

# Remuneration report 2011

According to the German Remuneration Ordinance (InstitutsVergV)

Group Human Resources

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# Remuneration principles

In designing its remuneration models, Commerzbank always adheres to the principle of remuneration in accordance with the market and with individual performance, which is applied uniformly within the Bank. Total remuneration includes

- base salaries in line with the market,
- results and performance-oriented variable remuneration,
- attractive fringe benefits and
- 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 shareholders and employees in equal measure, and to ensure the sustainable and positive development of Commerzbank.

The current remuneration parameter used by Commerzbank for the performance of the Group, the segment or organisational unit is economic value added (EVA). The Bank's remuneration models offer employees at all levels results- and performance-oriented compensation with an appropriate ratio of variable to fixed compensation components.

With its voluntary employee benefits the Bank moreover creates a good working environment, shows recognition of employee's engagement and also supports them beyond the direct work environment.

Alongside statutory and private pension provision, Commerzbank offers its employees various pension schemes that help to provide security for employees who are entering retirement. Discretionary pension benefits are not provided at Commerzbank.

Commerzbank thus has an innovative remuneration system which sends a signal to the market by its alignment with both the long-term success of Commerzbank and the individual performance of its employees.

# Remuneration system

On 13 October 2010 the Ordinance on the Remuneration of Financial Institutions (Instituts VergV) came into effect. The provisions on variable remuneration contained in the ordinance go beyond those of the BaFin circular 22/2009 and made it necessary for Commerzbank to alter the remuneration system it had recently introduced in 2010.

The main purposes of the provisions are:

- to link risks to the amount of variable remuneration provided (risk alignment),
- to establish special payment conditions for the variable remuneration of employees who have a material influence on the Bank's overall risk profile (risk takers),
- to establish effective control functions (compensation governance), and
- to document and publish remuneration information (disclosure).

With the assistance of external advisors the remuneration models for non pay-scale Commerzbank employees were adjusted to comply with the new legal provisions. In doing so the basic structure of the Commerzbank remuneration system, built around three groups of employees, was retained:

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

The remuneration models as adjusted for the requirements of the German Remuneration Ordinance were applied for the first time in the 2011 financial year. That means that variable remuneration for the 2011 financial year is paid on this basis, taking into account the measure „variable remuneration in shares“.

## Commerzbank remuneration models

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### **Pay-scale remuneration**

In addition to the 13th month salary under the collective pay agreement for the banking industry Commerzbank pay-scale employees can receive a profit-sharing component as variable remuneration. The amount depends on the return on equity (RoE) of the Bank. No variable remuneration was paid in the form of profit-sharing for 2011 because the minimum RoE performance level was not achieved.

Besides a fixed annual salary that is generally paid out in 12 monthly salaries, non pay-scale employees can receive a variable remuneration component which is described briefly in the following:

### **NPS model**

The NPS model applies to all Commerzbank non pay-scale employees, including the third and fourth management levels (excluding Corporates & Markets and Group Treasury).

At the beginning of the year an individual target amount is set for each employee's variable remuneration. At the end of the financial year the Board of Managing Directors decides on the budget to be paid out in variable remuneration on the basis of the targets achieved by the Group, the segment or the organisational unit. 60 percent of the amount of individual variable remuneration depends on the employee's individual performance and may be increased by a discretionary<sup>1</sup> group supplement, provided a budget has been established for this. The variable portions can account for up to 35 percent of total remuneration. They are limited, however, to a maximum of double the target amount, taking into account the upper limits for variable remuneration in the NPS model. The individual target amounts and the upper limits are reviewed annually.

Details of the sustainability components in the NPS model can be found in the general regulations on variable remuneration that apply to all 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.

At the beginning of the year an individual target amount is set for each employee's variable remuneration. At the end of the financial year the Board of Managing Directors decides on the budget to be paid out in variable remuneration on the basis of the targets achieved by the Group, the segment or the organisational unit. In the management model the amount of individual variable remuneration is set on a discretionary basis, taking into account the individual employee's target achievement. The variable portions can account for between 30 and 40 percent of total remuneration, depending on the individual fixed salary. The individual amount of variable remuneration paid out is limited, however, to a maximum of double the target amount, taking into account the upper limits for variable remuneration in the management model. The individual target amounts and the upper limits are controlled annually.

Details of the sustainability components in the management model can be found in the general regulations on variable remuneration that apply to all remuneration models.

### **IB model**

The IB model applies to all Commerzbank management and non pay-scale employees in the segment Corporates & Markets and Group Treasury.

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<sup>1</sup> This means they are not based on formulas and are not mathematically linked.

At the beginning of the year a volume is set for variable remuneration at the level of the segment or organisational unit. At the end of the financial year the Board of Managing Directors decides on the budget to be paid out in variable remuneration on the basis of the targets achieved by the Group, the segment or the organisational unit. In the IB model the amount of individual variable remuneration is set on a discretionary basis, taking into account the individual employee's target achievement. As no individual target amounts are defined in the IB model the individual variable remuneration component is set, taking into account the upper limits for variable remuneration in the IB model. The variable portions can thus account for between 0 and 85 percent of total remuneration, depending on the individual fixed salary. The upper limits for variable remuneration are reviewed annually.

Details of the sustainability components in the IB model can be found in the general regulations on variable remuneration that apply to all remuneration models.

### **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 2011 Annual Report (p. 43 ff.) and can be consulted there.

### General rules on variable remuneration applicable to all remuneration models

As a general rule, variable remuneration consists of a short-term component, the Short Term Incentive (STI) and a long-term component, the Long Term Incentive (LTI).

The STI for employees is set after the end of the relevant financial year and paid out within a short period. The LTI is also set after the end of the relevant financial year, but is not paid out until a defined period, consisting of a deferral period of 3 years and a subsequent retention period of at least 6 months, has expired. In the case of the LTI no rights, entitlements or other vested interests are acquired until the additional period following the relevant financial year has expired. Thus the entitlement to the LTI does not arise before the deferral period has expired and only if no impediments exist at that point in time.

Although the amount of variable remuneration is defined by the respective remuneration model, the definitive mode of payment depends on which of the employee groups described below the employee belongs to:

#### **Risk Taker (STI/LTI)**

In the remuneration models adapted to the regulations of the German Remuneration Ordinance (InstitutsVergV), employees who have a material influence on Commerzbank's overall risk profile are identified every year at the start of the remuneration process. These so-called 'risk takers' are identified on the basis of their position in the organisational hierarchy (managing directors, first management level or chair of important committees) and an examination of the potential impact of their function on the overall risk profile of the Bank.

The first examination identified 257<sup>2</sup> risk takers at the level of the Commerzbank Group. Due to personnel changes the examination identified 272 employees with risk taker status in 2011, of whom 261<sup>3</sup> were in an active employment relationship at the end of the year. 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.

In the case of risk takers 40 or 60 percent of variable remuneration is paid in the form of an LTI, with the remaining 60 or 40 percent being granted in the form of an STI. In addition, half of the STI and LTI is paid in shares and the remaining amount in cash.

Taking the regulatory requirements into account, risk takers do not acquire an entitlement to the LTI until after expiry of the deferral period, provided there are no impediments that would impair their entitlement either partially or completely. The risk takers' LTI is in addition subject to a bad leaver regulation.

#### **Non-Risk Taker (STI/Bank Deferral)**

In the case of employees who do not belong to the group of risk takers a distinction is made in variable remuneration between LTI and STI, as well.

Non risk takers whose variable remuneration exceeds €100,000 are classified as employees with bank deferral. They receive 50 percent of the amount in excess of €100,000 as a bank deferral that is awarded in the form of shares. The remaining amount is paid in cash as an STI. The bank deferral is subject to a deferral period of 3 years plus a subsequent retention period of at least 6 months. The bank deferral is subject to a bad leaver regulation.

Non risk takers whose variable remuneration does not exceed €100,000 receive all of their variable remuneration as an STI that is paid out entirely in cash.

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<sup>2</sup> As of 30 April 2011; excluding the managing directors of Commerzbank AG .

<sup>3</sup> As of 31 December 2011; excluding the managing directors of Commerzbank AG (see Annual Report 2011, p. 43 ff.).

# Variable remuneration for financial year 2011: payment in shares for non pay-scale employees

As part of the package of measures to comply with the capital adequacy requirements of the European Banking Authority (EBA), Commerzbank will pay the majority of its non pay-scale employees their individual variable remuneration for 2011 in shares. The General Works Council of Commerzbank AG supports the Bank's intention and has approved the requisite agreements.

The payment in shares was planned for all remuneration models (Management, IB and NPS model) and related specifically to the Short Term Incentives (STIs). The procedure for determining the achievement of targets in 2011 was performed as usual: The line managers discussed the individual achievement of targets for 2011 with their non pay-scale employees. This evaluation formed the basis of measurement for individual variable remuneration in 2011. Once the group results for 2011 were available the Board of Managing Directors decided on the volume of variable remuneration for non pay-scale employees. The line managers then set the exact amount for their employees, and they were notified in writing. Payment in shares is scheduled to take place in July 2012.

The object was to gain as many employees for this measure as possible in order to create a strong capital base for the long term. A total of about 90 percent of entitled non pay-scale employees decided to receive their variable remuneration in the form of Commerzbank shares.



# Remuneration information for 2011 according to the German Remuneration Ordinance (InstitutsVergV)

The Commerzbank Group is subject to disclosure obligations according to Sections 7 and 8 of the German Remuneration Ordinance (InstitutsVergV). The information on risk takers thus also contains remuneration information relating to managing directors of 'major banks' pursuant to Section 1 of the German InstitutsVergV within the Commerzbank Group<sup>4</sup>.

## Remuneration information for 2011 pursuant to Section 7 of the German InstitutsVergV: all employees

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

Business segment (€m)	Private customers	Mittel- standbank	Central & Eastern Europe	Corporates & Markets	Asset Based Finance	Portfolio Restruc- turing Unit	Others and Consoli- dation	Group total
	Amount/ Number	Amount/ Number	Amount/ Number	Amount/ Number	Amount/ Number	Amount/ Number	Amount/ Number	Amount/ Number
Total remuneration	1.355	506	228	410	179	5	1.495	4.178
Number of beneficiaries	18.328	5.721	9.087	1.870	1.589	25	17.604	54.224
thereof:								
Fixed remuneration	1.273	459	184	313	158	6	1.401	3.794
Variable remuneration <sup>1</sup>	82	47	44	97	21	-1	94	384

<sup>1</sup> Inclusive releases of accruals for variable compensation of previous periods; incl. legacy payments according to previous years (i.e. pro rata IMAP for 2009-2011, clearing payments for pay-scale employees for 2008).

<sup>4</sup> As of 31 December 2011; excluding the managing directors of Commerzbank AG (see Annual Report 2011, p. 43 ff.).

Remuneration information for 2011 pursuant to Section 8 of the German InstitutsVergV: Risk takers<sup>5</sup>

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

Business segment (€m)	Private customers	Mittel- standbank	Central & Eastern Europe	Corporates & Markets	Asset Based Finance	PRU <sup>1</sup> Others and Consoli- dation	Managing Directors <sup>2</sup>	Group total
	Amount/ Number	Amount/ Number	Amount/ Number	Amount/ Number	Amount/ Number	Amount/ Number	Amount/ Number	Amount/ Number
Total remuneration	11,29	13,21	2,38	39,08	9,05	29,88	2,29	107,18
Number of beneficiaries	42	44	3	57	32	87	7	272
thereof:								
Fixed remuneration	8,01	8,60	1,16	17,44	6,38	18,06	1,67	61,32
Variable remuneration	3,29	4,61	1,22	21,63	2,67	11,83	0,62	45,86
thereof:								
STI cash remuneration <sup>3</sup>	1,05	1,25	0,55	5,93	0,85	3,29	0,30	13,22
Retained remuneration	2,23	3,36	0,67	15,71	1,82	8,31	0,32	32,41
thereof:								
Compensation being reduced by use of Malus-/ Clawback-Rules	0,00	0,00	0,00	0,00	0,00	0,23	0,00	0,23
Compensation depending on the institutes sustainable performance (e. g. Share price)	1,55	2,28	0,55	10,82	1,24	5,64	0,20	22,27
Guaranteed variable remuneration awarded in the context of hiring new employees:								
Total Amount	k.A. <sup>1</sup>	k.A. <sup>1</sup>	k.A. <sup>1</sup>	k.A. <sup>1</sup>	k.A. <sup>1</sup>	k.A. <sup>1</sup>	k.A. <sup>1</sup>	0,75
Number of beneficiaries	k.A. <sup>1</sup>	k.A. <sup>1</sup>	k.A. <sup>1</sup>	k.A. <sup>1</sup>	k.A. <sup>1</sup>	k.A. <sup>1</sup>	k.A. <sup>1</sup>	4
Contract-based severance payments awarded in the context of termination of employment:								
Total Amount	k.A. <sup>1</sup>	k.A. <sup>1</sup>	k.A. <sup>1</sup>	k.A. <sup>1</sup>	k.A. <sup>1</sup>	k.A. <sup>1</sup>	k.A. <sup>1</sup>	4,66
Number of beneficiaries	k.A. <sup>1</sup>	k.A. <sup>1</sup>	k.A. <sup>1</sup>	k.A. <sup>1</sup>	k.A. <sup>1</sup>	k.A. <sup>1</sup>	k.A. <sup>1</sup>	8
thereof:								
Highest award to a single person	k.A. <sup>1</sup>	k.A. <sup>1</sup>	k.A. <sup>1</sup>	k.A. <sup>1</sup>	k.A. <sup>1</sup>	k.A. <sup>1</sup>	k.A. <sup>1</sup>	1,60

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

<sup>2</sup> Managing Directors of significant financial institutions within Commerzbank Group; without Board of Managing Directors of Commerzbank AG (see Annual Report 2011, p.43ff.).

<sup>3</sup> Based on the decision to pay out variable compensation for the FY 2011 in shares the payout will take place in July 2012.

<sup>5</sup> As of 31 December 2011; excluding the managing directors of Commerzbank AG (see Annual Report 2011, p. 43 ff.).

# Compensation Governance

Commerzbank modified the existing compensation governance structure with its Compensation Committee (CC) and Executive Compensation Committee (ECC) in 2011 to meet the new requirements of the German Remuneration Ordinance (InstitutsVergV). In the course of this modification the ECC was dissolved and a new committee, the Performance Evaluation Committee (PEC), was set up. In addition, changes were made to the composition and responsibilities of the Compensation Committee.

## Compensation Committee (CC)

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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 was constituted under rules of procedure issued by the full Board of Managing Directors. The rules of procedure list all the relevant tasks and procedural rules. In particular it describes the objective of the CC, its tasks, composition, quorum and the frequency of meetings.

The CC evaluates the appropriateness of the Commerzbank Group's remuneration system. It reviews its use, development and suitability to promoting the achievement of Commerzbank's strategic objectives in the long term.

The chair represents the committee in dealing with the Supervisory Board and the Board of Managing Directors.

The CC advises the Board of Managing Directors and issues recommendations for general remuneration principles and the introduction, amendment or termination of remuneration and supplementary benefit programmes. The Compensation Committee issues a report to the Board of Managing Directors and the Supervisory Board at least once a year.

## Performance Evaluation Committee (PEC)

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The PEC 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.

Whereas the CC supervises the appropriateness of the Commerzbank Group's remuneration system, the PEC prepares the decisions of the Board of Managing Directors on remuneration-specific topics.

It evaluates and reviews material aspects of remuneration and supplementary benefits of general or special interest. The PEC issues recommendations as to the funds suitable for provisions and also verifies the consistency of target achievement and variable remuneration, in particular for risk takers, as specific regulations apply to these employee groups with regard to performance measurement and the assessment of variable remuneration. These are explained in the following section.

### **Performance evaluation for risk takers**

At the end of each financial year the performance of the risk takers is evaluated. This evaluation forms the basis for entitlement to the STI.

For entitlement to the LTI an examination is made in each year of the deferral period to ascertain whether impediments have arisen in the meantime which would impair the entitlement partially or completely. At the individual level there are in all three reasons that could partially or completely impair a risk taker's entitlement to the LTI and that will be documented in an annual examination for the first time in 2013:

- compliance with rules and instructions (Code of Conduct),
- sustainability of the underlying performance in the long term,
- risk behaviour of the risk taker.

Performance is considered not only individually but also on the basis of collective criteria; these cover the areas of group profit and liquidity risk and can also result in the entitlement to the LTI being fully or partially impaired.

At the end of the deferral period all the information on the risk taker's individual and collective performance criteria plus further information on any relevant loss events is submitted to the PEC. On this basis the PEC gives a recommendation on the full acquisition of entitlement or on the reduction or on the cancellation of the LTI. This recommendation is submitted to the Board of Managing Directors for its decision.

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Commerzbank Aktiengesellschaft

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