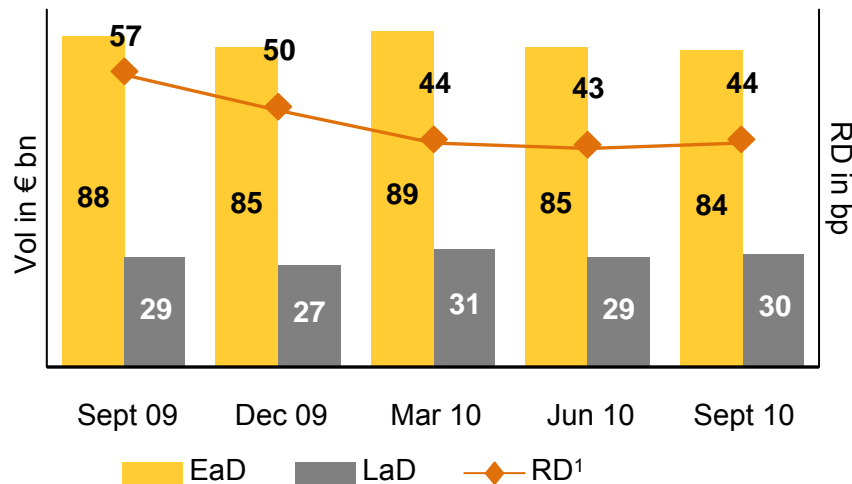
\*Excl. defaulted loans



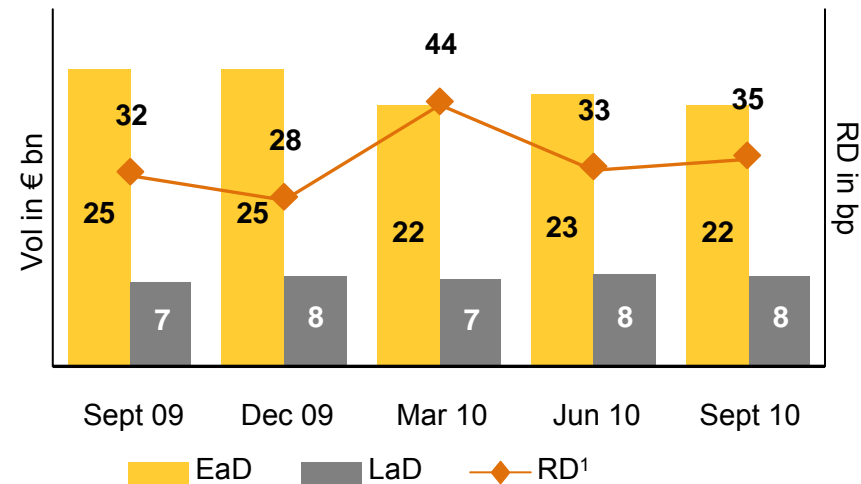
- › Prudent portfolio management with high quality of MSB loan portfolio
- › Focus on German corporates (c.58%); European corporates portfolio largely consists of investment grade corporates with strong German connectivity
- › Bank portfolio well diversified geographically to support our core corporate clients globally

# MSB-Portfolio – Reduction of risk over past year

## Corporates



## Financial Institutions



- › Strong efforts by Commerzbank over past year to reduce risks have paid off
  - Reduction of risk density metrics by 20% driven by lower expected losses
  - Recent uptick generated by rating migration
  - Maintenance of strong profitability notwithstanding further de-risked portfolio
- › Reduction of EaD overall mainly generated from reduction in bank exposure; core business remains strong

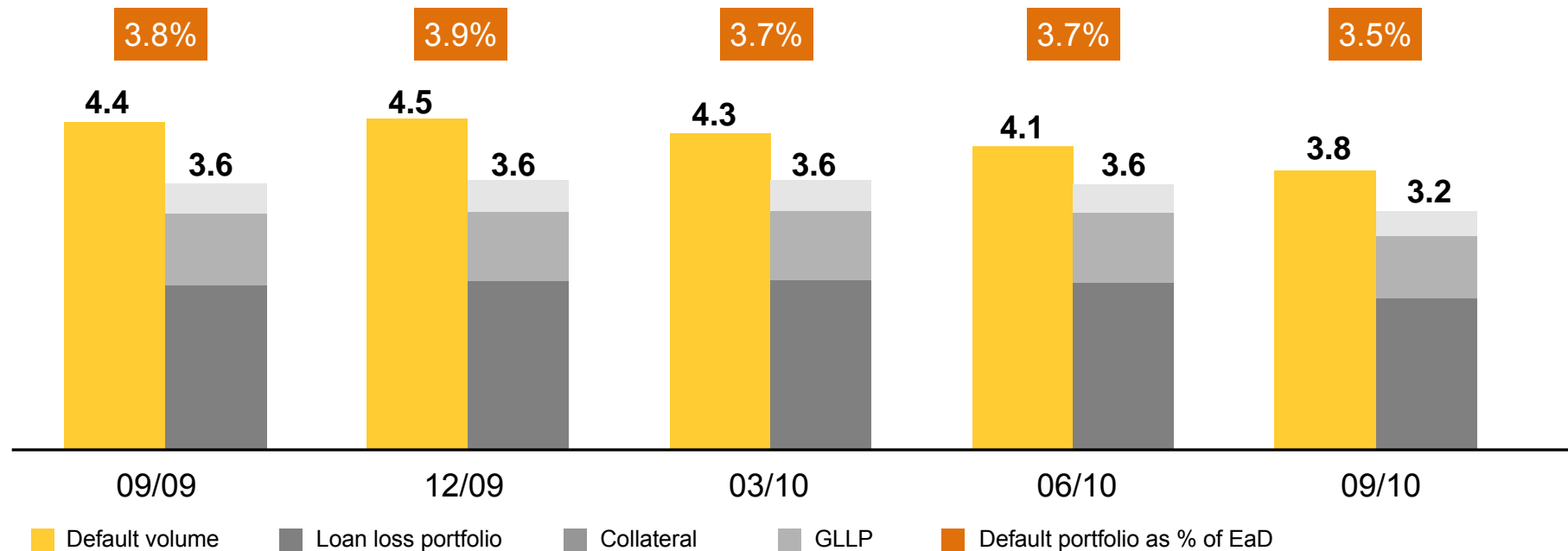


<sup>1</sup> Risk density (Expected Loss / EaD)

## Absolute and relative default portfolio volume declining

### Default portfolio volume

in € bn

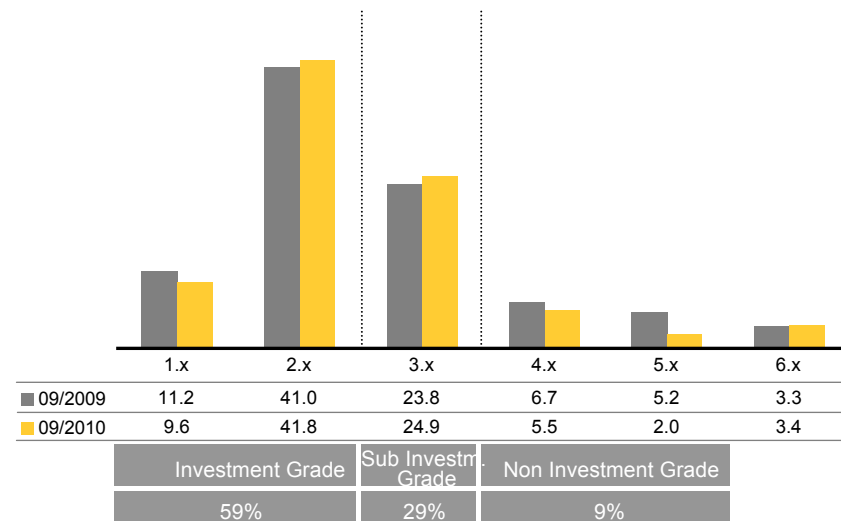


- › Strong coverage ratio (uncovered portion reflects the contractual and highly probable cash flows)
- › Overall decline in and overall low percentage of defaulted loans
- › Improving portfolio quality reflected in decline of absolute and relative figures

## Solid portfolio quality – focus on investment grade

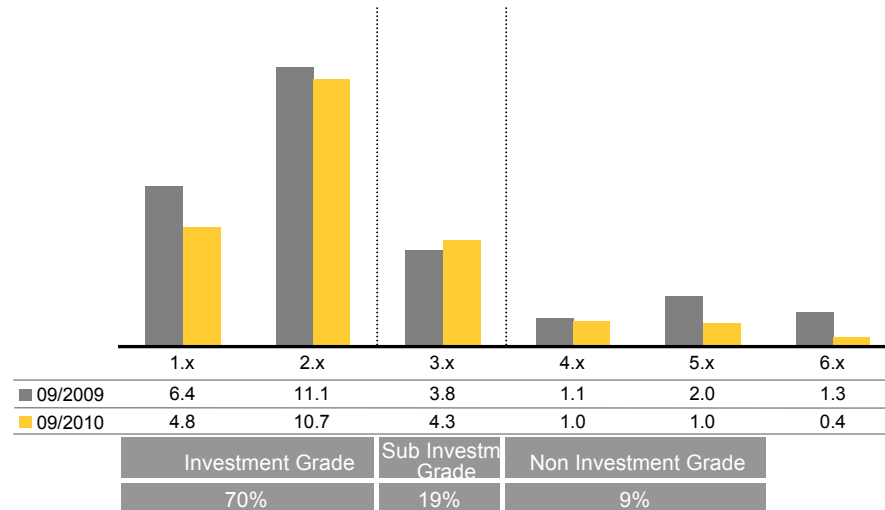
### Corporates – Rating cluster

(EaD in € bn)



### Banks – Rating cluster

(EaD in € bn)



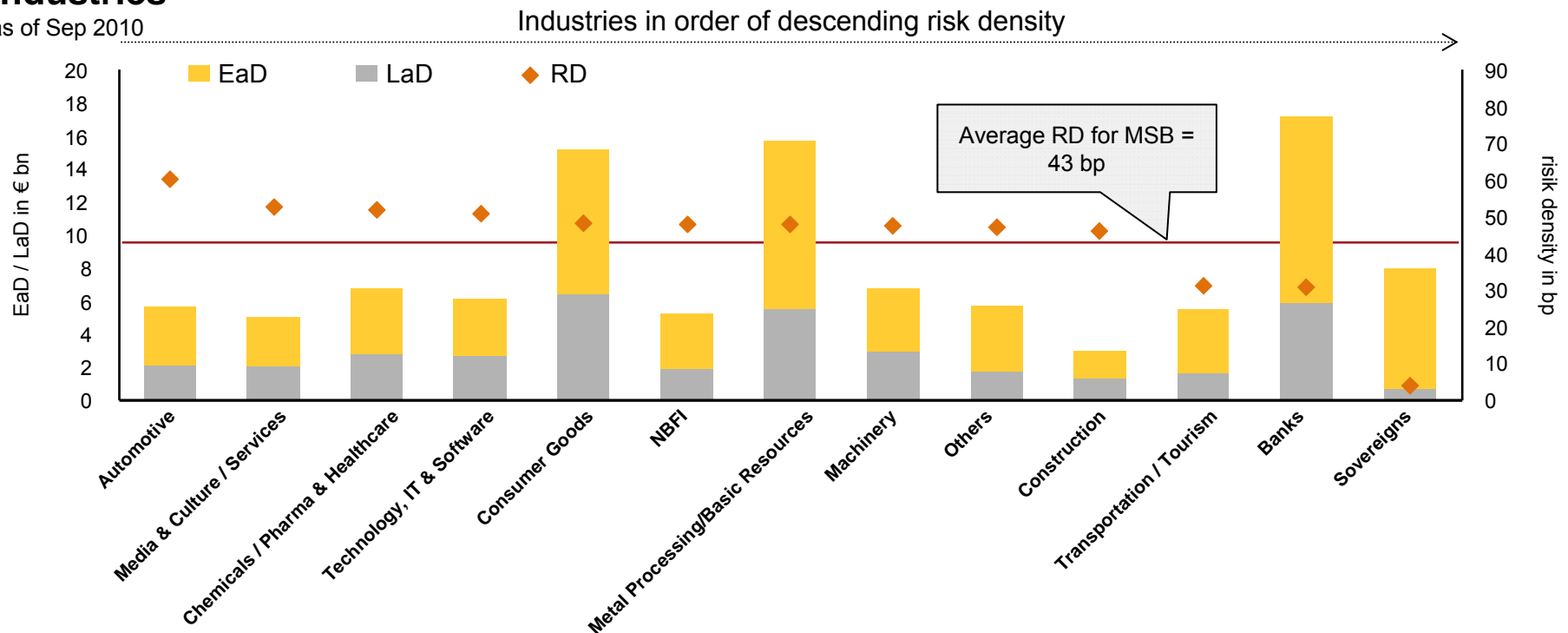
- › Excellent quality of portfolio compared to average German Mittelstand rating clusters
- › MSB – corporate portfolio quality constantly improving
- › Strong focus on strong German Mittelstand clients with sound business profile and growth potential
- › Significantly smaller bank exposure to support German corporate clients business abroad



# No risk clusters over all industry sectors

## Industries

as of Sep 2010



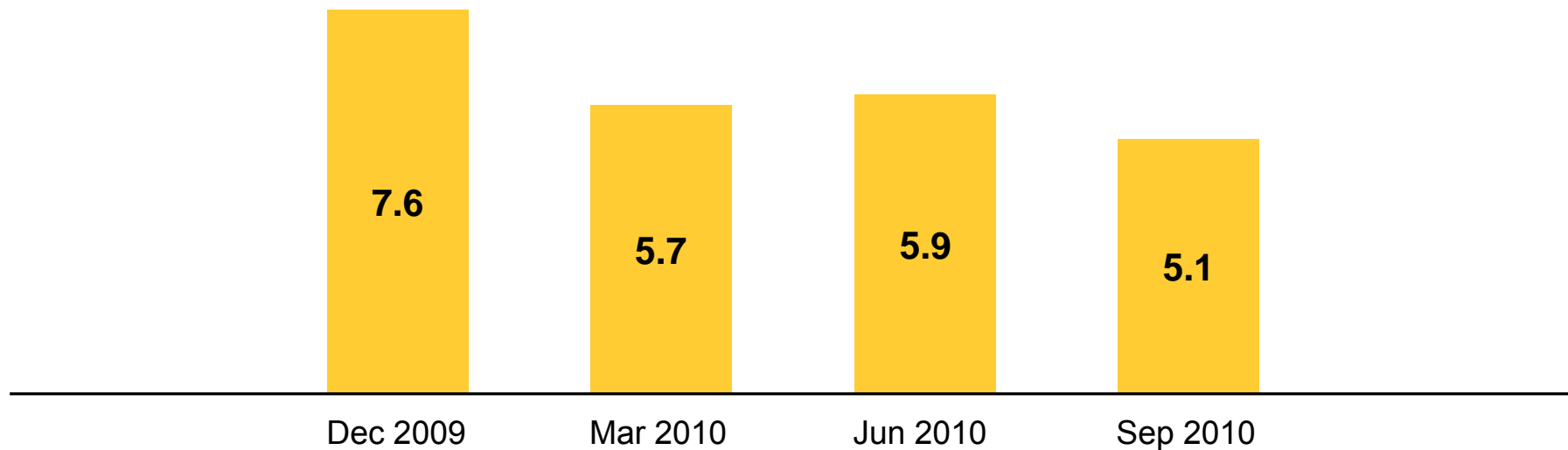
- › Balanced distribution of EaD with moderate peaks for Banks (16%), Metal Processing / Basic Resources (15%) and Consumer Goods (14%)
- › Strong reduction in risk density over the year in basically all asset classes



## Decline of concentration risk by more than 30%

### Concentration risk

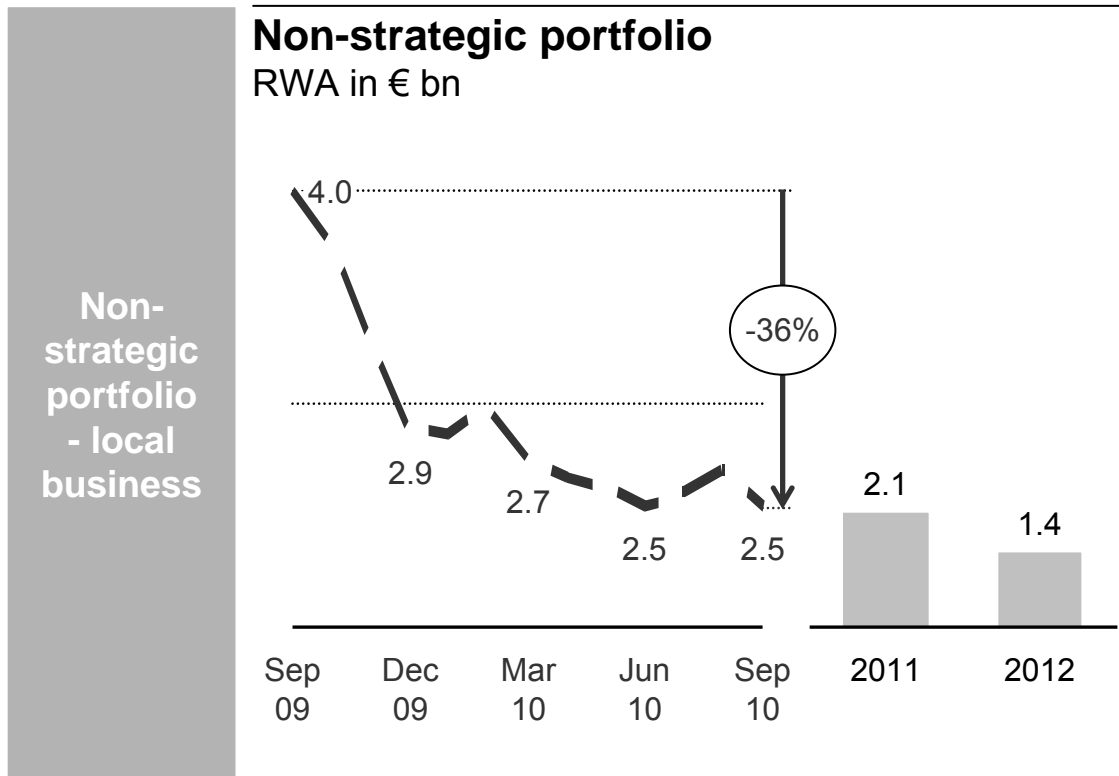
(EaD in € bn)




- › Successful management of bulk risks has led to significant decline
- › Systematic monitoring of bulk risk in place
- › Steering of bulk risks is key to strong resilience of MSB portfolio
- › Approval process enables prudent handling of remaining risk concentrations



## Non-strategic portfolio well on track



- › Target: Freeing up capital for business with core customers
- › Maintaining cross selling income with non-strategic clients 
- › The risk reduction in the non-strategic portfolio goes according to the plan



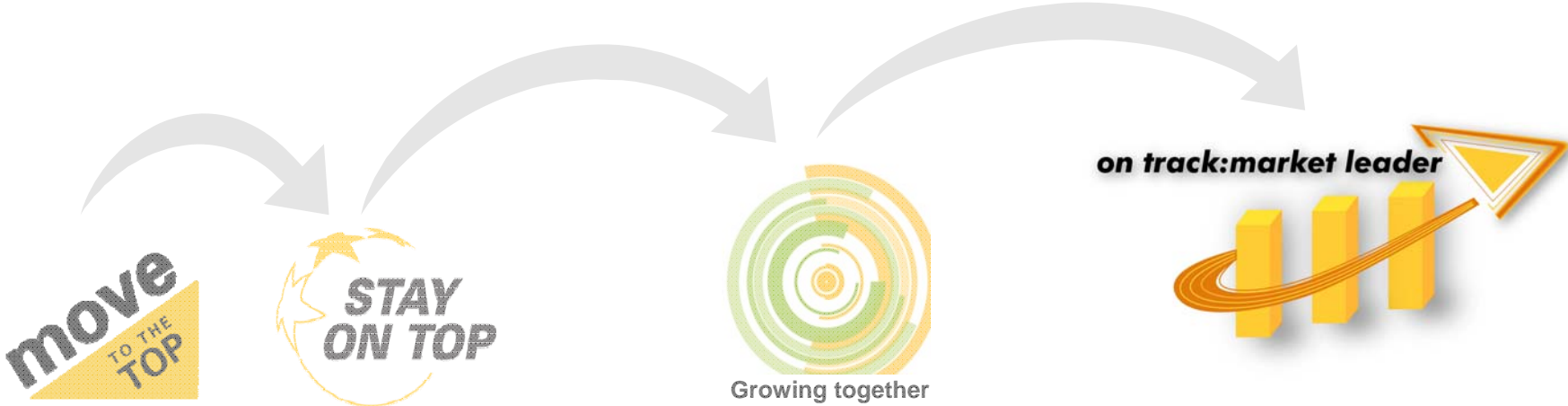
## On track for 2012 targets

# We established the leading Mittelstandsbank – new program set up to reap the benefits

**2004 – 2008**  
Build a leading Mittelstandsbank

**2008 – 2010**  
Create a stable integrated bank

**2011 – 2014**  
Facilitate revenue growth



- › Master the turnaround
- › Become market leader for the German Mittelstand

- › Maintain and develop market leadership

- › Create a joint team from two strong banks

- › Building on market leadership

→  
Sept.  
2008

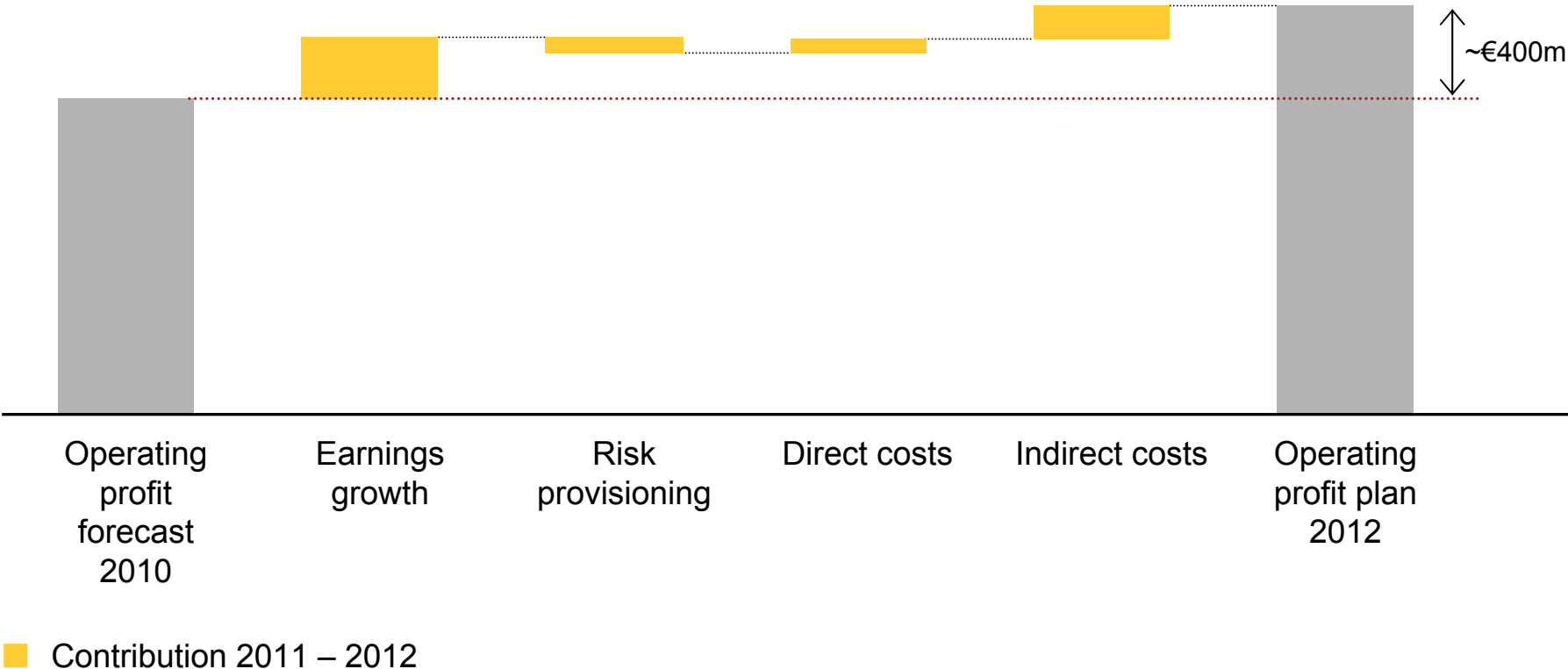
→  
End of  
2010

→  
2014

## on track:market leader – fostering growth, efficiency and excellence

		Selective initiatives
<b>G R O W T H</b>	<b>Leverage our leading market position</b>	<ul style="list-style-type: none"> <li>› Identify and exploit existing market potential</li> <li>› Optimize segment-specific product delivery</li> <li>› Gain new clients</li> <li>› Optimize large corporate coverage model</li> </ul>
	<b>Develop new sources of growth</b>	<ul style="list-style-type: none"> <li>› Drive internationalization of MSB</li> <li>› Become preferred partner for euro cash- and trade services for banks worldwide</li> <li>› Develop increased capital markets access for our mid-cap clients in light of anticipated regulatory changes</li> </ul>
<b>Increase efficiency</b>		<ul style="list-style-type: none"> <li>› Increase cost efficiency</li> <li>› Improve capital efficiency</li> </ul>
<b>Achieve excellence</b>		<ul style="list-style-type: none"> <li>› Ensure homogenous quality in the sales approach</li> <li>› Gain more industry expertise in sales force</li> </ul>

# Revenue growth will be the main driver to achieve our 2012 targets



## Program will ensure full utilisation of our potential

### Our main drivers of bottom line growth 2012 vs. 2010

<b>Interest Income</b>	<ul style="list-style-type: none"> <li>› <b>Loan volume:</b> We expect strong demand for credit, driven in part by working capital needs of German corporates </li> <li>› <b>Loan margins:</b> We expect only a slight decline in credit margins from the high levels we have seen in 2009 and 2010 </li> <li>› <b>Deposit margins:</b> Our deposit margins are expected to move upwards in the current environment of slowly rising interest rates </li> </ul>
<b>Commission Income</b>	<ul style="list-style-type: none"> <li>› <b>Foreign trade</b> will continue to grow, helping us increase our top line especially in foreign payments </li> <li>› <b>Continuing market volatility</b> necessitates Corporates to hedge their balance sheet exposure – we already see a strong rebound in derivatives activity </li> </ul>
<b>Risk provisioning</b>	<ul style="list-style-type: none"> <li>› Strong rebound in German economy will lead to significantly <b>lower risk charges</b> already in 2010, stable development expected </li> </ul>
<b>Costs</b>	<ul style="list-style-type: none"> <li>› Realization of projected synergies following integration Dresdner Bank will help to keep cost base at least stable </li> </ul>



# The road ahead: well on track to meet 2012 targets

2005 – 2010

The road ahead

“Germany’s best Mittelstandsbank”



Targets 2012

Operating Result	€1.8bn
Revenues	€3.3 – 3.5bn
LLPs	€0.4bn
Costs	€1.15–1.25bn

*on track: market leader*



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