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Risk Transfer Securitization to support SME Lending

Corporates and Markets I November 2013

1. Risk Transfer Securitisation to support SME Lending

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Overview – Synthetic Securitisation

- Synthetic securitisation provides an efficient capital management tool for both bank-wide capital management as well as targeted to divisional issues where Basel III is negatively impacting profitability or capacity
- The balance sheet benefits from the sale of higher RWA segments associated with the "unexpected loss" while retaining the expected loss and senior risk
- Below is the indicative capital release on a hypothetical Italian bank SME portfolio using the supervisory formula

Portfolio Size	RWA	Excess-Spread	Tranche Sold	Coupon	First-loss	Capital Released	Cost of Capital	After Tax Cost of Capital
€2.5bn – Italian SME	70%	Yes	€124mln	12%	1%	€255mln	10.1%	7%

Key Execution Considerations

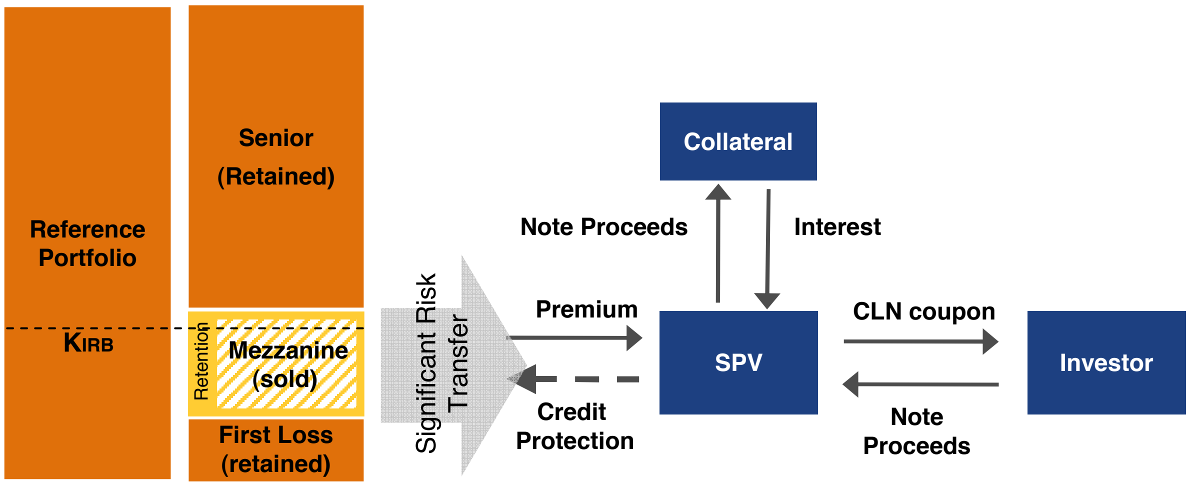
- Commerzbank has established the structural features that are supported by its regulator and those of many clients
- Growing investor base with increased opportunities to build pricing tension for the more established asset classes
- Balancing bank and investor goals critical to an efficient solution
- Partner with a bank benefiting from strongest regulatory, structuring and distribution credentials

Transactions Benefits

- Capital and Core Capital creation at low cost
- Time flexibility: Its relative short expected duration (3y to 5y) provides both a complimentary capital instrument and a bridge to other capital plans
- The synthetic aspect of the structure allows the release of capital on assets that have already been pledged / used as collateral such as covered bonds, ECB repo or funded securitisations and avoids the recognition of market value associated with true sale

2. Transaction Structure

Structuring Overview of a Synthetic Securitisation



Risk transfer and the related RWA reduction is achieved by selling the "unexpected loss risk" which ties up high RWA in a portfolio while retaining the senior and first loss risk which are more efficient on a bank's balance sheet

Key Structuring Features

Replenishing Portfolio

- The shorter dated nature of SME portfolios requires replenishment in order to achieve optimal capital efficiency. Longer dated loans such as mortgage and CRE will usually be static transactions

Retention

- Minimum retention will be required by regulator and/or investors in order to keep originating Bank and investors' interests aligned

Excess Spread

- A use-it-or-lose-it excess-spread may further optimise tranching and improve economics, especially for lower RWA portfolios. Various forms of this feature have been accepted.

RWA calculations

- IRB banks will rely on their internal scoring system and the Supervisory Formula

Time and Regulatory Calls

- Several European regulators allow for the shorter of 5 years or the WAL of the portfolio to the first call date, still giving the bank the option to benefit from the full extent of the protection term in adverse scenarios
- Banks should be allowed to exit transaction whose efficiency would be reduced by a change of the regulatory environment

Definition of Credit Events

Credit Event

- Bankruptcy of the Borrower
- Failure to pay
- Restructuring

Loss definition

- Principal
- Accrued interest
- External enforcement costs

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3. Commerzbank – The Leader in RWA Optimization Transactions

Commerzbank's Leadership

- Our market leading team structured and arranged **the first Basel II capital relief transaction ever in 2006**
- Unparalleled distribution capabilities covering **60+ niche investors** and having successfully placed numerous Basle II-III transactions
- Unrivalled structuring expertise resulting from regular discussions with investors as well as from **unique collaboration with national regulators**
- **Commerzbank's leadership** consolidated by a growing pipeline of capital relief transactions across the asset classes (SMEs, Commercial Real Estate, Residentials…) and client mandates

Issuer	Transaction	Role	Date
COMMERZBANK	CoCo Finance 2006-1, CLO Large Multi-National Corporates, €4,500,000,000	Sole Arranger & Lead Manager, Sole Bookrunner	June 2006
EURO HYPO	Semper Finance 2006-1, German CMBS, €1,850,672,544	Arranger & Lead Manager, Sole Bookrunner	December 2006
EURO HYPO	Semper Finance 2007-1, German CMBS, €1,001,883,722	Lead Manager & Sole Bookrunner	June 2007
COMMERZBANK	CoSMO Finance 2007-1, SME CLO, €2,000,000,000	Sole Arranger & Lead Manager, Sole Bookrunner	July 2007
COMMERZBANK	CoSMO Finance 2008-1, SME CLO, €1,500,000,000	Sole Arranger & Lead Manager, Sole Bookrunner	October 2008
COMMERZBANK	CoSMO Finance 2011-1, SME CLO, €1,000,000,000	Sole Arranger & Lead Manager, Sole Bookrunner	January 2011
COMMERZBANK	CoSMO Finance II-2, SME CLO, €2,000,000,000	Sole Arranger & Lead Manager, Sole Bookrunner	January 2012
COMMERZBANK	CoCo Finance 2012-1, CLO of Multinational Corporate Loans, €2 billion	Arranger & Lead Manager	August 2012
	Dutch Residential Mortgages	Arranger & Lead Manager, Bookrunner	2013
	Austrian SME CLO	Sole Arranger & Lead Manager, Sole Bookrunner	2013
COMMERZBANK	Co Trax Finance II-1, CLO of Emerging Market Bank Exposure, US$500 million	Sole Arranger & Lead Manager, Sole Bookrunner	September 2013

A Widely Accepted Structure Across Jurisdictions

- We continue to see increased engagement with regulators across Europe. Transactions expected this year in Germany, France, Netherlands, Portugal, United Kingdom, South Africa, Austria, Italy, Spain and possibly the Nordics

- Approved transaction features range widely with synthetic excess spread and call features being the most discussed topics
- Whilst the regulatory framework evolution is being discussed, timeline for implementation remains vague and most banks / regulators continue to support significant risk transfer transactions, although unanimously with the inclusion of regulatory calls whose wording is critical
- Commerzbank has been at the forefront of discussions to establish a framework supported by the Bank of Italy

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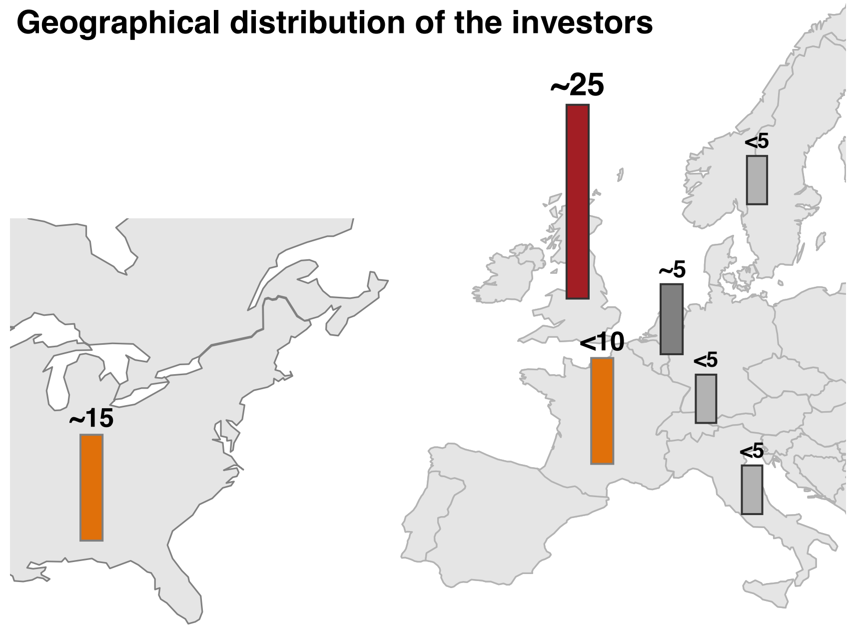
4. Placement Considerations

Investors' Distribution

Key take-outs

- Large amounts of capital for investment in first and mezzanine tranches has been accumulated initially from the US investors and more recently with European investors.
- In addition, following the recent Risk Transfer transactions, several large traditional institutional investors (Insurance companies, Asset managers) have started dedicating funds to invest in this asset class
- In addition to the traditional UK and US investors, we have also significantly distributed our recent transactions into France, Benelux and in the Nordics
- These investors will typically look for yields in the low-teens and in some more in favour countries, single digits
- Commerzbank is covering this highly specialised investor base with regular deal and non-deal investor meetings involving combined efforts by our structuring, syndicate and sales teams
- Commerzbank is a recognised pioneer in the establishment of this product, moving away from a bilateral distribution toward an competitive integrated wholesale distribution model for the benefit of the issuing bank

Geographical distribution of the investors



H.F.	Insurance Companies / Pension Funds	Credit specialist Fund / Private Equity
25%	15%	60%

Strong and skilled dedicated distribution capabilities are critical to create price tension and secure execution

Investor's Universe Expanded to 60 accounts

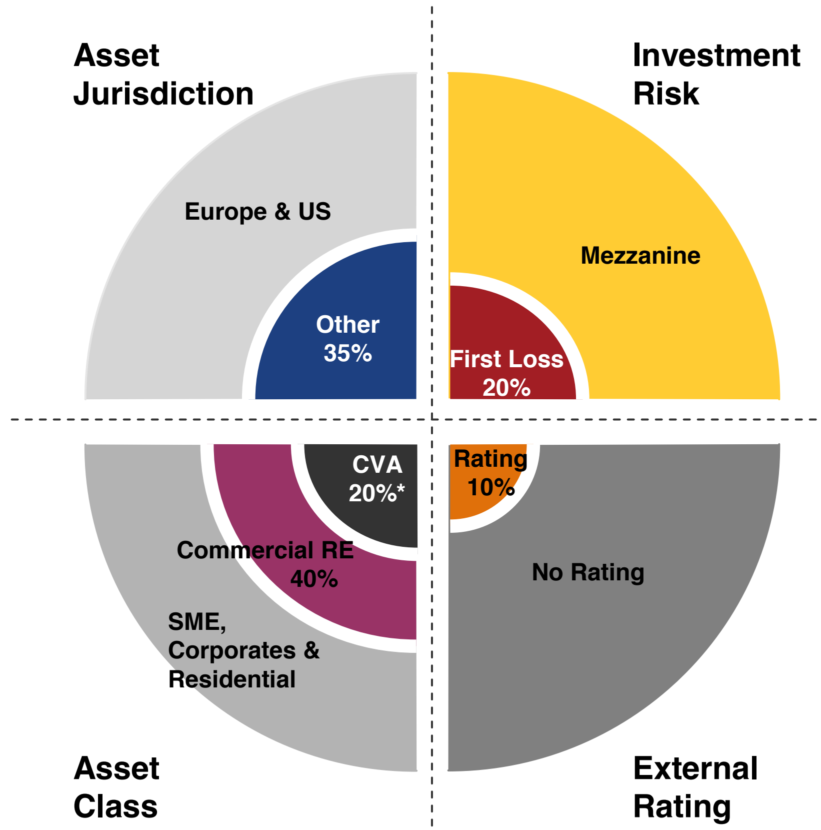
Investor's Appetite Feedback

- Strongest appetite still for core Europe. However, interest in peripheral portfolios has increased as investors seek to meet their return hurdles.
- Preference for Mezzanine risk with reluctance to invest in First Loss without some sort of protection in the form of synthetic excess spread or significant subordination
- Most investors do not require a rating
- In terms of asset class, most investors have interest in SME collateral, consumer and Corporate. A large number of investors could look at residential and commercial real estate portfolios and "CVA-type" transaction are also seen as a potential diversification investment but capacity may become limited if highly financial institutions focused

Additional Considerations

- Investors pay great attention to due diligence of the portfolio as well as to the analysis of the structure. Most will require education for non-standard aspects of these synthetic deals
- For granular supervisory formula transactions in particular, the banks' internal rating processes and experience will be an important factor to take into consideration, especially for replenishing transactions
- Investors require comfort and incentives for the issuer to call (to reduce extension risk). Given no availability for step-up, investors will prefer structures without first loss amortisation in order to align originator/seller and investors' interest

Investor's Preference Segmentation



* *Heavily structure driven*

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