

Compensation Report 2012

In accordance with §§ 7 and 8 of the Remuneration Regulation for Institutions (German: Instituts-Vergütungsverordnung, InstitutsVergV)

Group Human Resources

The bank at your side

03 Compensation principles

04 Compensation system

04 Compensation models

06 General compensation model regulations on variable compensation

09 Compensation information for 2012 in accordance with InstitutsVergV

08 Compensation information for 2012 in accordance with § 7 InstitutsVergV: All employees

09 Compensation information for 2012 in accordance with § 8 InstitutsVergV: Risk Takers

10 Compensation governance

10 Compensation Committee (CC)

11 Performance Evaluation Committee (PEC)

Compensation principles

With respect to the structure and organisation of its compensation models, Commerzbank adheres at all times to the principles of a market- and performance-oriented compensation which is structured in the Bank in accordance with uniform standards. In this regard, the total compensation comprises, amongst others:

- market-oriented base salaries,
- variable compensation based on results and performance,
- attractive fringe benefits, and
- a company pension scheme (German: betriebliche Altersversorgung, bAV).

The aim of market- and performance-oriented compensation reflecting the Bank's performance and success is to serve the interests of Commerzbank, its shareholders and employees, and to support the sustainable and positive development of Commerzbank.

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

Moreover, with its voluntary additional corporate benefits, the Bank creates a good working environment, recognises the employees' performances, and also supports them beyond their direct work environment.

Complementing statutory and private pension schemes, Commerzbank offers its employees various company pension schemes that help to provide security when entering retirement. Discretionary pension benefits are not provided at Commerzbank.

As such, Commerzbank disposes of an innovative compensation system which ensures market-oriented and performance-oriented compensation whilst fulfilling the regulatory requirements at the same time.

Compensation system

On 13 October 2010 the Remuneration Regulation for Institutions (Instituts-Vergütungsverordnung, InstitutsVergV) came into effect in Germany.

The main purposes of the regulations are:

- to link risks to the amount of variable compensation provided (Risk Alignment),
- to establish special payment conditions for the variable compensation 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 compensation information (Disclosure).

The compensation system of Commerzbank AG for the 2012 financial year is built around various groups of employees:

- compensation according to the pay-scale model: for all pay-scale employees,
- non-pay scale (NPS) model: compensation according to the non-pay scale model,
- investment banking model (IB model): for employees remunerated according to the non-pay scale model in the Corporates & Markets segment and in Group Treasury,
- management model: for the Bank's first and second management levels, and
- Board of Managing Directors model: for all members of the Board of Managing Directors of Commerzbank AG.

Compensation models

Compensation according to the pay-scale model

In addition to the 13th monthly salary payment under the collective pay agreement for the banking industry, Commerzbank employees remunerated according to the pay-scale model can receive a profit-sharing component as variable compensation. The amount depends on the return on equity (RoE) of the Group. No variable compensation was paid in the form of profit-sharing for 2012 because the minimum RoE performance level was not achieved.

NPS, IB, and management model

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

NPS model

The NPS model applies to all Commerzbank employees remunerated according to the non-pay scale model, 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 compensation. Depending on the fixed salary, the variable portions can account for up to 35

percent of total compensation. At the end of the financial year the Board of Managing Directors decides on the budget to be paid out in variable compensation on the basis of the targets achieved by the Group, the segment, or the organisational unit. Of the individual compensation, a 60 percent quota depends on the employee's individual performance. It may be increased by a discretionary¹ Group supplement, provided that a corresponding budget has been established. The individual variable compensation is limited to a maximum of double the target amount, taking into account the upper limits for variable compensation 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 compensation that apply to all compensation models (chapter 2.2).

IB model

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

At the beginning of the year, a volume is set for variable compensation at segment level 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 compensation on the basis of the targets achieved by the Group, the segment, or the organisational unit. No individual target amounts are defined in the IB model. The amount of individual variable compensation is set on a purely discretionary basis, taking into account the individual employee's target achievement as well as the upper limits for variable compensation in the IB model. Depending on the fixed salary the variable portions can thus account for between 0 and 85 percent individually of total compensation. The upper limits for variable compensation are reviewed annually.

Details of the sustainability components in the IB model can be found in the general regulations on variable compensation that apply to all compensation models (chapter 2.2).

Management model

The management model applies to the first and second Commerzbank management levels (excluding Corporates & Markets and Group Treasury) as well as to individual employees with project management responsibility.

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

¹ I.e. not based on a formula or defined by a fixed mathematical relationship.

Details of the sustainability components in the management model can be found in the general regulations on variable compensation that apply to all compensation models (chapter 2.2).

Compensation of the Board of Managing Directors

The members of the Board of Managing Directors are covered by a separate compensation model. Details of this model and related information on compensation were published in the 2012 Annual Report, page 35ff. and can be referred to there.

General compensation model regulations on variable compensation

As a general rule, variable compensation 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 after the expiry of a defined period, consisting of a deferral period of 3 years and a subsequent retention period of at least 6 months. The entitlement to the LTI does not arise until the deferral period has expired, and only if no impediments (chapter 4.2) have arisen until that point in time.

Although the amount of variable compensation is defined by the respective compensation model, the specific mode of payment differs for the various employee groups described below:

Risk Taker (STI/LTI)

In accordance with the InstitutsVergV, employees who have a material influence on Commerzbank's overall risk profile are identified prior to each financial year. These so-called Risk Takers are identified on the basis of their position in the organisational hierarchy (managing directors, first management level or chairman of important committees) and an examination of the potential impact of their function on the overall risk profile of the Bank. For the 2012 financial year 302 employees with Risk Taker status were identified, of which 282² 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 compensation.

In the case of Risk Takers, 40 or 60 percent of variable compensation is paid in the form of an LTI, with the remaining 60 or 40 percent being granted in the form of an STI. Half of the STI and LTI is each paid in shares, with the remaining amount paid in cash.

In accordance with regulatory requirements, 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. In addition, the LTI for Risk Takers is subject to a bad leaver regulation.

² Effective: 31 December 2012; excluding the managing directors of Commerzbank AG.

Non-Risk Takers (STI/bank deferral)

For employees who are not classified as Risk Takers, the variable compensation system also distinguishes between LTI and STI.

Non-Risk Takers whose variable compensation exceeds an allowance of €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 as an LTI 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, and is also subject to a bad leaver regulation.

Non-Risk Takers whose variable compensation does not exceed the allowance of €100,000 receive all of their variable compensation as an STI that is paid out entirely in cash.

Compensation information for 2012 in accordance with InstitutsVergV

The Commerzbank Group is subject to disclosure obligations in accordance with §§ 7 and 8 of the InstitutsVergV. For details about the Risk Takers see chapter 3.2 which also contains information about the compensation of managing directors within the Group³.

Compensation information for 2012 in accordance with § 7 InstitutsVergV: All employees

Amounts in €m (rounded)

Segment	Private customers	Mittel-standbank	Central & Eastern Europe	Corporates & Markets ¹	Non-Core Assets	Others and Consolidation	Group total
	Amount/ Number	Amount/ Number	Amount/ Number	Amount/ Number	Amount/ Number	Amount/ Number	Amount/ Number
Number of beneficiaries (employees) ²	17,018	5,467	6,468	2,053	707	18,171	49,884
Total remuneration (€m)	1,214	486	207	422	87	1,544	3,960
of which:							
Fixed remuneration (€m)	1,170	452	171	328	77	1,445	3,643
Variable remuneration ³ (€m)	44	34	36	95	10	98	317

¹ Including the Portfolio Restructuring Unit (PRU) and Group Treasury (GM-T).

² Number of employees in absolute terms (headcount).

³ Including releases of accruals for variable remuneration in previous periods.

³ Effective 31 December 2012; excluding the managing directors of Commerzbank AG (see Annual Report 2012, p. 35ff.)

Compensation information for 2012 in accordance with § 8 InstitutsVergV: Risk Takers⁴

Amounts in €m (rounded)

Segment	Private customers	Mittel-standbank	Central & Eastern Europe	Corporates & Markets ²	Non-Core Assets ³	Others and Consolidation	Managing Directors ⁴	Group total
	Amount/ Number	Amount/ Number	Amount/ Number	Amount/ Number	Amount/ Number	Amount/ Number	Amount/ Number	Amount/ Number
Total remuneration (€m)	13.03	11.72	2.33	53.36	8.97	21.40	n/a	110.80
Number of beneficiaries ⁵	53	46	5	94	33	71	n/a	302
of which:								
Fixed remuneration (€m)	9.86	9.04	1.34	25.61	6.89	15.65	n/a	68.39
Variable remuneration (€m)	3.17	2.68	0.99	27.75	2.08	5.75	n/a	42.41
of which:								
STI cash remuneration (€m)	0.84	0.71	0.40	7.66	0.48	1.50	n/a	11.60
Retained remuneration (€m)	2.33	1.97	0.59	20.08	1.60	4.25	n/a	30.82
of which:								
Share that was reduced through the application of the penalty/clawback regulations (€m)	0.08	0.00	0.00	0.05	0.04	0.15	n/a	0.33
Share that depends on the long-term performance of the Bank (e.g. share price) (€m)	1.59	1.34	0.56	13.89	1.00	2.90	n/a	21.28
Payment upon commencement of employment:								
Total amount (€m)	n/a ¹	n/a ¹	n/a ¹	n/a ¹	n/a ¹	n/a ¹	n/a	n/a ¹
Number of beneficiaries ⁵	n/a ¹	n/a ¹	n/a ¹	n/a ¹	n/a ¹	n/a ¹	n/a	n/a ¹
Contractual settlements:								
Total amount (€m)	n/a ¹	n/a ¹	n/a ¹	n/a ¹	n/a ¹	n/a ¹	n/a	3.56
Number of beneficiaries ⁵	n/a ¹	n/a ¹	n/a ¹	n/a ¹	n/a ¹	n/a ¹	n/a	8
of which:								
Highest individual settlement (€m)	n/a ¹	n/a ¹	n/a ¹	n/a ¹	n/a ¹	n/a ¹	n/a	0.77

¹ In accordance with the materiality, protection, and confidentiality principle of paragraph 26 a section 2 of the German Banking Act [Kreditwesengesetz, (KWG)], detailed remuneration information is not disclosed.

² Including the Portfolio Restructuring Unit (PRU) (see Annual Report 2012, p. 155ff.) and Group Treasury (GM-T).

³ Including the Managing Directors of Hypothekbank Frankfurt AG.

⁴ Excluding the Managing Directors of Commerzbank AG (see Annual Report 2012, p. 35ff.).

⁵ Number of employees in absolute terms (headcount).

⁴ Effective: 31 December 2012; excluding the managing directors of Commerzbank AG (see Annual Report 2012, p. 35ff.).

Compensation Governance

The compensation governance structure in Commerzbank AG consists of two committees: the Compensation Committee (CC) and the Performance Evaluation Committee (PEC).

Compensation Committee (CC)

The Compensation Committee meets the regulatory requirements of the InstitutsVergV. It comprises a chairman (Member of the Divisional Board of Group Human Resources) plus ten additional members. The permanent members are from various organisational units (e.g. Group Finance, Group Legal, Group Risk Management, market and trading units). The employees of the associated control unit (Group Audit) act as non-voting advisors. Further internal managers or external experts may be invited as guests (non-voting), as required.

The CC was constituted under the rules of procedure issued by the 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 terms of personnel, quorum, and the frequency of meetings.

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

The chairman 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 compensation principles as well as for the introduction, amendment, or termination of compensation 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)

The PEC consists of a chairman (Member of the Board of Managing Directors responsible for Group Human Resources), the Chief Executive Officer, the Chief Financial Officer, the Chief Risk Officer, and the Member of the Divisional Board of Group Human Resources.

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

It evaluates and reviews material aspects of compensation and supplementary benefits of general or special interest. The PEC issues recommendations as to the funds suitable for provisions. Moreover, it verifies the consistency of target achievement and variable compensation, in particular for Risk Takers, as this employee group is subject to special regulations with regard to performance measurement and the assessment of variable compensation. These are explained in the following section.

Performance evaluation for Risk Takers

Subsequently to each financial year, the Risk Takers' performance of the specific year in question 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 as to ascertain whether impediments have arisen in the meantime which would impair the entitlement partially or completely. At the individual level there are altogether three reasons that could partially or completely impair a Risk Taker's entitlement to the LTI, they will be documented in an annual examination for the first time in 2013:

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

Each year, all information on the Risk Takers' individual and collective performance criteria plus further information on any relevant loss events is submitted to the PEC. On this basis, at the end of the deferral period, 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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