



## Treasury Conference German Banks

Andreas Hauschild – Global Head of Funding & Liquidity Management  
London, 11th December 2007

## Agenda

1.	Market environment	2 – 4
2.	Approaching the changed market environment	5 – 10
3.	Capital market activities	11 – 13
4	Status Eurohypo integration	14 – 15
5	Conclusion	16 – 17
6	Outlook	18 – 19
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## Market Environment: Confidence crisis within G7 States (1/2)

### Background



- News on impact of subprime crisis on P&L of financial institutions
- IKB, Sachsen LB impair reputation of German financials
- Close-down of several ABS- and Hedge Funds worldwide
- Collapse of ABSCP market leads to confidence crisis on interbank, money and repo market
- Mutual trust between financial institutions damaged (reduction of credit facilities amongst each other)

### Central Banks



- Central banks support the money market in a concerted action and inject on 9th of August globally ca. € 125bn of liquidity in Euro, USD, CHF, JPY, AUD etc. into the O/N market, which is continued in the following days and months
- FED expands its collateral catalogue (inclusion of ABSCP and mortgages) for use of Discount Window and lowers the refinancing rate in this segment by 50 bp; cuts Fed Rates in the coming month
- ECB increases the long-term Tender operation (90 days) by € 40bn to overall € 90bn; key refinancing rate remains unchanged
- BoE supports Northern Rock, establishes longer term market operation, cut of main refinancing rate

## Market Environment: Confidence crisis within G7 States (2/2)

### Money Market



- Measurements of central banks did only work partially (interest decrease by FED, ECB Quick Tender operation)
- Relocation of volume from weekly to 3 month Tender operation leads to higher volatility on short-term money market maturities
- Market basically liquid in range from O/N to 1 month
- Credit spreads relatively constant on high levels; credit curve along counterparts
- Repo market only working for high quality assets
- ABCP market remains illiquid

### Capital Market



- Refinancing on capital market only possible on higher cost basis
- Credit spreads tend to come back on lower levels
- Issued bonds are „priced to sell“ with a considerable spread of 15 to 20 bp above CDS curve
- All recently issued bonds did perform well from an investor point of view
- French covered bonds on basis Libor + 5 bp for 7 years (3 to 4 bp above comparable German issues)
- New bond issues are currently strongly oversubscribed
- End of November no bond issues on capital market possible

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## Commerzbank liquidity measurement: Update of stress scenarios

### Initial situation



#### Impact of current market situation on group liquidity status already foreseeable

- Based on already occurred and foreseeable effects 2 stress scenarios were further developed
- Thereby application of the already used stress scenario methodology

### Scenario 1 (market stress)



#### Long term strain on money and capital markets (some examples)

- Outflow of interbank deposits: general willingness for lending in the interbank market decreased
- Outflow of Landesbanken deposits / CPs: Landesbanken have to support own conduits and keep liquidity internally
- No prolongation of senior unsecured bonds: Commerzbank reluctant to issue unsecured bonds at high credit spreads

### Scenario 2 (combined market & downgrade stress)



#### Commerzbank in behavioural stress situation and market crisis becomes domestically and internationally more stressed (some examples)

- Additional outflow interbank deposits in addition to scenario 1
- Outflow domestic retail deposits (sight and term deposits)
- Outflow European customer deposits
- Outflow Landesbanken deposits / CPs as in scenario 1
- No prolongation of senior unsecured bonds as in scenario 1



## Commerzbank liquidity management: Initial decisions to preserve stable liquidity situation and next steps



### Freeze of unsecured funding levels on pre-market crisis basis

- Increase of unsecured funded assets only under availability of additional stable funding
- Compliance to be ensured by individual business segments



### Adjustment of haircuts and assumptions for selling liquid assets

- Adjustment of liquidity risk tool parameters regarding changed market environment
- Focus on reverse repo activities based on ECB eligible collateral



### Early involvement of Group Treasury regarding all (potential) liquidity outflows larger than €500m



### Refinancing of Conduits via Group Treasury (majority of conduits have been consolidated within balance sheet)



### Planning of measures under the assumption of a longer-lasting market crisis

- Development of a contingency plan to reduce non core assets or raise stable funding
- Presentation of contingency plan to the central ALCO

## Commerzbank liquidity management: Further short-term measurements

### Target



- Maintenance of a solid liquidity buffer to ensure a comfortable group wide liquidity structure, i.e. counterbalancing the lowering of maturities on the liability side
- Securing the liquidity portfolio for payment transaction even under scenario 2

### Limit dependency on Tender maturities



- Limitation of dependency from single Tender operations within group, i.e. increased use of long-term Tender operations; reduction of weekly Tender volume accordingly

### Acquisition of additional liquidity



- No prolongation of interbank lendings, acquisition of interbank deposits over year end
- Issuance of senior unsecured bonds: € 0.5 - 1bn in 3-5 year bucket on comparatively lower costs as at beginning of the market crisis





### Adjustment of liquidity risk limit levels



- Reduction of the internal liquidity risk limit levels to reflect the changed market environment



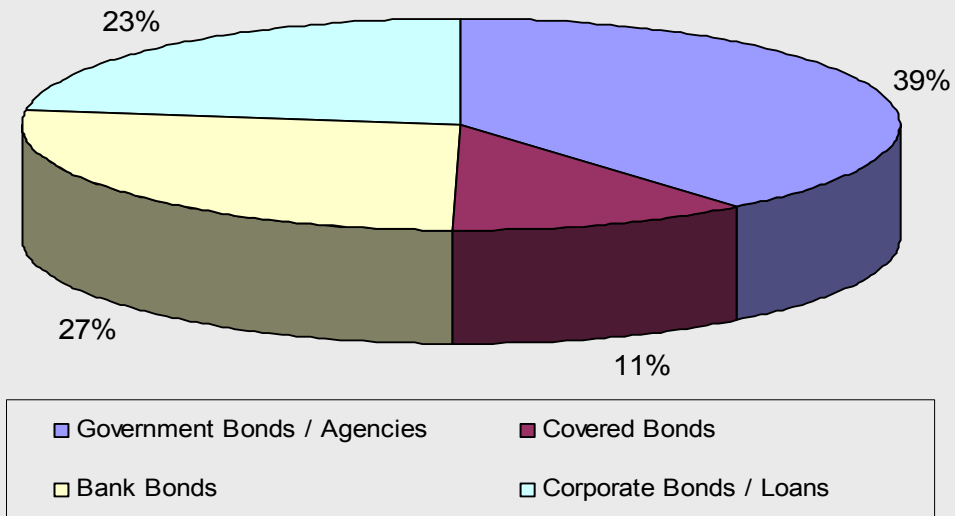
## Commerzbank liquidity management: Further long-term measurement until end of Q 1 2008 latest

<b>Target</b>	 <ul style="list-style-type: none"><li>▪ Adjustment of balance sheet structure to changed market environment</li><li>▪ Scenario 1: Replenishment of liquidity portfolio to secure capacity to act proactively</li><li>▪ Scenario 2: Retain liquidity portfolio for payment transactions</li></ul>
<b>General framework for adjustment measurements</b>	 <ul style="list-style-type: none"><li>▪ Stable funding concept to secure core banking activities for at least 1 year time horizon</li><li>▪ With a current stable funding ratio of 97.5% this is secured (range from 95 to 105%)</li><li>▪ Liquid and less liquid assets (saleable within 1 year time horizon) are to be primarily reduced under a longer-lasting market crisis</li><li>▪ Use of liquidity portfolio as buffer until further measurements to generate liquidity become effective</li></ul>
<b>Dimension of adjustment requirement</b>	 <ul style="list-style-type: none"><li>▪ On basis of current market assessment, reduction of unsecured funding on capital market planned</li></ul>
<b>3 basic options for action</b>	 <ul style="list-style-type: none"><li>▪ Reduction of unsecured funded non core assets (sale or non-prolongation)</li><li>▪ Transfer of unsecured funded assets into cover pools to generate secured funding</li><li>▪ Acquisition of additional stable customer deposits (no „hot money“)</li></ul>

## Commerzbank high quality liquidity portfolio and comfortable liquidity ratio

### Composition of liquidity portfolio

- 100% Fed / ECB eligible
- Liquid repo-market exists for at least 50% of the bond holding
- Stress portfolio consists of European Govies, bonds issued by German Federal States, covered bonds, bonds issued by agencies (e.g. KfW, EIB)
- Payment transactions portfolio incorporates additional asset classes such as bonds issued by banks and corporates



### Principle II ratio

- End of October '07                      1.13 Ratio
- Forecast Year-end '07                  1.08 – 1.15 Target ratio

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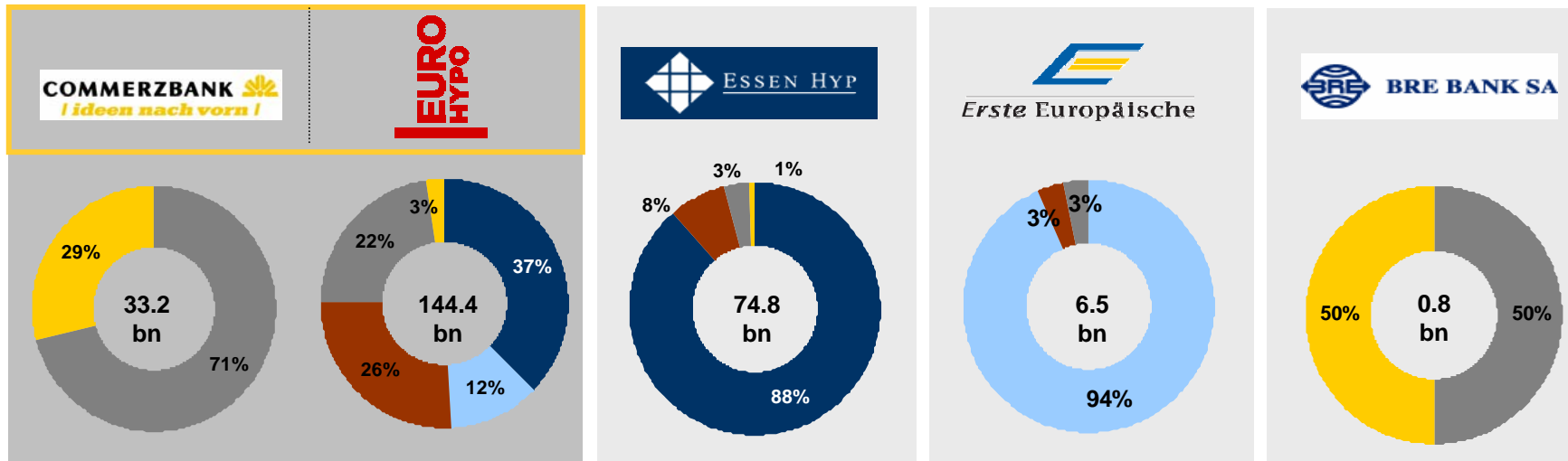
# Capital Market Committee manages €260bn\* of Group capital market issuance

## Capital Markets Committee

- Systematic issuance by group members gives clear guidance -

- Cooperation ➔ Clear coordination procedures implemented and process defined
- Market presence ➔ Group issuance and road show calendars adopted
- Investor work ➔ Investor survey conducted – very positive feedback received

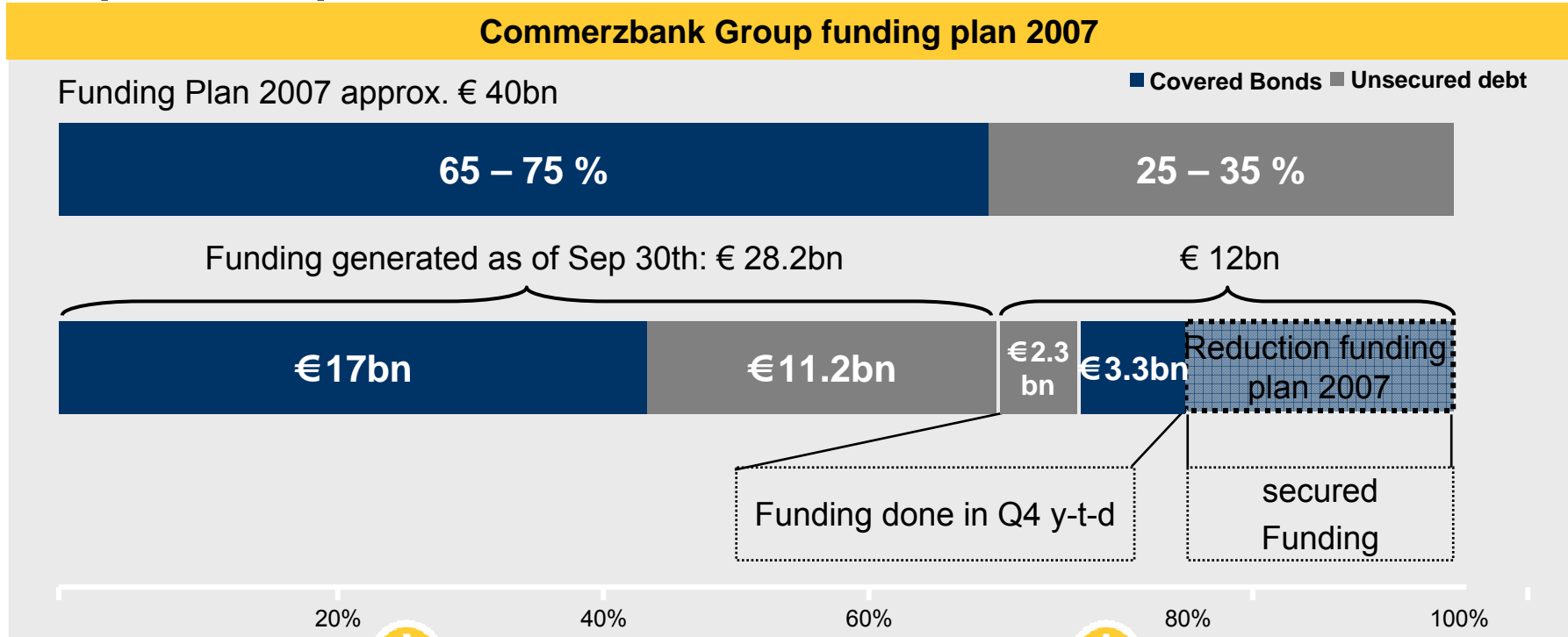
Leveraging #1 position of group in Pfandbrief market



■ Öffentliche Pfandbriefe ■ Lettres de Gage ■ Hypothekendarlehen ■ Senior Unsecured ■ Tier 1, Tier 2, Tier 3

\*total outstanding issuances in bn Euro as of 30 September 2007 (Treasury Database)

# Adjusted group funding plan 2007 fulfilled – unsecured funding completed as planned



**Reduced capital markets funding due to**

- Increase in customer deposits
- Sufficient liquidity portfolios
- Increase in money market secured financing

**Funding strategy in distressed markets**

- Limited unsecured debt requirements for remainder of 2007 covered by direct placements with institutional clients of CB
- Issuance of €2.5bn Hypothekenpfandbrief on stabilized covered bond markets
- € 750m Lower Tier II issued to support total capital ratio
- Opportunistic ongoing funding activities in anticipation of 2008 funding requirements

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## Eurohypo integration: Efforts on track, stress test successfully mastered


### Challenges

- Ensure Group liquidity after Eurohypo acquisition (balance sheet volume doubled)
- Reduce wholesale funding dependency
- Separation of Public Finance and Treasury activities within Eurohypo


### Achievements

Fully integrated Group Treasury of Commerzbank and Eurohypo 

BaFin waiver allows flexible cross-financing between entities; net reduction of approx. € 15bn of wholesale funding 


“One funding curve” concept for all unsecured funding; money market funding centralised in CB, secured funding in Eurohypo 


Funding synergies fully on track (€ 14m in 2008) 

Key hirings in 2007 

### Next Steps Projects

Finalisation of “Refi-Register” for cheaper funding 

Align Group-wide hedge accounting 

Seek official approval of our Group-internal liquidity model from regulators; replacing current Principle II regulation 



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## Conclusion: Commerzbank group liquidity situation proactively managed and on comfortable level

<b>Commerzbank Group well positioned</b>	<ul style="list-style-type: none"> <li>• Commerzbank well prepared due to regular updates of stress scenarios</li> <li>• Integrated Treasury (Commerzbank/Eurohypo) allows active management; HBE fully covered in entire process</li> <li>• Refinancing structure of Group strengthened since Eurohypo acquisition</li> </ul>
<b>Commerzbank as liquidity provider</b>	<ul style="list-style-type: none"> <li>• Commerzbank acted as liquidity provider of the German banking system</li> <li>• Supply of € 4.5bn term money (1-3 months) to German banks in late August/September</li> </ul>
<b>Liquidity of conduits assured</b>	<ul style="list-style-type: none"> <li>• Exposure to Commerzbank conduits € 8.5bn, thereof € 7.5bn funded</li> <li>• Liquidity assured at all times</li> </ul>
<b>No deterioration expected</b> (Realistic Scenario)	<ul style="list-style-type: none"> <li>• Interbank deposits without significant changes in volumes but shorter maturities</li> <li>• Increase in client deposits by € 6bn since August</li> <li>• <b>But:</b> Risk of market turbulences remains</li> </ul>
<b>Further contingency measures initiated</b> (Mod. Stress Scenario)	<ul style="list-style-type: none"> <li>• Market Risk Controlling and Group Treasury initiated measures to generate additional liquidity (reduction of unsecured funded assets; generation of secured funding and acquisition of stable customer deposits)</li> <li>• Implementation in progress; completion by end of Q 1 2008</li> </ul>

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## Outlook: Impact of increased credit spreads on Group's P&L expected to be positive

### What will happen?

Funding spreads and credit margins in general may remain at higher levels even after stressed liquidity situation of banking sector has calmed down

### Overall funding cost to increase moderately

- No evidence for customer deposits to become more expensive
- Issuance cost of Pfandbriefe higher than recent lows but impact limited as more expensive Pfandbrief issues will expire
- Spreads of Group's senior unsecured capital markets funding to increase in line with markets movements. Actual expectations of impact: roughly 40bp more compared to levels prior subprime
- Total outstanding unsecured debt € 60bn, to be reduced by roughly € 12bn due to use of "refinancing register"
- Funding cost to increase over several years

### Impact on assets

- Funding cost of commercial loan business (approx. € 210bn) only to be affected by up to 5-6 bp (increase extended over several years)
- Positive impact of widening credit margins on Group's lending business likely to match increased funding cost

# Thank you for your attention









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## Core business on track / Q3 impacted by subprime crisis

	Q3`07 vs. Q3`06			Q1-Q3`07 vs. Q1-Q3`06		
Revenues <sup>1</sup> , in € m	<b>1,644</b>	+0.9%		<b>6,311</b>	+8.7%	
Operating profit, in € m	<b>361</b>	+7.1%		<b>2,344</b>	+17.4%	
Net RoE, in %	<b>10.9</b>	+3.2ppts		<b>18.4</b>	+3.7ppts	
EPS, in €	<b>0.51</b>	+54.5%		<b>2.61</b>	+37.4%	

<sup>1</sup> after LLP

- Q3 operating result above y-o-y level
- Strong profitability in PBC and Mittelstand as well as in core franchise at C&M and CRE
- Subprime exposure conservatively evaluated on hard market criteria (impairments of € 291m)



## Highlights Q3 2007

### Core business

#### PBC

- Customer base grew in Q3 by net 86,000 (335,000 y-o-y)
- RoE further improved

#### MSB

- Excellent earnings development in all business areas
- Market position further improved

#### C&M

- Subprime turbulence with negative effect on New York branch and credit trading
- Otherwise normal seasonal development, even slightly stronger y-o-y

#### CRE

- Positive business trend however affected by RMBS-subprime impairment

#### PFT

- Declining earnings trend due to difficult interest-rate environment and weak performance of Essen Hyp

### Other P&L topics

#### Subprime

Impairments of € 291m due to subprime mortgage crisis in USA shown in AfS result  
 Impairments on subprime portfolio as of end of September:  
 RMBS ≈ 15%  
 CDOs ≈ 50%

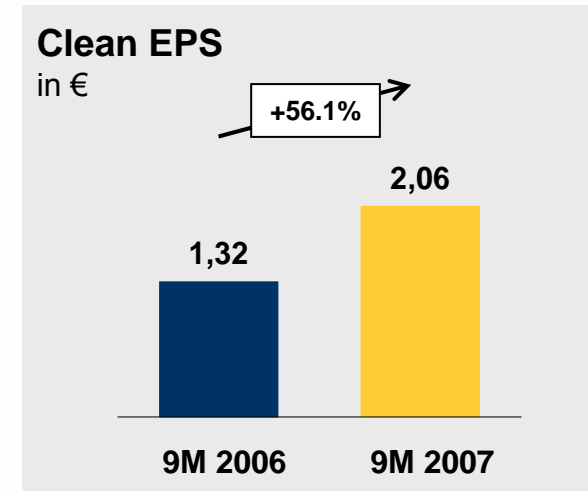
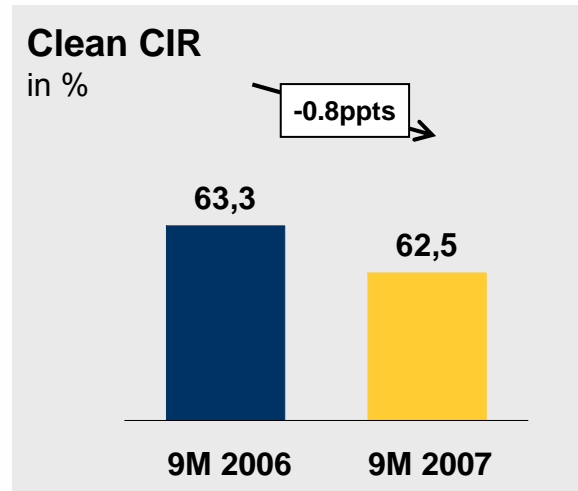
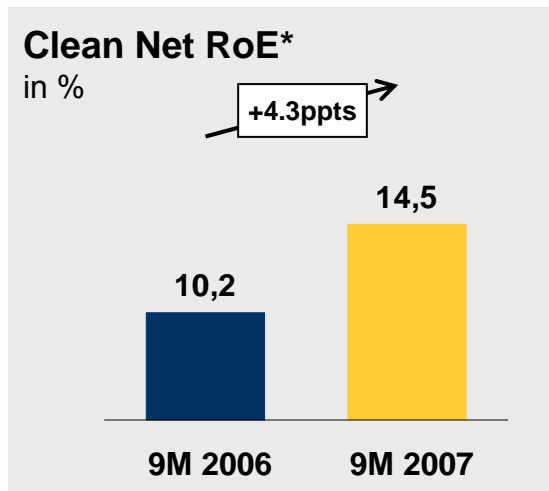
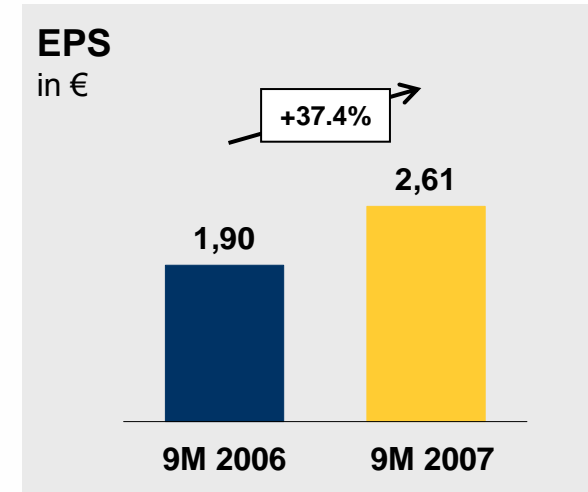
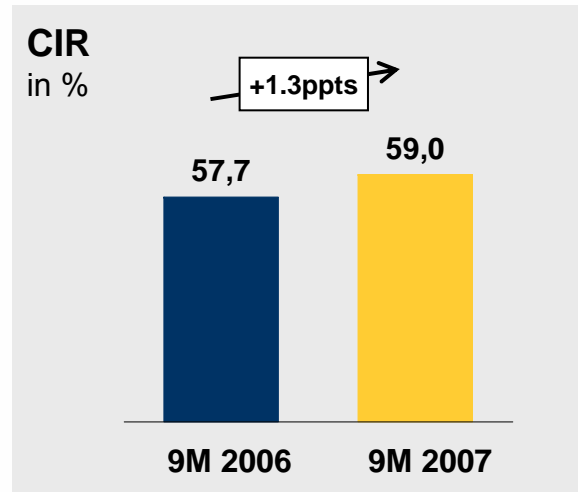
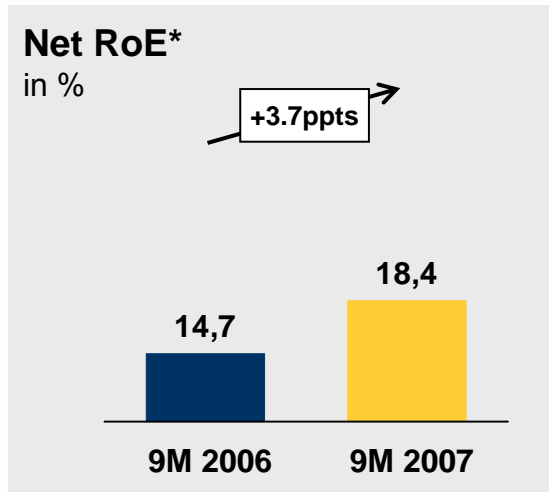
#### Taxes

Utilization of tax loss carry forwards lowers Q3 tax level significantly

#### One-off in Mittelstand

Intermediation fees of +€ 100m due to positive decision by German Federal Financial Court and subsequent confirmation by lower tax court

## Commerzbank is fully on track to reach its FY 2007 targets



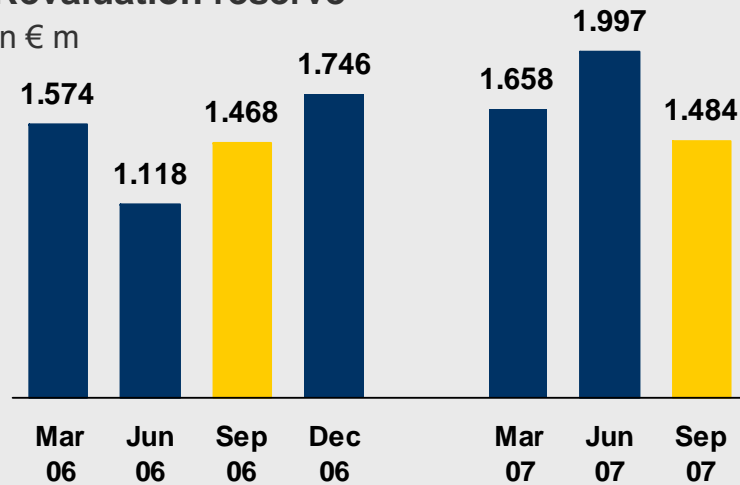
\* Annualized  
Note: 2006 figures based on stated results

Clean: excluding net result on participations, restructuring charges

## Strong increase in risk weighted assets, sound liquidity position

### Revaluation reserve

in € m

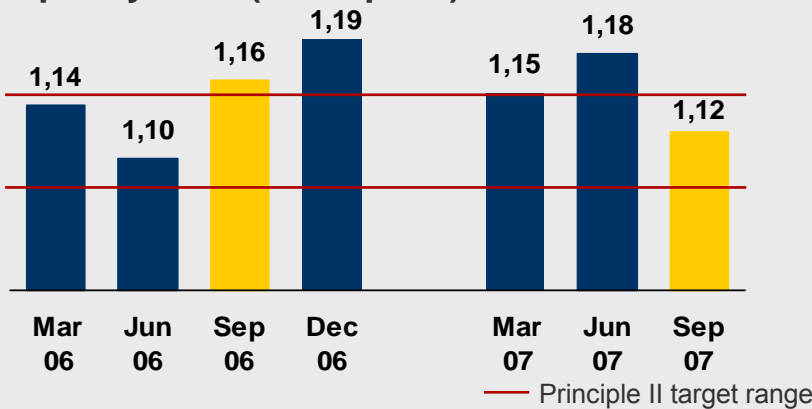


### Regulatory capital (Tier I)

in € m

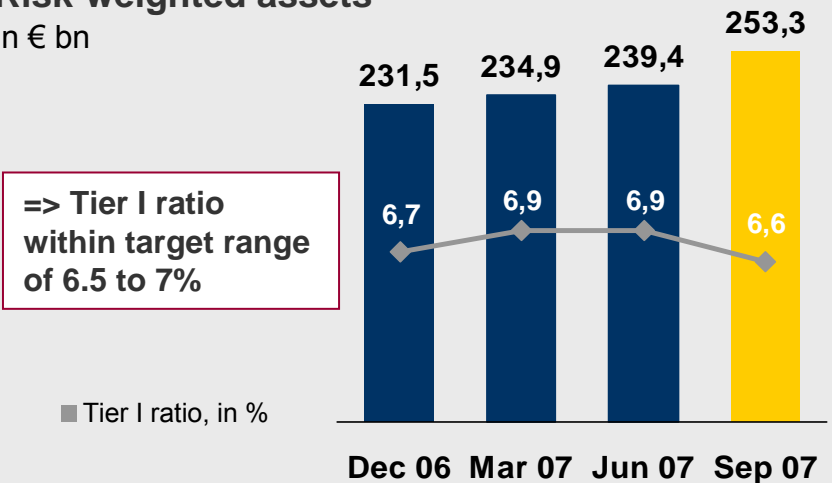
	Dec 2006	Mar 2007	Jun 2007	Sep 2007
Subscribed capital	1,705	1,708	1,708	1,706
Reg. Reserves	9,983	10,362	10,815	10,946
Minority interests (BIS)	884	1,029	1,017	990
Hybrid capital	2,925	3,018	3,096	3,114
<b>Total</b>	<b>15,497</b>	<b>16,117</b>	<b>16,636</b>	<b>16,756</b>

### Liquidity ratio (Principle II)



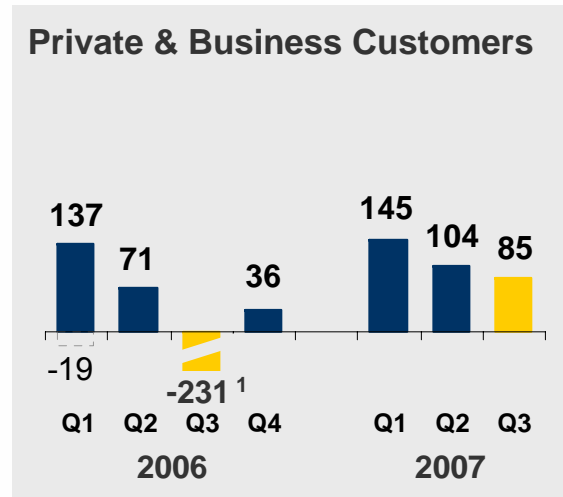
### Risk-weighted assets

in € bn

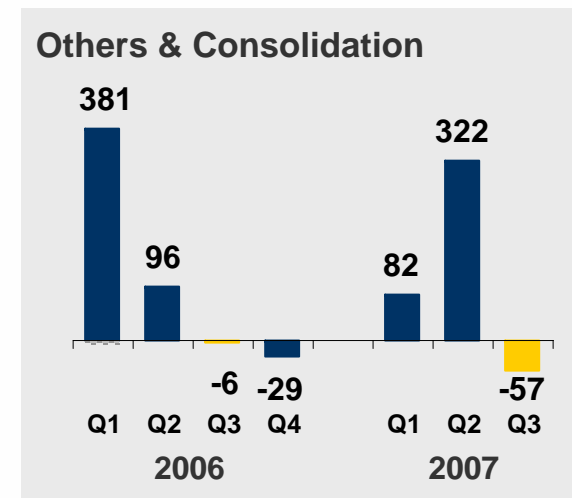
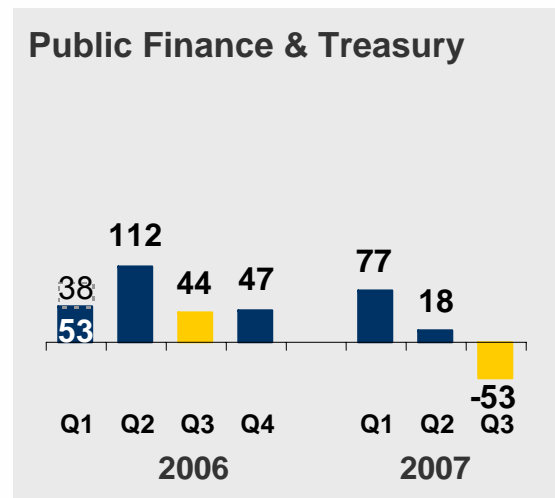
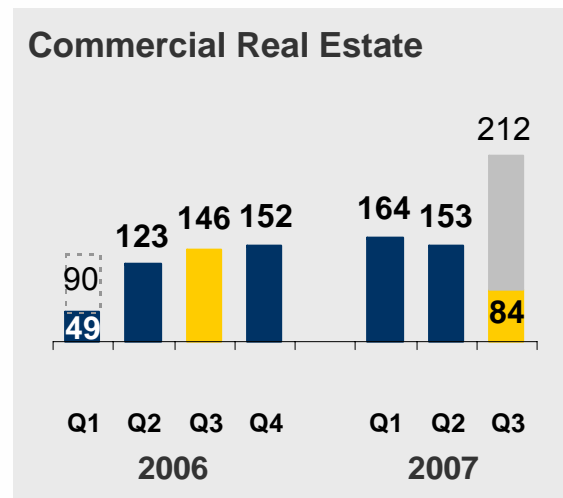
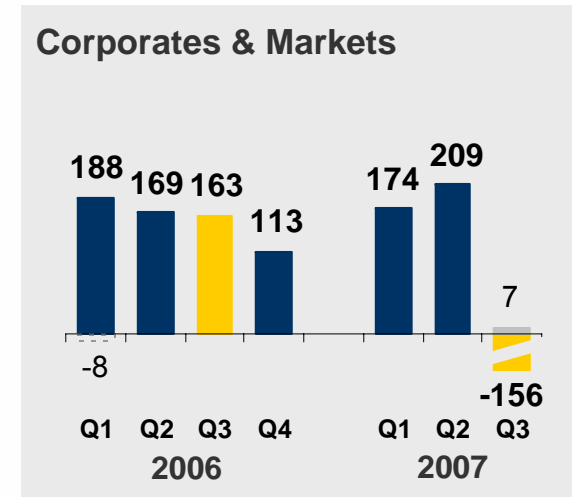
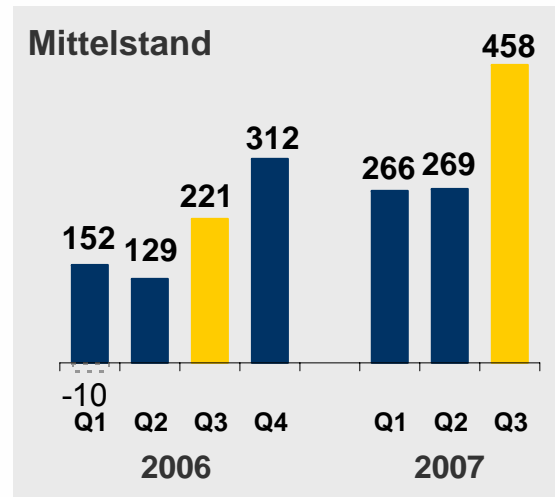


## Core businesses with sound performance

Operating profit in € m



<sup>1</sup> incl. one-off provision of €293m



 Pro-forma integration of Eurohypo

 Profit without subprime impairments

## Main topics for Commerzbank in Q3

1. Stable German economy despite subprime development
2. Commerzbank's business model has proven to be robust in times of credit turmoil
3. Present market environment gives Commerzbank the opportunity for controlled growth internally as well as externally
4. We confirm our profitability targets
5. Shareholder friendly dividend policy

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