Germany
Full Rating Report

Commerzbank AG

Ratings

Foreign Currency

Long-Term IDR	A+
Short-Term IDR	F1+
Individual Rating	D
Support Rating	1
Support Rating Floor	A+

Sovereign Risk

Foreign-Currency Long-Term IDR	AAA
Local-Currency Long-Term IDR	AAA

Outlooks

Foreign-Currency Long-Term IDR	Stable
Sovereign Foreign-Currency Long-Term IDR	Stable
Sovereign Local-Currency Long-Term IDR	Stable

Financial Data

Commerzbank AG

	30 Jun 10	31 Dec 09
Total assets (USDm)	1,101,628.4	1,171,245.8
Total assets (EURm)	897,750.0	844,103.0
Total equity (EURm)*	27,848.0	26,576.0
Operating profit (EURm)	981.0	-2,270.0
Published net income (EURm)	1,077.0	-4,633.0
Comprehensive income (EURm)	1,134.0	-4,659.0
Operating ROAA (%)	0.23	-0.26
Operating ROAE (%)	19.31	-10.74
Internal capital generation (%)	20.30	-49.15
Eligible capital/ weighted risks (%)	8.42	8.07
Equity/total assets (%)	3.10	3.14
Tier 1 ratio (%)	10.80	10.50

* Including SoFFin's silent participations

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Related Research

Applicable Criteria

- *Global Financial Institutions Rating Criteria (August 2010)*
- *Rating Hybrid Securities (December 2009)*
- *Equity Credit for Hybrids & Other Capital Instruments (December 2009)*

Other Research

- *Bank Forum (November 2009)*
- *BRE Bank SA (July 2010)*

Rating Rationale

- The IDRs and Support Rating of Commerzbank AG (CBK) reflect Fitch Ratings' view that, as a systemically important German bank, it would be extremely likely to receive further support from the government, if needed.
- The Individual Rating reflects progress made by CBK in its de-risking and cost reduction. It also reflects downside risk to performance from CBK's significant exposure to commercial real estate (CRE), operations in Central and Eastern Europe (CEE), and shipping and leveraged finance, as well as a large asset-backed securities (ABS) book. Integrating Dresdner Bank AG (Dresdner) and rescaling investment banking create execution risk. Mittelstandsbank (MSB) is CBK's key operating profitability contributor, followed by the Private Customers (PC) segment. Together with CEE and Corporates & Markets (C&M), these constitute the customer-focused core bank. Fitch believes CBK's performance is vulnerable in the fragile economic climate, despite reduced projections for loan impairment charges (LICs) for 2010 after better-than-expected H110 results.
- At H110, the asset-based finance (ABF) and MSB segments accounted for 60% of total NPLs, which stood at 6% of gross loans, and ABF contributed more than half of CBK's net LICs at H110. At 42%, specific reserves coverage of NPLs is not strong but reflects underlying collateral. CRE-related exposure at default was EUR75bn (H110), with the UK, Spain and the US equating to 58% of Tier 1 capital. Although the total ABS book had contracted substantially to EUR17.6bn at H110 from EUR34.3bn at end-2008, it still carries potential risks. Credit spreads are the main source of market risk in the trading and banking books.
- Before the financial crisis, CBK started to gather more customer deposits. However, capital market funding still accounts for 25% of liabilities. Through EUROHYPO AG (EHY; rated 'A'/RWN), the group is one of the major German Pfandbriefe issuers. CBK has regulatory approval to use its internally developed liquidity management model, indicating sound processes.
- Capital is adequate, having been strengthened mainly by common equity and silent participations injected by the Financial Market Stabilisation Fund (SoFFin). However, it will need to be replenished by 2018 when state hybrid capital will no longer be recognised by regulators. CBK aims to compensate for a continued increase in risk-weighted assets (RWAs) driven by rating migration by managing down RWAs in its asset-based lending business and its ABS book.

Support

- In Fitch's opinion, CBK's domestic systemic importance means that it would be extremely likely to receive further support from the German authorities, if needed. Since Q209, SoFFin has held 25% plus one share in the bank.

Key Rating Drivers

- The Outlook on the Long-Term IDR is Stable, and CBK is at its Support Rating Floor. Resilient operating profitability and evidence of continued de-risking and core capital replenishment would be needed for an Individual Rating upgrade.

Profile

CBK, Germany's second-largest bank, has reorganised its business into a core bank, an asset-backed lender and a restructuring unit.

- Second-largest private bank in Germany
- After the takeover of Dresdner Bank, the network grew to 1,200 branches and 11 million private clients
- 12% market share in German SME banking (CBK estimates)

Profile

CBK is Germany's second-largest commercial bank and one of its leading banks for private and corporate customers. As a universal bank, CBK engages in all aspects of corporate, investment and retail banking, offering a broad range of financial services in the domestic market and in several key markets outside Germany. With the takeover of Dresdner Bank, its branch network (1,200 branches) became one of the largest among Germany's private banks, with 11 million domestic private clients. On the downside, the Dresdner takeover brought into the group substantial risk related to volatile corporate and investment banking businesses.

Following several business restructuring measures, the new group structure is more focused on customer businesses in the corporate, private customer and investment banking divisions, while non-customer businesses have become less important. Portfolios that are no longer needed have been separated out and transferred to the Portfolio Restructuring Unit (PRU), a division exclusively created to wind down structured credit and non-strategic portfolios (see Annex 1). The four key business segments in CBK's core bank are: MSB, PC, CEE and C&M.

- The German government is CBK's largest shareholder, with 25% plus one share
- Ongoing restructuring programme includes the divestment of the 100% subsidiary EUROHYPO AG by 2014

Strategy

In its "Strategic Roadmap 2012" programme, which the bank launched in 2009 after accessing government support for its acquisition of Dresdner Bank, CBK foresees a thorough de-leveraging, de-risking and restructuring of its business model down to three main pillars:

- the core bank, consisting of the customer-centric banking activities, MSB, PC, CEE and C&M;
- ABF, including EHY (real estate and public-sector lending) and Deutsche Schiffsbank (ship financing); and
- PRU, containing assets classified as either toxic or non-strategic, which will gradually be wound down and/or divested.

CBK's mid- to long-term strategic aims are:

- completion of the Dresdner integration and the realisation of EUR2.4bn of identified annual cost synergies by 2012 (compared with an indexed combined cost base for 2012);
- the implementation of conditions set by the European Commission for approving state aid (eg, the sale of EHY by the end of 2014 and a reduction of the balance sheet to EUR900bn by 2012 and EUR600bn after the sale of EHY); and
- improvement of the group's profitability and capital efficiency in order to start repaying the government's silent participation contribution by 2012.

CBK projects operating profit of more than EUR4bn by 2012 after loan loss provisions of about EUR2bn but before repayment of the government-held silent participations. This target is accompanied by a post-tax ROE of c.12%, a cost-income ratio of below 60% and an RWA cap of EUR290bn. Fitch does not consider these targets — specifically, the operating profit target and the sale of EHY — to be too ambitious, but they do require a further normalisation of the financial markets and a stabilisation of the economic environment.

Ownership

After providing direct support to CBK through an EUR18.2bn capital injection following the Dresdner Bank takeover (EUR1.8bn in ordinary shares and EUR16.4bn in deeply subordinated perpetual hybrid capital instruments), the German government became CBK's largest shareholder with a stake of 25% plus one share. The second-largest shareholder is Allianz SE with a more than 10% stake, followed by Assicurazioni Generali SpA ('A+'/Outlook Negative) with a stake of below 5%; around 60% of shares are held via free float.

Performance

After several consecutive quarters of losses, affected by the market dislocation, write-downs on its various securities portfolios and loan impairment charges, CBK posted a profit for both the first and second quarters of 2010, with an operating profit of EUR981m for H110. However, this positive result benefited from one-offs and cannot be extrapolated for the full-year 2010, given the still substantial risks in the financial markets, specifically relating to credit spread widening for Southern European states, CBK's CRE assets and uncertainty over the course of the economy.

- HY10 financial performance better than expected after weak 2009
- HY10 results mainly driven by buoyant trading environment in Q1 and a recovery of the credit cycle, resulting in lower risk provisions
- The core bank will be the main revenue and profit driver in the long run, while non-core businesses will be wound down

In Q110, CBK benefited from a favourable market environment, with better trading results in particular. Revenue improved by 26% to EUR6.7bn in H110 (EUR5.4bn in H109), driven by a EUR1.2bn trading profit. Risk provisions fell 30% to EUR1.3bn in H110 (EUR1.8bn in H109), and the cost/income ratio improved to 65.9% (81.95%).

Among CBK's business segments, MSB is the most stable profit provider, whereas the investment banking segment (C&M) remains highly volatile. C&M was the biggest performance contributor in Q110, mainly driven by positive results within the fixed-income business, but its results fell sharply in Q210. PRU generated operating profit of EUR256m in H110 (EUR1.7bn loss in H109). This positive performance resulted from asset sales and reversals of previous impairments, and CBK expects PRU to be profitable over the full-year 2010. The PC segment continues to struggle to cope with the retail banking environment, with particular pressure on deposit margins. ABF remains a drain on the bank's overall performance due to the high risk costs in CRE and structurally unprofitable public-sector lending.

The planned sale of EHY by 2014 would improve the group's overall business and credit profile and consequently its performance. In this context, WestLB AG ('A–'/RWN; 'F1'/RWN) is currently in the process of selling its profitable and much smaller commercial real estate lender, WestImmo, without any visible success. A stable performance from Poland's BRE Bank and the release of loan loss provisions made a positive contribution to the CEE segment.

Management believes LICs reached a peak in both the German and CEE businesses in Q409. For the whole group, CBK's management has adjusted its loan loss provision (LLP) target to below EUR3bn from EUR3.8bn at the beginning of 2010 (EUR4.2bn in 2009). The target should fall further to EUR2.0bn by 2012. Although the current target looks ambitious compared with the group's performance over the last three years, it is in line with the industry and should prove achievable provided the economic environment continues on its recovery trend throughout 2010. LICs in 2010 will predominantly be driven by the CRE book (EHY), followed by CEE and MSB due to corporate insolvencies lagging the economic cycle. In contrast, only minor LLPs are expected for PRU.

Net interest income should remain flat in 2010 compared with 2009 provided the low interest rate environment persists throughout the year. Management expects net commission income and trading profits to improve moderately as a result of a more favourable market environment for securities transactions and the positive effects of the de-risking of non-core portfolios. Operating expenses are likely to remain at the current level in 2010, with cost synergy benefits more prominent in 2011. In the long term, the group's revenue and operating earnings should be more stable and predominantly driven by core segments, with MSB and PC the main performance contributors.

Risk Management

CBK's credit risk strategy centres on growth in its PC and SME lending businesses in both Germany and CEE, while the focus in C&M is on trading and investment banking products. Following the Dresdner Bank takeover, the group's risk profile has suffered from a dramatic increase in exposure to credit and market risk, the former specifically through Dresdner's larger structured-credits exposure and the latter through its more complex and trading-oriented investment banking arm. CBK is downsizing these exposures in the course of the integration and restructuring process.

Credit Risk

The key risk factor at CBK is the credit risk exposure in its corporate and institutional loan book, which primarily consists of SME corporate loans, CRE financing, ship and project financing, and the structured credit portfolio (ABS). Risk information disclosed by the bank mostly relates to exposure at default (EaD, comprising on- and off-balance-sheet customer and interbank exposure), which cannot be matched to the balance sheet (see Annex 3.1). At H110, the core bank accounted for around 56% of the group's total bank book EaD of EUR606bn. Of the core bank's EaD, the PC book accounted for 22%, MSB for 32%, C&M for 26%, and CEE for 7%. The remaining 44% of the group's EaD mainly related to the ABF portfolio (39% of group EaD), at which roughly half of EaD related to the public finance portfolio. PRU only accounted for 5% of group EaD. In terms of region, Germany accounted for 49% of group EaD, the rest of Western Europe for 25%, and North America for 7%.

The PC business underwent various profile changes in Q309, including the transfer of the EHY retail portfolio, which is mostly secured by prime collateral, to the ABF segment. This reduced PC's EaD volume by around EUR20bn, with a small rise in risk density. In MSB, despite a negative trend in customer ratings, roughly two-thirds of the overall portfolio was classified as "investment grade" at H110. Credit volume fell during 2009 and H110 due to lower demand for credit as well as a reduction in credit supply in Western Europe and Asia as part of a change in the group's credit risk strategy.

German corporate banking remains the segment's core business, accounting for over 50% of total exposure. Within the CEE segment, BRE Bank clearly dominates in terms of EaD (80% of the segment's EaD). The Polish economy has fared much better than most economies in the region in recent years, with positive real GDP growth during 2009 and in 2010 to date. It has also benefited from an appreciation of the zloty (thanks to a recent intervention by the national bank).

In contrast, Ukraine is one of the countries in CBK's portfolio that suffered the most from the economic crisis, resulting in significant credit defaults at Bank Forum. However, according to management, defaults in the Ukrainian business have reached their peak and impairments should therefore fall after 2010. In Fitch's view, management's assessment of Ukraine is plausible because the portfolio has performed so badly that, short of a total write-off, downside risk has already been captured.

Russia also came under severe pressure during the financial crisis, and because of its dependence on commodities, it was also hit by falling oil and gas prices. As a consequence, CBK's Russian unit, CB Eurasija, registered a deterioration in risk density and further rating downgrades. Here too, however, impairments are expected to fall as the peak in defaults should have passed.

In the ABF segment, EaD of EUR239bn as of H110 is dominated by the public finance business (EaD of EUR118bn), followed by CRE (EUR75bn) and shipping (EUR24bn). Public finance EaD fell from EUR129bn in Q409, with further reductions planned by end-2011 (to EUR100bn). The book comprises receivables and securities, mainly with long maturities, the majority of which (EaD of EUR74bn) are attributable to public-sector borrowers (eg, sovereigns, federal states, regions and cities). The principal exposure is to Germany and Western Europe. The remainder of the portfolio relates to banks (EaD of EUR45bn), again mainly in Germany/Western Europe (over 90%), the majority of which business consists of securities/loans. EUR17bn of public finance EaD relates to Ireland, Italy, Portugal, Spain and Greece. Volumes of grandfathering, guarantee/maintenance obligations or other public-sector declarations of liability are sizeable, as are covered bond volumes. The public finance book is largely exposed to "Fat Tail Risk" and spread risk.

The CRE portfolio, which is conducted by EHY, is dominated by the three areas: offices (EaD of EUR28bn), commerce (EUR21bn) and residential real estate (EUR9bn). By geography, its main EaD contributors are the UK (EaD of EUR8bn), the US (EUR5bn) and Spain (EUR5bn), which remain the hot spots in terms of negative market performance. EHY's retail mortgage book's EaD amounted to EUR18bn as of H110, consisting mainly of owner-occupied homes (EUR11bn), owner-occupied flats (EUR4bn) and multi-family houses (EUR3bn). In shipping finance, EaD of EUR24bn is split between Deutsche Schiffsbank (EaD of EUR14bn) and CBK (EUR10bn), with the main segments being containers (EUR7bn), tankers (EUR6bn) and bulk carriers (EUR5bn). The ABF segment is expected to be reduced further by 2012.

In terms of the size of default portfolios, the ABF segment has the highest NPL volume, followed by MSB. These two segments combined accounted for 60% of total NPLs at H110. Total NPLs accounted for roughly 6% of the gross loan book. About EUR2.3bn is "uncovered" through collateral and impairment allowances. This is because of CBK's assumption that it can recover around 20% of the overall default portfolio. Collateral relates to: PC (land charges); MSB (guarantees, mortgage liens on CRE, pledged assets); CEE (land charges and other assets); C&M (pledged assets and guarantees); and ABF (land charges on CRE, mortgages on ships, and land charges on residential real estate).

Market Risk

The main sources of CBK's market risk exposure are interest rate and credit spread risk, the former in the banking (Public Finance, Treasury) and trading books, and the latter predominantly in the structured credit portfolio within PRU as well as the trading book (see Annex 3.2). Although the sale of non-strategic investments (ABF and PRU) reduced market risk in the course of 2009 and Q110, these holdings remain the driver of the group's market risk exposure. Market risk is restricted by a comprehensive system of limits, including overnight stress-test limits and loss review triggers. Global market risk limits, including for value at risk (VaR) and stress, are set by the market committee, approved by the board and monitored on a daily basis. CBK's internal model covers equity risk, including residual risk, general and specific interest rate risk and FX risk.

The PRU segment includes Structured Credit (ABS) with a risk exposure of EUR17.6bn in Q210 (a slight increase from EUR17.3bn in Q110 due to general spread widening especially on CDO tranches) and other non-securitised positions of EUR4.2bn (net as of H110). The book is actively immunised against market movements using credit default swaps and standardised credit indices and index tranches. Reductions of the portfolio have increasingly been focused on lower-grade products ('BBB' and below), where investor interest continues to build up, and have been managed within narrow limits for VaR and credit spread sensitivities. At end-2009, ABS positions with a nominal value of EUR11.7bn (EUR8.7bn market value) were hedged via credit default swaps, of which around EUR6bn was hedged through monoline insurers. To cover the default risk of monoline insurers, CBK has set aside reserves in the form of counterparty default adjustments in the amount of EUR0.3bn, with replacement risk resulting from these positions totalling EUR0.4bn. The ABS portfolio saw a narrowing of spreads in the last few months of 2009 and at the beginning of 2010, from which the senior tranches benefited the most. The bank continuously reduced its ABS exposure during 2009 and the first three months of 2010 as the market for these securities recovered. ABS positions were reduced from EUR29.1bn at end-2009 to EUR26.6bn at H110 in nominal terms, and from EUR20.0bn to EUR17.6bn in terms of market value ("risk exposure").

Credit spread risk in the trading book was lower at end-H110 than at end-2009, despite the increase in market volatility in Q210. The reduction is the result of an overall reduction in bond positions in the trading portfolio. However, the rise in the USD vs the EUR has increased the ABS position, and the accompanying spread tightening has increased the loss potential of this portfolio. In this context, during Q109, the VaR model was changed to include credit spread risk from ABS securities and more complex credit derivatives, causing the credit spread VaR to rise. The bank uses a mark-to-model valuation approach for those transactions in the trading book whose asset values are still depressed by the financial market crisis, which mainly applies to ABS positions. Credit spread sensitivities in the banking book amounted to EUR91m as of end-H110. However, about 76% of this is related to securities classified as Loans and Receivables (LaR); hence, changes in their credit spreads affect neither the revaluation reserve nor the income statement.

Operational Risk

For Basel II purposes, the group uses the advanced measurement approach (AMA). Regulatory capital based on the AMA amounted to EUR1,559m at end-2009. Of this capital, C&M, PC and MSB accounted for 80%, as in previous years. Until receipt of regulatory approval, CBK and Dresdner Bank calculate capital requirements separately and aggregate the results to a total that is reported.

The integration of Dresdner Bank has seen a merger of the systems, processes and data of the operational risk framework, and the development of a new common model for calculating capital requirements for operational risk, which has been adjusted for the requirements of the new group structure.

Funding and Capital

- Dependence on wholesale funding increased with Dresdner takeover
- Core capital low at 2%, but current Tier 1 capital ratio of 10.5%, which includes government silent participations
- Replacement of silent participations most likely via profits, an equity capital issue, asset sales and/or a swap into common equity

Funding

CBK reduced its dependence on wholesale markets in 2009, despite the Dresdner Bank takeover. In addition, CBK benefited from government guarantees by issuing EUR5bn of SoFFin-guaranteed bonds; the bank was able to return a EUR10bn unused guarantee facility to SoFFin in August and September 2009. The bank expects around EUR48bn of capital market liabilities to mature during 2010. Given continued balance sheet reductions and funds already raised, CBK has reduced its refinancing needs in 2010 to EUR12bn-15bn as it will not be replacing EUR33bn-36bn of capital market liabilities maturing in 2010.

Of the EUR12bn-15bn, CBK aims to raise 30%-40% as unsecured funding, with a particular focus on its retail franchise. The remainder will be raised through covered bonds (mainly mortgage as well as public-sector Pfandbriefe). EUR6.4bn of this EUR12bn-15bn was raised in Q110, with an average maturity for unsecured funds of six years. The majority of maturing public-sector Pfandbriefe will not be replaced. In Q210, issuing volumes dropped to EUR3.3bn, due in part to the sovereign debt crisis and the funding market freeze. By the end of July, CBK had issued EUR11.2bn, or over 80% of its funding plan for 2010.

CBK only commands a small share of the domestic retail deposit market compared with its European peers. In H110, it derived around a quarter of its non-equity funding from customer deposits, the majority being German customers. Fluctuations in interbank funding and interbank assets mainly relate to the repo business, which is used opportunistically or to manage liquidity spikes.

Liquidity

CBK's liquidity situation has clearly benefited from the EUR18.2bn of capital injected by the German government and the EUR5bn bond issues under government guarantees. In addition, the gradual downsizing of liquidity-intensive businesses, such as the public finance and trading businesses from Dresdner Bank, has contributed to an improving liquidity and capital picture.

Group treasury is responsible for liquidity management, reporting directly to the CEO. Risk Control monitors compliance with the limits set. Operational liquidity management comprises the management of daily payments and planning for expected cash flows, while strategic liquidity management involves establishing and assessing the maturity profile of all assets and liabilities that are relevant for liquidity purposes, including the core deposit base. Commerzbank Group treasury has a liquidity portfolio of securities eligible for central bank borrowing purposes in order to deal with unexpected short-term liquidity outflows. The portfolio stood at EUR96bn at end-2009. The eligibility of these assets for central bank borrowing is reviewed regularly.

Capital

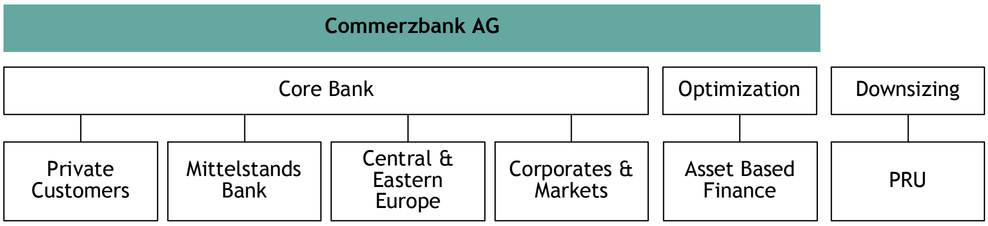
CBK's equity capital contains silent participations of EUR17.2bn, of which EUR16.4bn comes from the government through SoFFin, which the bank received in two tranches during the crisis and ahead of the Dresdner merger. Although SoFFin's silent participations are loss absorbing on a going-concern basis, non-cumulative and perpetual, Fitch views CBK's economic capitalisation as weak. The agency believes the bank will find it difficult to pay back state capital through recurring profits for some time. According to the Basel Committee's 12 September announcement, the hybrid capital provided by the state will be grandfathered until 1 January 2018. However, CBK will need to have built up adequate common equity by then to meet minimum regulatory capital requirements, which emphasises the need for the bank to restructure quickly and successfully. Fitch's core capital ratio for CBK, which excludes all hybrid capital, is a very low 2%. The regulatory Tier 1 capital ratio stood at 10.8% as of end-June 2010, which is in line with international peers' levels and, in Fitch's view, is likely to be large enough to absorb potential losses without the need for additional government support (see Annex 4) for the period up until 2018. Fitch's eligible capital ratio, which includes a limited amount of eligible hybrid capital and the government's silent participations in full, amounted to 8.42% at end-H110.

It is unclear to Fitch at this stage how CBK will repay or replace its silent participations during the 2013-2018 transition period. The agency expects this to be achieved by a combination of profit retention, equity capital issuance, asset sales and a swap of the silent participations into common equity.

Annex 1

Group Structure

Commerzbank AG - Group Structure



Source: Commerzbank AG; Fitch; as of July 2010; simplified group structure

Private Customers (PC)

CBK is one of the leading German banks in the PC segment, with around 11m private customers and a relatively dense network of 1,200 branches. According to the bank, it strives to be the number-one bank for more sophisticated customers. CBK aims for value creation in this segment through cost synergies via an optimisation of the branch network and sales cooperation with the Allianz Group.

Mittelstandsbank (MSB)

This segment comprises CBK's SME activities, mainly in Germany but also in some key markets outside its domestic market. It also includes corporate banking and financial institutions. CBK's market penetration in this segment is one of the strongest among German private banks, with a c.12% share of the SME market (CBK's estimates). This is attributable to its large branch network. CBK also plays a dominant role in the domestic foreign trade market, where it carries out around 30% of the German trade service business. This is attributable to CBK's international business relationship with of over 6,000 financial institutions (German and foreign banks, FIs and Central Banks).

Central & Eastern Europe (CEE)

Operations in this segment include BRE Bank in Poland (69.8%-owned by CBK), Ukraine's Bank Forum (89%-owned after a recent share capital increase), Russia's Commerzbank (Eurasija) SAO, Hungary's Commerzbank ZRT, and branches in the Czech Republic and Slovakia, as well as minority investments in microfinance and Russia's Promsvyazbank (considered as financial investment). The focus of the CEE segment, which incorporates c.3.7m customers, is on corporate, retail and to some extent investment banking.

Corporates and Markets (C&M)

This segment comprises the group's investment banking and capital markets activities: the Fixed Income & Currencies, Equity Markets & Commodities and Corporate Finance divisions. Following the merger with Dresdner Bank, which combined CBK's corporate (multinational) clients and Dresdner's institutional clients bases, the investment banking activities within C&M are being rescaled to focus more on customer-driven business, while the proprietary business has been reduced. The bank's strategic goal within this segment is to become an established market leader in both debt and equity.

Asset-Based Finance (ABF)

CBK is one of the leading players in commercial real estate (CRE) and asset management, with around EUR45bn of AuM. This segment also includes sizeable portfolios of ship lending and public-sector finance businesses. ABF is being restructured and "optimised" ahead of the sale of EHY and, most likely, Deutsche Schiffsbank. The group plans to reduce the CRE loan portfolio to about EUR60bn by end-2012 (current EaD: over EUR70bn), while the public finance loan portfolio is due to be reduced to a maximum of EUR100bn by 2011.

Portfolio Restructuring Unit (PRU)

Assets held in this segment include ABS securities that are not guaranteed by states, other structured credit products, and proprietary trading positions in corporate financial bonds and credit derivatives. The aim is to reduce these positions and to optimise the portfolio's value without excessively affecting the income statement. However, as it is unclear whether the securitisation market will fully recover any time soon, the timing of exits is unclear as it is strongly dependent on the liquidity in the various market segments.

Annex 2

Key Performance Indicators — German Banks Peers

(EURm/%)	Deutsche Bank AG 2009	Deutsche Bank AG 2008	Deutsche Postbank AG 2009	Deutsche Postbank AG 2008	UniCredit Bank AG 2009	UniCredit Bank AG 2008	Commerzbank AG 2009	Commerzbank AG 2008
Net interest margin	0.76	0.67	1.06	1.16	1.12	0.98	0.87	0.80
Non-interest expense/gross revenue	71.46	149.28	85.04	98.75	52.30	95.59	83.03	78.35
Loans and securities impairment charges/pre-impairment operating profit	32.49	-18.7	179.32	2,876.92	50.7	569.64	216.77	125.93
Operating profit/average equity	15.54	-19.23	-8.21	-23.71	6.71	-3.35	-9.24	-2.34
Operating profit/average total assets	0.30	-0.33	-0.18	-0.49	0.37	-0.18	-0.26	-0.06
Tier 1 regulatory capital ratio	12.60	10.10	7.00	6.50	17.80	14.30	10.50	10.10
Equity/total assets	2.53	1.45	2.32	2.14	6.5	5.02	3.06	3.17
Growth of total assets	-31.86	14.41	-1.99	13.95	-20.75	8.64	35.01	1.42
Impaired loans (NPLs)/gross loans	2.75	1.36	4.67	2.79	6.29	4.39	6.03	4.35
Reserves for impaired loans/impaired loans	46.42	52.63	31.64	45.00	52.94	57.99	42.60	42.21

Source: Fitch

Key Performance Indicators — European Restructuring Peers

(EURm/%)	Royal Bank of Scotland 2009	Royal Bank of Scotland 2008	ING Group 2009	ING Group 2008	KBC Group 2009	KBC Group 2008	Commerzbank AG 2009	Commerzbank AG 2008
Deposit ratio (customer deposit/interest-bearing liabilities)	0.34	0.34	0.56	0.55	0.51	0.48	0.32	0.28
Loan/customer deposits	121.06	140.53	116.44	111.75	107.35	107.73	136.61	170.47
Loans and securities impairment charges/pre-impairment operating profit	232.97	-4,410.93	77.78	82.64	248.75	-288.63	216.77	125.93
Operating profit/average equity	-12.13	-10.03	4.60	3.34	-15.86	-19.29	-9.24	-2.34
Operating profit/average total assets	-0.43	-0.40	0.14	0.07	-0.49	-0.82	-0.26	-0.06
Tier 1 regulatory capital ratio	14.10	10.00	10.23	7.50	10.76	8.89	10.50	10.10
Equity/total assets	4.90	2.65	3.54	2.33	3.14	3.34	3.06	3.17
Growth of total assets	-29.36	26.37	-14.75	4.08	-8.75	-0.08	35.01	1.42
Impaired loans (NPLs)/gross loans	4.83	2.15	2.15	1.43	5.70	3.19	6.03	4.35
Reserves for impaired loans/impaired loans	42.25	56.93	36.33	29.40	46.89	59.71	42.60	42.21

Source: Fitch

Annex 3.1

Credit Risk Parameters by Segments as at 30 June 2010

	Exposure at default (EURbn)	Expected loss (EURm)	Risk density (bp)	Unexpected loss (EURbn)
Focus: Core bank	**338**	**1,252**	**37**	**8,708**
Private customers	**75**	**265**	**35**	**1,099**
Residential mortgages	36	124	34	
Individual loans	14	64	46	
Consumer & instalment loans/credit cards	11	50	44	
Others	13	28	34	
Mittelstandsbank	**108**	**440**	**41**	**3,630**
Financial institutions	20	59	30	
MSB domestic	64	286	45	
MSB international	25	95	39	
Central & Eastern Europe	**25**	**237**	**96**	**798**
BRE Group	20	123	60	
CB Eurasija	2	35	205	
Bank forum	1	68	1,000	
Other	2	11	56	
Corporate & markets	**87**	**293**	**34**	**2,817**
Germany	30	131	43	
Western Europe	29	84	29	
CEE	3	10	30	
North America	14	45	32	
Other	10	23	24	
Others and consolidation	**43**	16	4	365
Optimisation	**239**	**771**	**32**	**4,803**
Asset based finance				
Commercial real estate	75	346	46	
EUROHYPO retail	18	36	20	
Shipping	24	296	118	
Public finance	118	93	8	
Downsize	**29**	**156**	**73**	**1,189**
PRU	29	156	73	1,189
Group	606	2,180	36	14,700

Source: Fitch

Annex 3.2

VaR Contribution by Risk Type in the Trading Book — Commerzbank Only
(VaR 99% confidence level, 1-day holding period)

(EURm)	30 Jun 2010	31 Dec 2009	31 Dec 2008 Commerzbank	31 Dec 2008 Dresdner Bank
Credit spread	25.3	32.6	6.4	10.6
Interest rate	9.8	13.9	10.3	11.2
Equity	5.9	9.0	11.2	7.9
FX	2.0	3.5	2.2	4.0
Commodities	2.7	1.5	0.3	0.3
Total	**45.8**	**60.5**	**30.5**	**33.9**

Source: Fitch

Annex 3.3

VaR Contribution (Trading Book): Commerzbank vs Restructuring Peer Group as of 31 Dec 2009

(VaR 99% confidence level, 1-day holding period)

(EURm)	Commerzbank	Royal Bank of Scotland	ING Group
Credit spread	32.6	148.3	33
Interest rate	13.9	57.0	-
Equity	9.0	13.0	7
FX	3.5	17.9	5
Commodities	1.5	14.3	(Diversification -6)
Total	**60.5**	**155.2**	**39**

Source: Fitch

Annex 4

Commerzbank Group Economic Capital Measures

(EURbn)	June 2010	Dec 2009	March 2009	Dec 2008
Capital for risk coverage	**31**	**30**	**21**	**23**
Regulatory RWA	**290**	**280**	**316**	**222**
Of which credit risk	259	246	286	132
Of which market risk	11	14	13	32
Of which operational risk	20	20	17	100
Economic RWA excl. diversification		**283**	**302**	**132**
Of which credit risk		173	188	63
Of which market risk		63	74	46
Of which operational risk		31	26	15
Of which business risk		16	13	7
Diversification btw. risk types		**43**	**42**	**32**
Economic RWA incl. diversification		**240**	**260**	**100**
Economic RWA (stress scenario)		**358**	**358**	**203**
Of which credit risk		206	219	90
Of which market risk		79	78	69
Of which operational risk		53	45	34
Of which business risk		20	16	10
Tier 1 capital ratio (%)	**10.8**	**10.5**	**6.8**	**10.1**
Economic capital ratio incl. diversification (%)	**15.6**	**12.3**	**8.2**	**22.6**
Economic capital ratio excl. diversification (%)		**10.4**	**7.1**	**17.1**
Economic capital ratio (stress scenario) (%)	**10.2**	**8.2**	**6.0**	**11.1**

Source: Fitch

Commerzbank AG
Income Statement

	30 Jun 2010			31 Dec 2009	31 Dec 2008
	6 Months - Interim USDm Unaudited	6 Months - Interim EURm Unaudited	As % of Earning Assets	Year End EURm Unqualified	Year End EURm Unqualified
1. Interest Income on Loans	11,216.9	9,141.0	2.14	20,012.0	21,075.0
2. Other Interest Income	519.1	423.0	0.10	283.0	193.0
3. Dividend Income	108.0	88.0	0.02	58.0	104.0
4. Gross Interest and Dividend Income	**11,844.0**	**9,652.0**	**2.26**	**20,353.0**	**21,372.0**
5. Interest Expense on Customer Deposits	7,014.1	5,716.0	1.34	n.a.	n.a.
6. Other Interest Expense	231.9	189.0	0.04	13,164.0	16,643.0
7. Total Interest Expense	**7,246.0**	**5,905.0**	**1.38**	**13,164.0**	**16,643.0**
8. Net Interest Income	**4,597.9**	**3,747.0**	**0.88**	**7,189.0**	**4,729.0**
9. Net Gains (Losses) on Trading and Derivatives	1,230.8	1,003.0	0.23	-358.0	-454.0
10. Net Gains (Losses) on Other Securities	-72.4	-59.0	-0.01	417.0	-665.0
11. Net Gains (Losses) on Assets at FV through Income Statement	225.8	184.0	0.04	n.a.	n.a.
12. Net Insurance Income	n.a.	n.a.	-	n.a.	n.a.
13. Net Fees and Commissions	2,291.0	1,867.0	0.44	3,722.0	2,846.0
14. Other Operating Income	-9.8	-8.0	0.00	485.0	349.0
15. Total Non-Interest Operating Income	**3,665.3**	**2,987.0**	**0.70**	**4,266.0**	**2,076.0**
16. Personnel Expenses	2,676.3	2,181.0	0.51	4,698.0	2,499.0
17. Other Operating Expenses	2,808.8	2,289.0	0.53	4,813.0	2,833.0
18. Total Non-Interest Expenses	**5,485.1**	**4,470.0**	**1.04**	**9,511.0**	**5,332.0**
19. Equity-accounted Profit/ Loss - Operating	n.a.	n.a.	-	n.a.	n.a.
20. Pre-Impairment Operating Profit	**2,778.2**	**2,264.0**	**0.53**	**1,944.0**	**1,473.0**
21. Loan Impairment Charge	1,574.4	1,283.0	0.30	4,214.0	1,855.0
22. Securities and Other Credit Impairment Charges	n.a.	n.a.	-	n.a.	n.a.
23. Operating Profit	**1,203.8**	**981.0**	**0.23**	**-2,270.0**	**-382.0**
24. Equity-accounted Profit/ Loss - Non-operating	n.a.	n.a.	-	n.a.	n.a.
25. Non-recurring Income	n.a.	n.a.	-	n.a.	n.a.
26. Non-recurring Expense	n.a.	n.a.	-	2,389.0	25.0
27. Change in Fair Value of Own Debt	n.a.	n.a.	-	n.a.	n.a.
28. Other Non-operating Income and Expenses	n.a.	n.a.	-	n.a.	n.a.
29. Pre-tax Profit	**1,203.8**	**981.0**	**0.23**	**-4,659.0**	**-407.0**
30. Tax expense	-117.8	-96.0	-0.02	-26.0	-466.0
31. Profit/Loss from Discontinued Operations	n.a.	n.a.	-	n.a.	n.a.
32. Net Income	**1,321.6**	**1,077.0**	**0.25**	**-4,633.0**	**59.0**
33. Change in Value of AFS Investments	-470.0	-383.0	-0.09	638.0	-3,303.0
34. Revaluation of Fixed Assets	n.a.	n.a.	-	n.a.	n.a.
35. Currency Translation Differences	440.5	359.0	0.08	-217.0	-324.0
36. Remaining OCI Gains/(losses)	99.4	81.0	0.02	-283.0	n.a.
37. Fitch Comprehensive Income	**1,391.5**	**1,134.0**	**0.26**	**-4,495.0**	**-3,568.0**
38. Memo: Profit Allocation to Non-controlling Interests	67.5	55.0	0.01	-96.0	59.0
39. Memo: Net Income after Allocation to Non-controlling Interests	1,254.1	1,022.0	0.24	-4,537.0	0.0
40. Memo: Common Dividends Relating to the Period	n.a.	n.a.	-	0.0	0.0
41. Memo: Preferred Dividends Related to the Period	n.a.	n.a.	-	n.a.	n.a.
Exchange rate	USD1 = EUR0.81493			USD1 = EUR0.69416	USD1 = EUR0.71855

Commerzbank AG

Balance Sheet

	30 Jun 2010			31 Dec 2009	31 Dec 2008
	6 Months - Interim	Months - Interim	As % of	Year End	Year End
	USDm	EURm	Assets	EURm	EURm
Assets					
A. Loans					
2. Other Mortgage Loans	n.a.	n.a.	-	139,904.0	117,035.0
5. Other Loans	430,940.1	351,186.0	39.12	221,579.0	173,113.0
6. Less: Reserves for Impaired Loans/ NPLs	12,106.6	9,866.0	1.10	9,289.0	5,333.0
7. Net Loans	**418,833.5**	**341,320.0**	**38.02**	**352,194.0**	**284,815.0**
8. Gross Loans	**430,940.1**	**351,186.0**	**39.12**	**361,483.0**	**290,148.0**
9. Memo: Impaired Loans included above	n.a.	n.a.	-	21,804.0	12,634.0
10. Memo: Loans at Fair Value included above	n.a.	n.a.	-	n.a.	n.a.
B. Other Earning Assets					
1. Loans and Advances to Banks	148,187.0	120,762.0	13.45	106,689.0	62,969.0
2. Trading Securities and at FV through Income	56,166.8	45,772.0	5.10	41,401.0	25,587.0
3. Derivatives	275,897.3	224,837.0	25.04	183,643.0	103,510.0
4. Available for Sale Securities	56,543.5	46,079.0	5.13	44,998.0	41,534.0
5. Held to Maturity Securities	n.a.	n.a.	-	n.a.	n.a.
6. At-equity Investments in Associates	971.9	792.0	0.09	536.0	420.0
7. Other Securities	102,462.8	83,500.0	9.30	85,758.0	85,496.0
8. Total Securities	**492,042.3**	**400,980.0**	**44.66**	**356,336.0**	**256,547.0**
13. Total Earning Assets	**1,059,062.7**	**863,062.0**	**96.14**	**815,219.0**	**604,331.0**
C. Non-Earning Assets					
1. Cash and Due From Banks	15,965.8	13,011.0	1.45	10,329.0	6,566.0
4. Fixed Assets	2,126.6	1,733.0	0.19	1,779.0	1,240.0
5. Goodwill	2,583.0	2,105.0	0.23	2,061.0	1,006.0
6. Other Intangibles	1,351.0	1,101.0	0.12	1,148.0	330.0
7. Current Tax Assets	n.a.	n.a.	-	1,267.0	684.0
8. Deferred Tax Assets	6,351.5	5,176.0	0.58	4,370.0	6,042.0
9. Discontinued Operations	7,106.1	5,791.0	0.65	2,868.0	n.a.
10. Other Assets	7,081.6	5,771.0	0.64	5,062.0	5,025.0
11. Total Assets	**1,101,628.4**	**897,750.0**	**100.00**	**844,103.0**	**625,224.0**
Liabilities and Equity					
D. Interest-Bearing Liabilities					
1. Customer Deposits - Current	176,865.5	144,133.0	16.05	131,773.0	57,883.0
2. Customer Deposits - Savings	8,287.8	6,754.0	0.75	7,429.0	9,821.0
3. Customer Deposits - Term	142,127.5	115,824.0	12.90	125,416.0	102,499.0
4. Total Customer Deposits	**327,280.9**	**266,711.0**	**29.71**	**264,618.0**	**170,203.0**
5. Deposits from Banks	176,693.7	143,993.0	16.04	140,634.0	128,492.0
6. Other Deposits and Short-term Borrowings	82,150.6	66,947.0	7.46	62,625.0	53,889.0
7. Total Deposits, Money Market and Short-term Funding	**586,125.2**	**477,651.0**	**53.21**	**467,877.0**	**352,584.0**
8. Senior Debt Maturing after 1 Year	126,621.9	103,188.0	11.49	108,745.0	111,938.0
9. Subordinated Borrowing	19,560.0	15,940.0	1.78	15,850.0	11,836.0
11. Total Long Term Funding	**146,181.9**	**119,128.0**	**13.27**	**124,595.0**	**123,774.0**
12. Derivatives	287,225.9	234,069.0	26.07	189,701.0	113,257.0
13. Trading Liabilities	17,455.5	14,225.0	1.58	14,632.0	4,504.0
14. Total Funding	**1,036,988.5**	**845,073.0**	**94.13**	**796,805.0**	**594,119.0**
E. Non-Interest Bearing Liabilities					
1. Fair Value Portion of Debt	n.a.	n.a.	-	-416.0	n.a.
3. Reserves for Pensions and Other	6,550.3	5,338.0	0.59	5,115.0	2,030.0
4. Current Tax Liabilities	2,691.0	2,193.0	0.24	2,586.0	3,161.0
9. Other Liabilities	15,956.0	13,003.0	1.45	8,942.0	2,914.0
10. Total Liabilities	**1,062,185.7**	**865,607.0**	**96.42**	**813,032.0**	**602,224.0**
F. Hybrid Capital					
1. Pref. Shares and Hybrid Capital accounted for as Debt	5,270.4	4,295.0	0.48	4,495.0	3,158.0
2. Pref. Shares and Hybrid Capital accounted for as Equity	21,044.8	17,150.0	1.91	17,150.0	n.a.
G. Equity					
1. Common Equity	16,489.8	13,438.0	1.50	12,311.0	22,538.0
2. Non-controlling Interest	854.1	696.0	0.08	570.0	657.0
3. Securities Revaluation Reserves	-2,641.9	-2,153.0	-0.24	-1,755.0	-2,221.0
4. Foreign Exchange Revaluation Reserves	-154.6	-126.0	-0.01	n.a.	n.a.
5. Fixed Asset Revaluations and Other Accumulated OCI	-1,419.8	-1,157.0	-0.13	-1,700.0	-1,132.0
6. Total Equity	**13,127.5**	**10,698.0**	**1.19**	**9,426.0**	**19,842.0**
7. Total Liabilities and Equity	**1,101,628.4**	**897,750.0**	**100.00**	**844,103.0**	**625,224.0**
8. Memo: Fitch Core Capital	7,135.6	5,815.0	0.65	4,349.0	n.a.
9. Memo: Fitch Eligible Capital	30,318.1	24,707.1	2.75	22,612.9	n.a.
Exchange rate		USD1 = EUR0.81493		JSD1 = EUR0.6941	JSD1 = EUR0.7185

Commerzbank AG

Summary Analytics

	30 Jun 2010	31 Dec 2009	31 Dec 2008
	6 Months - Interim	Year End	Year End
A. Interest Ratios			
1. Interest Income on Loans/ Average Gross Loans	5.19	5.37	7.25
2. Interest Expense on Customer Deposits/ Average Customer Deposits	4.37	n.a.	n.a.
3. Interest Income/ Average Earning Assets	2.34	2.46	3.62
4. Interest Expense/ Average Interest-bearing Liabilities	1.47	1.62	2.86
5. Net Interest Income/ Average Earning Assets	0.91	0.87	0.80
6. Net Int. Inc Less Loan Impairment Charges/ Av. Earning Assets	0.60	0.36	0.49
7. Net Interest Inc Less Preferred Stock Dividend/ Average Earning Assets	0.91	0.87	0.80
B. Other Operating Profitability Ratios			
1. Non-Interest Income/ Gross Revenues	44.36	37.24	30.51
2. Non-Interest Expense/ Gross Revenues	66.38	83.03	78.35
3. Non-Interest Expense/ Average Assets	1.04	1.11	0.87
4. Pre-impairment Op. Profit/ Average Equity	44.56	9.20	9.02
5. Pre-impairment Op. Profit/ Average Total Assets	0.53	0.23	0.24
6. Loans and securities impairment charges/ Pre-impairment Op. Profit	56.67	216.77	125.93
7. Operating Profit/ Average Equity	19.31	-10.74	-2.34
8. Operating Profit/ Average Total Assets	0.23	-0.26	-0.06
9. Taxes/ Pre-tax Profit	-9.79	0.56	114.50
10. Pre-Impairment Operating Profit / Risk Weighted Assets	1.57	0.69	0.66
11. Operating Profit / Risk Weighted Assets	0.68	-0.81	-0.17
C. Other Profitability Ratios			
1. Net Income/ Average Total Equity	21.20	-21.93	0.36
2. Net Income/ Average Total Assets	0.25	-0.54	0.01
3. Fitch Comprehensive Income/ Average Total Equity	22.32	-21.28	-21.85
4. Fitch Comprehensive Income/ Average Total Assets	0.27	-0.52	-0.58
6. Net Income/ Risk Weighted Assets	0.75	-1.65	0.03
7. Fitch Comprehensive Income/ Risk Weighted Assets	0.79	-1.60	-1.61
D. Capitalization			
1. Fitch Eligible Capital/ Fitch Adjusted Weighted Risks	8.52	8.07	n.a.
2. Tangible Common Equity/ Tangible Assets	0.84	0.60	2.77
3. Tangible Common Equity/ Total Business Volume	0.83	0.53	2.43
4. Tier 1 Regulatory Capital Ratio	10.80	10.50	10.10
5. Total Regulatory Capital Ratio	14.40	14.80	13.90
6. Fitch Eligible Capital/ Tier 1 Regulatory Capital	78.84	76.60	n.a.
7. Equity/ Total Assets	1.19	1.12	3.17
10. Net Income - Cash Dividends/ Total Equity	20.30	-49.15	0.30
E. Loan Quality			
1. Growth of Total Assets	6.36	35.01	1.42
2. Growth of Gross Loans	-2.85	24.59	0.26
3. Impaired Loans(NPLs)/ Gross Loans	n.a.	6.03	4.35
4. Reserves for Impaired Loans/ Gross loans	2.81	2.57	1.84
5. Reserves for Impaired Loans/ Impaired Loans	n.a.	42.60	42.21
6. Impaired Loans less Reserves for Imp Loans/ Equity	-92.22	132.77	36.80
7. Loan Impairment Charges/ Average Gross Loans	0.73	1.13	0.64
8. Net Charge-offs/ Average Gross Loans	n.a.	-0.16	-0.23
9. Impaired Loans + Foreclosed Assets/ Gross Loans + Foreclosed Assets	n.a.	6.03	4.35
F. Funding			
1. Loans/ Customer Deposits	131.67	136.61	170.47
2 . Interbank Assets/ Interbank Liabilities	83.87	75.86	49.01