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Enhancing profitability through optimisation and de-risking

Asset Based Finance – Investors‘ Day 2009

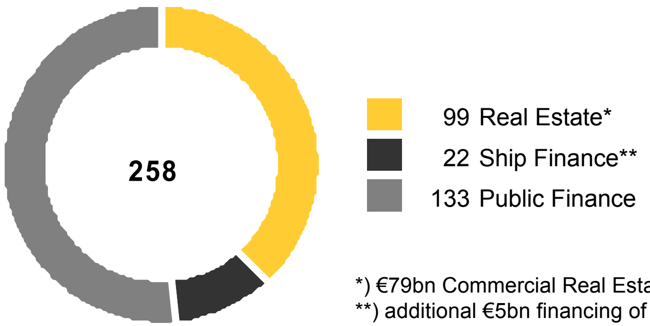
Jochen Klösges | Member of the Board of Managing Directors | Frankfurt | November 25th, 2009

Overview Asset Based Finance (ABF)

ABF business units	› Commercial Real Estate Banking (CRE) including run-off Retail Lending (Eurohypo) › Public Finance (Eurohypo) › Ship Finance (Deutsche Schiffsbank (DSB), Commerzbank) › Asset Management and Leasing (Commerz Real)
Competitive Landscape	› Commercial real estate and shipping markets characterised by consolidation and transformational restructuring activities; risk, funding and capital remain major issues
Asset Quality	› Overall, high risk cost expected over the next 12-24 months › Stabilization of real estate markets on a low level, further deterioration in shipping markets anticipated for 2010 › CRE: USA and Spain remain “hot spot” markets
Major targets	› Portfolio reduction targets: CRE €60bn portfolio volume with €50bn RWA by 2012 and Public Finance €100bn portfolio volume with €7bn RWA by 2011 › Long-term: ROE to at least cover capital cost throughout the economic cycle in core business › Preparing Eurohypo AG to become a stand-alone entity **Optimisation: Capital release and higher profitability in order to meet capital market requirements on a sustainable basis**

Portfolio and risk overview ABF

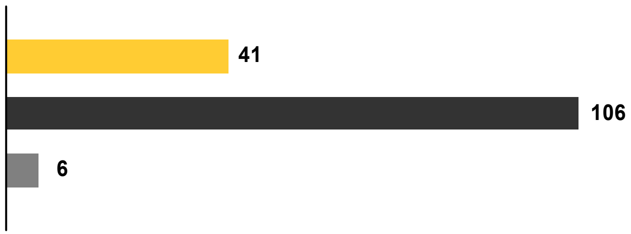
Exposure at Default
Per 09/2009
in € bn



*) €79bn Commercial Real Estate + € 20bn Retail
**) additional €5bn financing of banks and municipalities by Deutsche Schiffsbank

Risk Density
Per 09/2009
in bp

Asset Based Finance total: 30 bp



	Sep '09
RWA (in € bn)	**90.1**
Economic Capital (in € bn)	**5.6**
- thereof Credit Risk (%)	**77%**
- thereof Market Risk (%)	**20%**
LLP (YtD, in € m)	**933**
Default portfolio (in € bn)	**8.6**
Coverage ratio* (%)	**98%**

* incl GLLP

Major achievements of ABF in 2009

Commercial Real Estate	✓ Strategic assessment completed and implementation of refocused business plan started ✓ Core business has proven sustainability even in times of crisis ✓ Non-core portfolio separated and discontinued (structured credit portfolio, corporate loans, small loans, regional portfolios) ✓ Eurohypo Retail Banking transferred to segment in 07/2009: €22bn run-off portfolio
Public Finance	✓ Public Finance book substantially reduced from notional amount €162bn in 08/2008 to €130bn in Q3 2009 ✓ Market risk and P&L volatility reduced ✓ Further de-risking and reduction of assets ongoing
Ship Finance	✓ Project started for integration of Ship Finance activities ✓ Risk management focused on restructuring and de-risking of combined portfolio ✓ Management team empowered to manage portfolios across legal entities
Asset Management and Leasing	✓ Open-end real estate funds with positive track record ✓ Strategy review currently on its way

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Further optimisation and stabilisation through enhancing risk/return profile

De-risking and capital release

Reduced (unsecured) funding requirements

Strict cost management

Sustaining client franchise

De-Risking / reduced funding requirements

- Overall reduction of assets with clear run-down targets
- Extended non-core business in CRE separated, based on existing German non-core portfolio + further asset groups (small loans, corporate loans, German retail developers, non-strategic countries)

Cost Management

- CRE: strategic project ‚Fokus‘ with planned cost reduction of >30%
- Ship Finance: integration of activities in Deutsche Schiffsbank with cost reduction target of >20%
- Asset Management: strategy review under way

Sustaining client franchise

- CRE: Focus on 10 target markets and enhanced profitability
- Asset Management/ Leasing: Stronger ties to MSB and PC
- Ship Finance: Opportunistic approach depending on market development

Case Study (I): CRE Banking reduced risks of non-core business in Corporate Banking Germany (CBG)

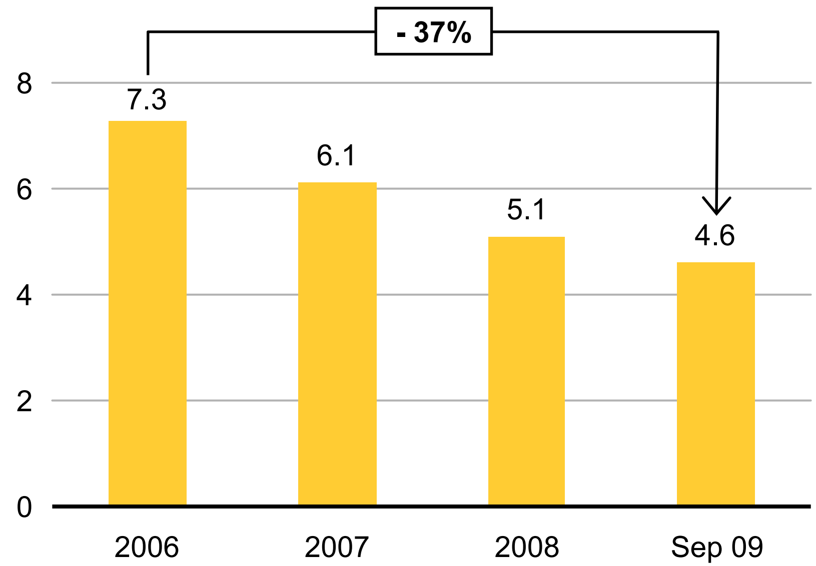
Separation criteria for cut-off of CBG Non-Core Portfolio end of 2006

- Covers only performing loans requiring intensive care and non-performing loans as of 31/12/2006
- Strict ring fencing: No further allocation of core loans even in case of further credit deterioration

Results

- Non-core portfolio consists almost exclusively of legacy assets from the predecessor institutions
- Reduction of non-core portfolio due to an efficient exit strategy

Asset volume CBG non-core
in € bn



	2006	2007	2008	Sep 09
LLP (€m)	**203**	**152**	**152**	**72.5**

Asset volume and LLPs successfully reduced: Positive track record for CBG since 2006

Case Study (II): Focus on profitable core CRE financing in CBG

Segregation of core portfolio with positive track record in CBG since 2006

- New business only in core portfolio
- Core business with stable performance through the cycle

Line items	CBG Core ROE highly profitable through the cycle				Normalised result CBG Core [2]
in € m	2006	2007	2008	Sep 09	
Net interest income	393	396	367	263	300 (100bp)
Net commission inc.	71	70	78	32	55 (18bp)
LLP	9 (n.a.)	8 (n.a.)	-10 (3bp)	-58 (25bp)	-75 (25bp)
Operating expenses	-106	-107	-95	-74	-80 (27bp)
Others	-2	1	4	1	
Operating result	365	368	344	164	200
Assets (€ bn)	33	32	33	31	30
RWA (€ bn)	31	29	20	17	18
Alloc. Cap (€ bn)	2,2	2,1	1,4	1,2	1,3
RoE (pre tax)	16.6%	18.0%	24.0%	18.0%[1]	15.0%

Consequences for Commercial Real Estate strategy

- Concentration on core business both in domestic and international markets: Focus on selected regional markets, professional real estate investors and developers as well as selected asset classes
- No ‘out-of-policy’ business (corporate loans, speculative developments etc.)
- Reduction of organisational complexity
- Run-down of non-core portfolio

- Further optimisation of CBG through streamlining of credit processes and centralization of loan portfolios' processing and credit decision making in Germany
- International business follows CBG strategy of focusing on core activities

([1] Excl. restructuring costs [2] Examplary illustration)

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Core CRE Portfolio now has moderate risk profile

Non-core portfolio

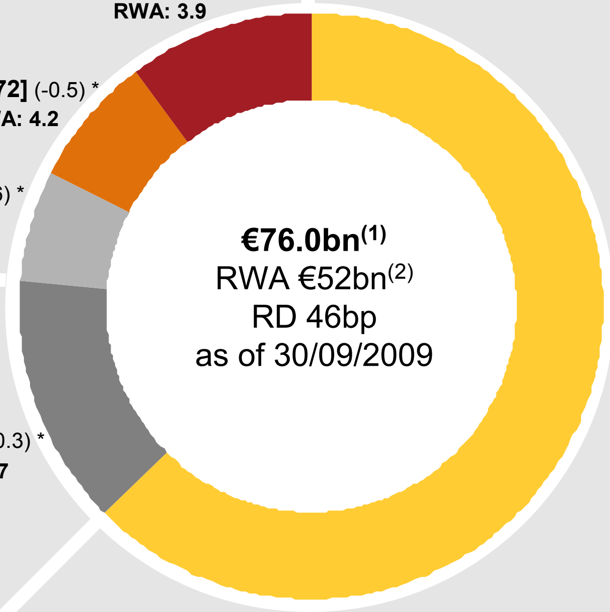
Product and asset specific non-core

- Loan size (< €15m)
- Non-core asset types
- Corporate loans, German residential developers

Regional non-core

- Exposure in
  - international non-core markets
  - plus German non-core portfolio

New unit CRM Global Restructuring set up 08/2009 – regional offices to be closed until 2011



Core markets (target portfolio)

Core portfolio

- The CRE business model will focus on long-term stable earnings with low risk to ensure sustained success and maintain market leadership in target countries

* in € bn [RD in bp] (Δ prev.Q in € bn) [1] Excl. ~ €3bn CRE Commerzbank portfolio and CommerzReal exposure [2] Excl. default portfolio [3] 2008:18 bp

Reduction of non-core portfolio since 06/09: €2.1bn

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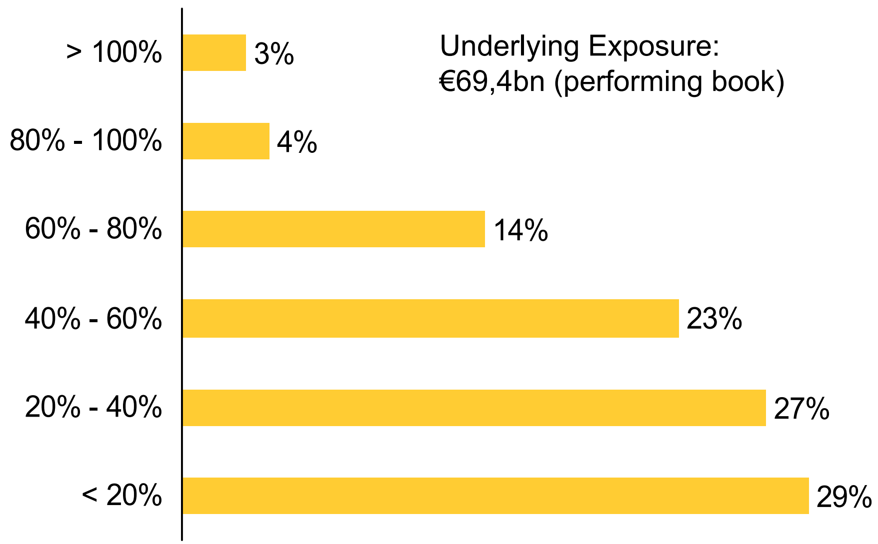
CRE: portfolio shows robust loan-to-value ratios

Loan to Value CRE Banking – layered representation [(1)]
as of 30 September 2009



(1) LTVs based on market values, excluding margin lines and corporate loans, additional securities not taken into account

- 93% of overall portfolio shows an LTV < 80%
- Portfolios with LTVs > 100% primarily located in Germany (46%) as well as within international markets Spain (1%), USA (7%) and UK (17%)
- High individual LTVs on single properties in Germany are often compensated by cross-collateralisation with other properties of the investor, a high degree of recourse structures (still common in Germany) as well as additional collateral to improve the lending structure
- High LTVs in international markets are predominately (ca. 80%) mitigated by interest coverage ratios in excess of 120%

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Public Finance: Further de-risking and reduction of assets

	Major achievements	Major goals
Current situation	✓ Essen Hyp successfully integrated ✓ Market risk and P&L volatility reduced ✓ Public Finance book substantially reduced from notional amount of €162bn in 08/2008 to €130bn in Q3 2009 – thereof €7.4bn active sales	› New strategy in progress › Further de-risking and reduction of Public Finance book, target €100bn by 2011 › Secure sustainable revenue potential
Focused and market oriented approach	✓ Focus on selected countries and regions ✓ Continued focus on issuers with good credit quality ✓ Broad investor base ✓ Conservative risk approach remains priority	

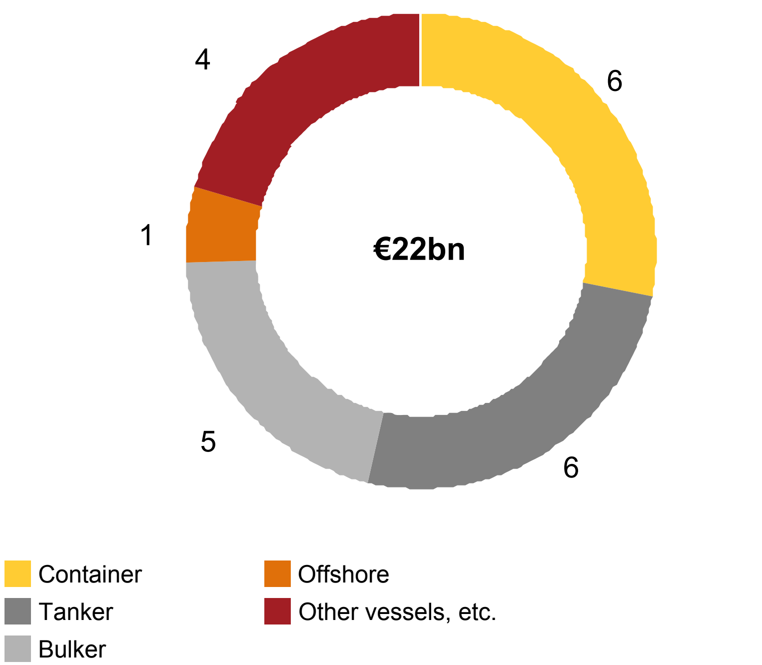
Ship Finance: Focus on portfolio restructuring and integration

Major achievements	› Integrated portfolio management of Deutsche Schiffsbank (DSB) and Commerzbank ship finance activities. › Setup of an intensive care unit in risk management › Integration and cost management (identified cost synergies > 20% by 2012) › Integrated management team with know-how of both companies
Market position	› No. 2 in ship finance worldwide › Well established franchise with strong client relationships › Well diversified €22bn portfolio
Risk management	› Current disrupted and illiquid shipping markets make valuation of vessels difficult; industry initiative to modify of Long Term Asset Value calculation in accordance with Hamburg Ship Evaluation Standards in order to obtain reliable valuations › Portfolio of acceptable quality: One year after beginning of crisis only moderate SLLPs, nevertheless increased GLLP due to ongoing rating drift › Forecast of final impact of crisis currently hardly possible, environment expect to remain critical until 2011

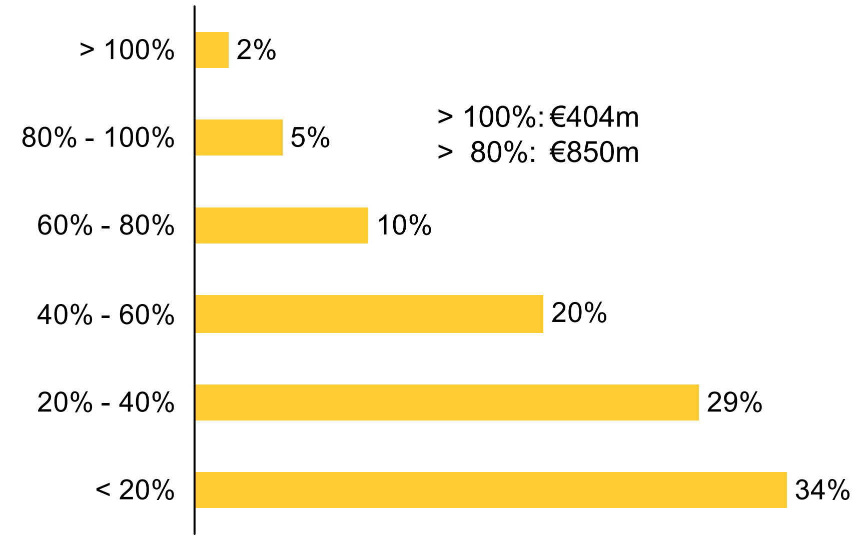
Business model will change after the crisis: Downsizing of portfolio, new business with higher margins and risk assessment rather cash-flow oriented than LTV-based.

Ship Finance portfolio well diversified with acceptable LTV split

Exposure by asset types
as of 30 September 2009 – in € bn



Loan to Value Portfolio
as of 30 September 2009



Ship construction loans within container segment: €1.7bn (27%)

93% of portfolio with LTV < 80%

Asset Management and Leasing: Commerz Real AG recorded reduced earnings in financial crisis

Commerz Real AG

Business lines

Open-end real estate funds

- Leading hausInvest fund-family for retail investors
- Strong returns in difficult market environment
- Net equity inflows YtD

Institutional fund business

- Six established funds esp. for German institutional investors
- Solid performance of funds despite crisis
- Lack of scale

Closed-end-funds

- CFB possess strong track record as fund initiator for retail investors
- 2009 limited options for capital placements due to decreased demand

Structured investments

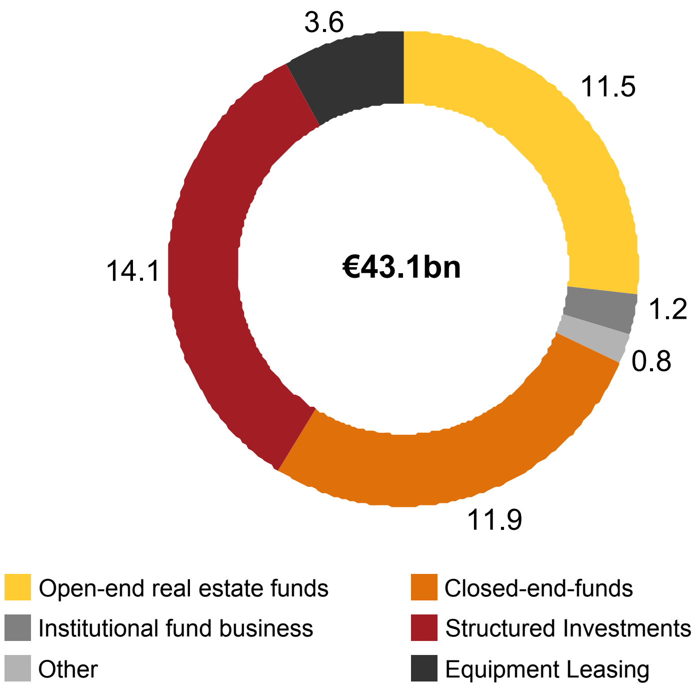
- Leasing and structured investment solutions for corporates
- In 2009, reduced opportunities for new business due to stress in German economy and capital markets

Equipment leasing

- Focus on machinery and equipment leasing for corporates
- Solid new business in 2009 despite difficult German market
- Strong ties to Mittelstandsbank

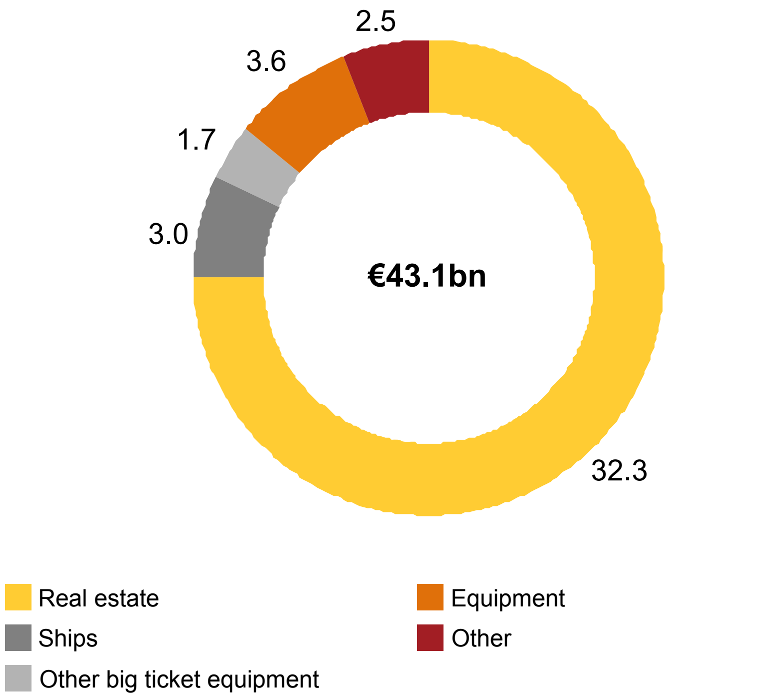
Commerz Real focusing on real estate assets

Assets under Management by business line
as of 30 September 2009 – in € bn



AUM stable during financial crisis – hausInvest funds with strong net inflows

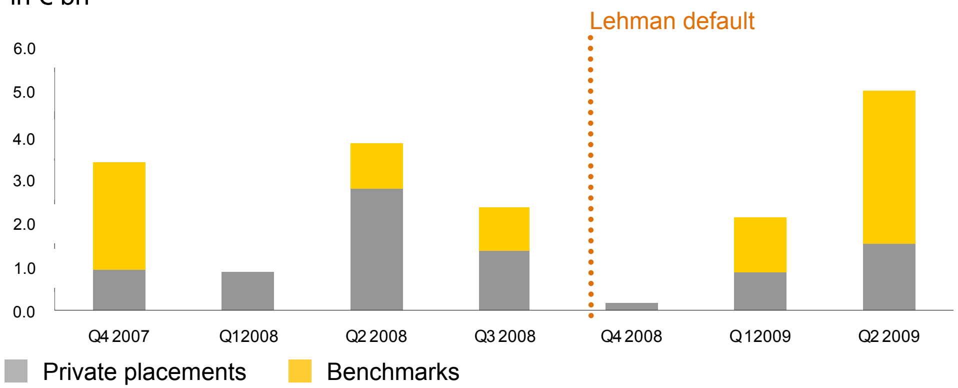
Assets under Management by asset type
as of 30 September 2009 – in € bn



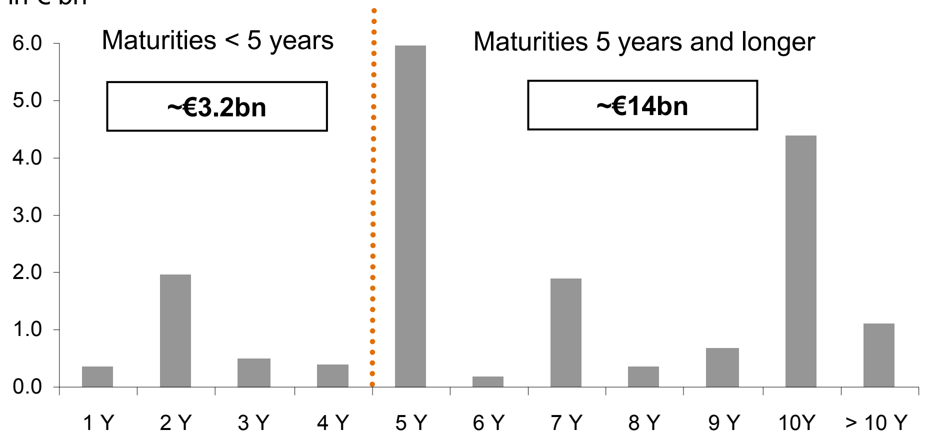
€0.3bn ship and €0.2bn real estate equity participation still to be placed

Pfandbrief: Eurohypo has raised over €17bn in Mortgage Pfandbriefe since the crisis started

Private placements / benchmarks
in € bn



By maturity
in € bn



- Eurohypo has placed more than €17bn* in Mortgage Pfandbriefe since 4Q2007 into the market
- Private placements (> €8.5bn); stable market for domestic and registered Pfandbriefe
- Eurohypo issued over €7bn* in Mortgage Pfandbriefe in 1H2009
- Eurohypo has issued 6 longer-dated Jumbo Mortgage Pfandbriefe:
  - Total volume €9bn
  - Maturities 5 to 10 years
- Over 80% with maturities of 5 years and longer

* Including €1.5bn 10 year Jumbo Mortgage Pfandbrief issued on 25 June 2009 with value date 2 July 2009; excluding Mortgage Pfandbriefe held by Commerzbank AG (€4bn)

Roadmap 2012: Our target

Measures

- I Reduce assets & RWA
- II Reduce liquidity cost
- III Reduce risks
- IV Sustain client franchise

Main P&L items

	2010 vs. 2009	2012 vs. 2010
Revenues	↘	↗
Operating expenses	↗	↘
LLP	↘	↘
Capital employed	→	↘
RoE	→	↗

Target 2012

- Operating profit ≥ €0.4bn
- CIR ≤ 40%
- Operating RoE ≥ 6.5%

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