



Wake-up call for comdirect

September 2017



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I

Executive Summary

Executive summary

- comdirect AG (“comdirect“) is a leading German direct bank with a market cap of €1.5bn and with broad capabilities spanning brokerage and online banking, plus to a lesser extent savings / asset management, as well as lending and execution platform services
- Commerzbank AG (“Commerzbank“) owns 81.3% in comdirect and has factually integrated the business including by controlling the Supervisory Board and by determining Management – no Domination Agreement is in place
- Commerzbank has embarked on a fundamental transformation project targetting €1.1bn of cost savings namely by digitizing processes, mainly in the mid- and back-office, with 9,600 FTE being reduced – none will benefit comdirect
- There are numerous potential Conflicts of Interest including cost charged to comdirect for mid- and back-office services and management being incentivised with Commerzbank Group shares
- comdirect is „neglected“ and has been performing substantially below its growth and in particular profitability potential
 - **Growth:** Focus primarily on adding customers (one of Commerzbank’s key KPIs) with too narrow focus on hard core traders and Germany
 - **Cost:** Cost/income ratio at 75.8%^{1,2} is c. 20% above peer median pointing to cost potential of €30-50 million – currently no sharing in Commerzbank’s cost savings despite integration of mid- and back-office
 - **eBase:** No material synergies with core comdirect business and lack of profit growth make this a non-core business

We urge Commerzbank AG to finally focus on creating value at comdirect or offer a fair alternative to minority investors

1) Cost / income computed as SG&A / (PBT + SG&A), as per the respective last FY.

2) Adjusted for VISA sale.

Summary of the Problems at Hand

- comdirect was launched into the market in June 2000 as a beacon on the Neuer Markt and of Germany's dynamic shareholder culture
- For almost two decades the business has been void of any intelligent ideas, trailing behind its main competitors
- New Commerzbank leadership under Martin Zielke have even less interest in the promises given to a large number of German investors who entrusted their savings into the hands of comdirect management
 - Dresdner Bank colleagues were placed in key positions
 - Costs escalate
 - eBase, comdirect's custody business, is dozing with AuM growth but profit stagnation
 - comdirect is asphyxiated by Commerzbank's lack of ideas and enormous cost problems
- Commerzbank has been given time in repeated discussions and letters to come up with a solution
- We will no longer accept the domination Commerzbank exerts idealessly over this business and will no longer watch over the value destruction it brings

comdirect overview

- comdirect has become an orphaned stock – 6 research analysts have the stock on Sell / Hold, none on Buy

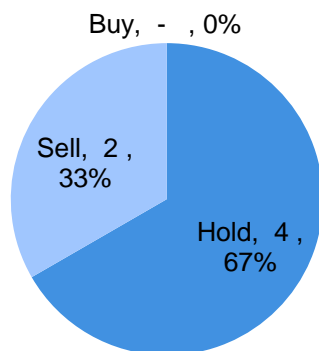
Key stats

Price	€ 10.95
Consensus / Potential Return	€ 9.32 / -14.9%
Shares outs. / Free-float	141.2m / 18.7%
Market cap	€ 1,546.4m
20 days avg. volume	26.5k shares / €0.3m
52 week range	€ 9.04 – 10.98
Country of listing	Germany

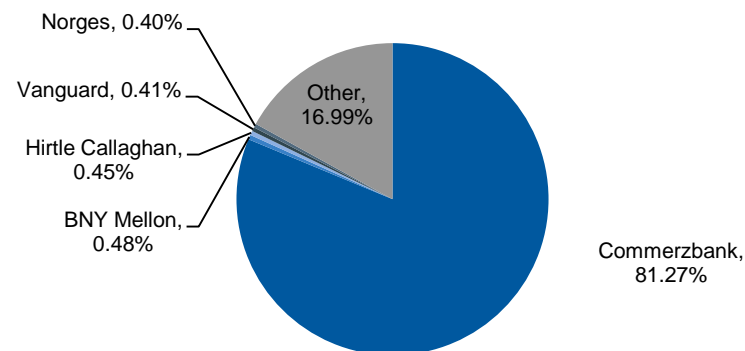
Performance (total return)

	1 m	3 m	12 m	Vol (90d)
COM GY	0.6%	11.8%	20.1%	14.7%
DAX Index	0.4%	-2.9%	14.4%	11.0%
SXXT Index	-1.5%	-2.2%	15.2%	10.1%

Broker recommendations



Key shareholders





Business Overview

Business overview

comdirect

comdirect bank AG

- Headquarter: Quickborn
- B2C
- Full service online/ direct bank
 - Brokerage
 - Lending business
 - Investing / Saving
- Mid- and back-office provided by Commerzbank
- Front-end joint development projects with Commerzbank IT
- Treasury provided by Commerzbank as main counterparty

- Assets under custody: €46.0bn
- Customers: 2,081k
- PBT 2016: €110.6m
- Employees: 1,071
- Cost/income: 75.8%¹

ebase

European Bank for Financial Services GmbH (ebase)

- Headquarter: Ascheim
- B2B
- Full-service platform for depository services and deposit outsourcing
 - Deposit business
 - Custody platform
- No significant synergies with either comdirect bank AG or Commerzbank
- Recognised bank status

- Assets under custody: €29.8bn
- Customers: 1,036k
- PBT 2016: €10.1m
- Employees: 261
- Cost/income: 81.3%

Note: Data as of FY 2016.

1) Adjusted for the VISA sale gain.

Management board

- Management is dominated by former Dresdner Bank colleagues of Martin Zielke
- Share incentivation is based on Commerzbank AG shares! Part of the bonus is driven by Commerzbank Group targets



Arno Walter

- CEO
- Born/age: 1967 / 50y
- Management board member since: March 2015
- Current & previous relevant positions:
 - Chairman of ebase GmbH (current)
 - CEO of Stiftung Rechnen foundation (current)
 - Representative Sales Region South-West Germany Private Clients Commerzbank
 - Private banking at **Dresdner Bank**



Dietmar von Bluecher

- CFO
- Born/age: 1973 / 44y
- Management board member since: July 2016
- Current & previous relevant positions:
 - Chairman of onvista AG
 - Divisional Manager of group finance activities for the non-core Assets segment at Hypothekenbank Frankfurt (ex. Eurohypo)
 - Department head for HGB/IFRS Financial Statements in group accounting at Commerzbank
 - Department head of Financial Controlling at **Dresdner Bank**



Martina Palte

- COO
- Born/age: 1968 / 49y
- Management board member since: 2012
- Current & previous relevant positions:
 - Deputy chairwoman of Stiftung Rechnen foundation (current)
 - Supervisory board member of ebase GmbH, onvista AG, onvista media GmbH (all current)
 - Branch director Commerzbank



Sven Deglow

- CMO
- Born/age: 1969 / 48y
- Management board member since: September 2015
- Current & previous relevant positions:
 - Chairman of onvista media GmbH (current)
 - Former head of business development, sales & direct marketing, and HR
 - Project manager marketing and sales

Supervisory board composition

- Former Dresdner Bank colleagues also dominate the Supervisory Board
- No external nor any international online brokerage / banking expertise represented

Michael Mandel

- Chairman
- Born/age: 1966 / 51y
- First elected: 2016
- Current & previous relevant positions:
 - Member of the board of Managing Directors responsible for the Business Segment Private and Business Customers (current)
 - Member of the supervisory board of Commerz Real AG, mBank SA, Schufa Holding AG, Commerz Real Investmentgesellschaft mbh (all current)
 - Segment Head Private Customers Commerzbank AG
 - CEO comdirect AG
 - Various roles at **Dresdner Bank**

Frank Annuscheit

- Born/age: 1962 / 55y
- First elected: 2006
- Current & previous relevant positions:
 - Member of the supervisory board of Commerz Services Holding GmbH
 - Member of the management board of Commerzbank
 - COO at Commerzbank
 - CIO at Commerzbank
 - european transaction bank AG
 - Deutsche Bank Group
 - Senior consultant KPMG
 - Consultant at Andersen Consulting

Sandra Persiehl

- Employee representative

Georg Roennberg

- Born/age: 1948 / 69y
- First elected: 2010
- Current & previous relevant positions:
 - Head of financial services of KPMG for EMEA
 - Partner at Peat Marwick and KPMG
 - Independent auditor and tax consultant

Sabine Schmittroth

- Born/age: 1965 / 52y
- First elected: 2012
- Current & previous relevant positions:
 - Member of the supervisory board of Commerz Direktservice GmbH, Commerz Real AG, Commerz Real Investmentgesellschaft mbH
 - Segment Head Private Customers Central
 - Segment Head Private Customers Middle
 - Various roles at **Dresdner Bank** including Assistant to the Management Board and Head of Sales Support

Maria Xiromeriti

- Employee representative

Stock price since IPO

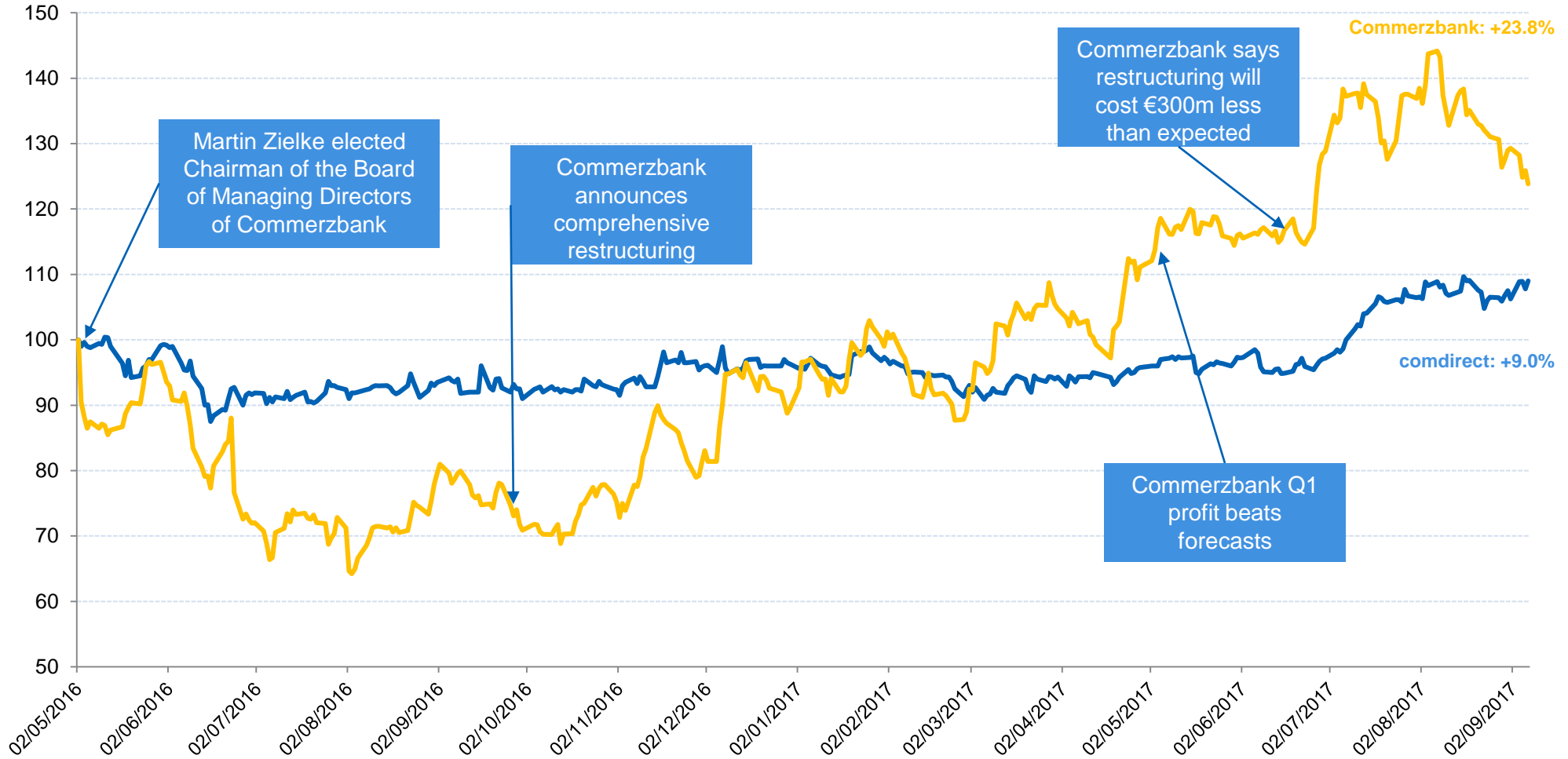
- While comdirect's share price has stabilized, it has never regained its momentum as a growth business
- Lack of dynamic growth strategy makes it unlikely IPO investors will ever get their money back



Source: Bloomberg as of 08/09/2017

comdirect vs. Commerzbank share price performance

- comdirect's share price demonstrates that all management focus is on Commerzbank



Source: Bloomberg as of 08/09/2017

Cost/income ratio - peer comparison

- comdirect's cost/income ratio is some 20% above the peer median – even when adjusting for ebase (i.e. B2C only)
- We believe the main reasons are an inflated cost base due to the integration of comdirect with Commerzbank including its mid- and back-office

Cost/income	2012	2013	2014	2015	2016
Avanza	64.1%	62.1%	57.5%	47.5%	49.3%
BinckBank	77.1%	77.1%	79.2%	76.9%	95.3%
Charles Schwab	70.3%	68.6%	65.1%	64.3%	60.0%
E Trade	114.5%	85.5%	71.3%	93.1%	57.8%
Fineco	51.9%	60.3%	55.5%	52.6%	51.4%
Hargreaves Lansdown	31.1%	27.7%	27.8%	31.4%	31.8%
IG Group	53.9%	52.5%	52.6%	59.8%	56.8%
ING DiBa	56.2%	49.0%	45.3%	41.8%	41.0%
PLUS500	n.a.	41.6%	37.7%	52.8%	53.9%
Renta4	80.2%	71.2%	67.4%	68.3%	72.8%
Swissquote	73.1%	88.0%	78.5%	98.2%	82.5%
TD Ameritrade	64.1%	59.5%	57.3%	57.9%	59.7%
Peer median	64.1%	61.2%	57.4%	58.8%	57.3%
comdirect (B2C)	70.2%	76.0%	76.3%	74.8%	75.8% ¹
Delta (%)	6.1%	14.8%	18.9%	15.9%	18.5%
Implied cost saving potential delta (€m)	17.2	43.1	57.1	50.4	53.0

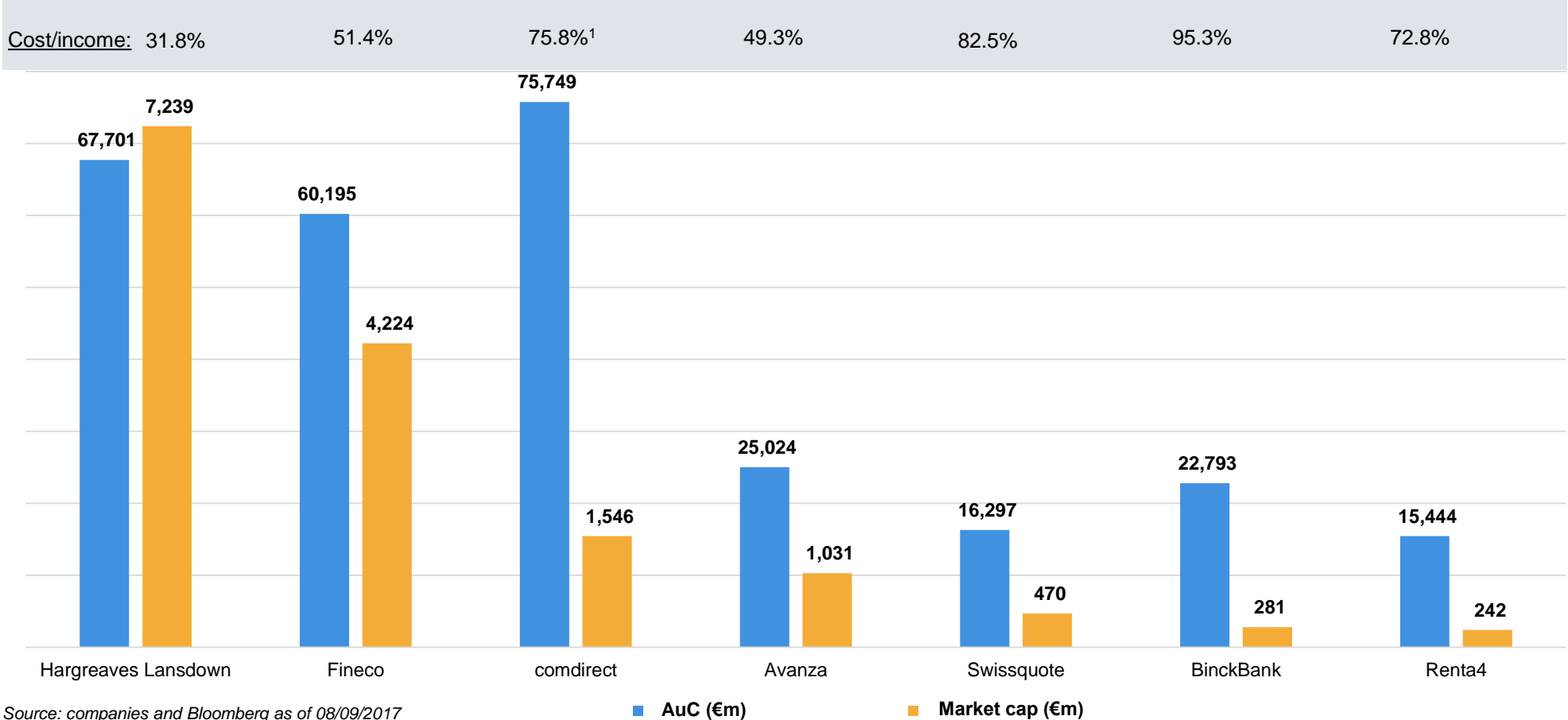
Source: companies' reports

Note: cost / income computed as SG&A / (PBT + SG&A).

1) Adjusted for the VISA sale gain.

AuC / market cap - peer comparison

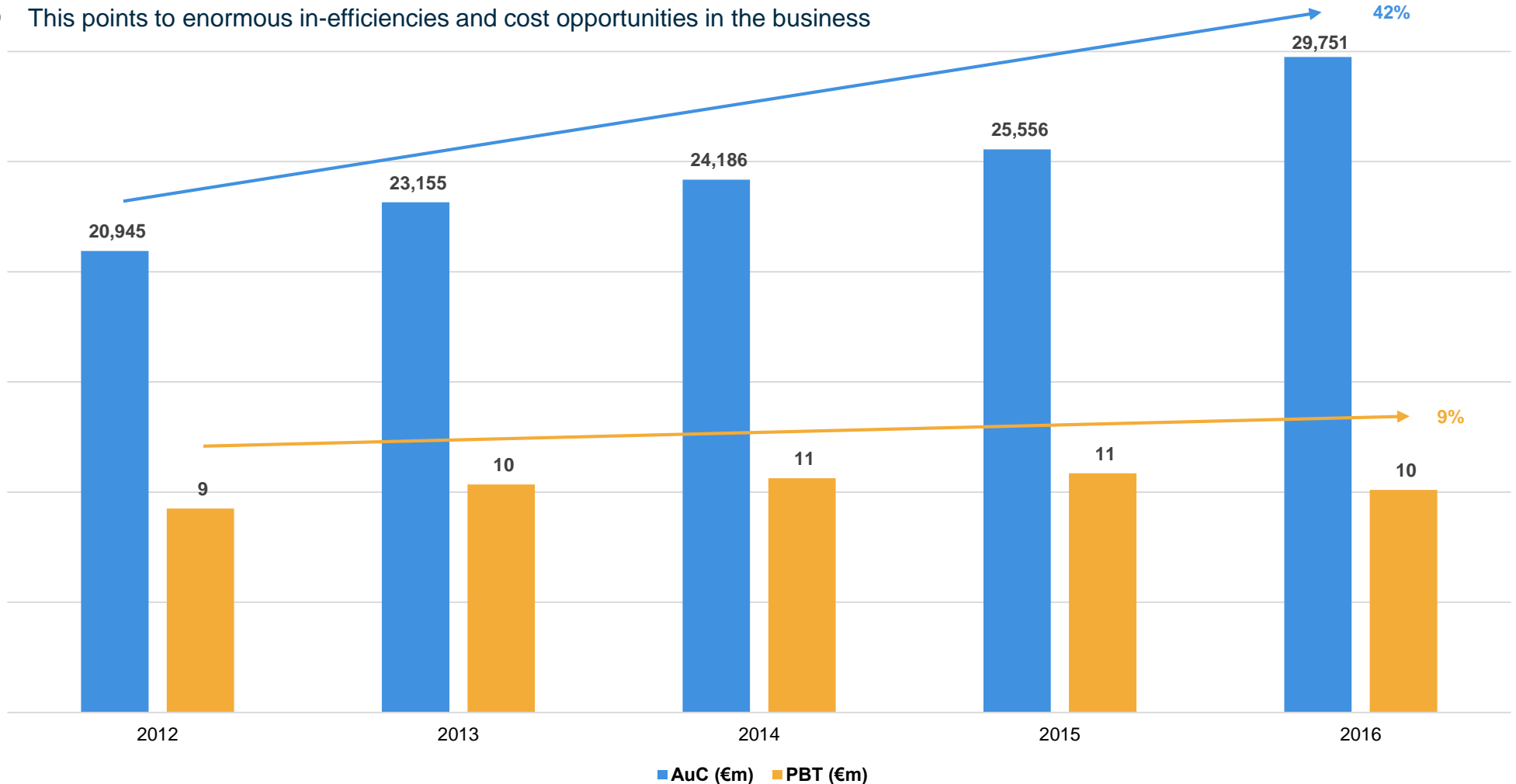
- Despite a large asset base, comdirect's market capitalization is small
- Successful peers such as Avanza, Fineco, and Hargreaves Lansdown have created substantially more shareholder value by profitably growing into attractive parts of the market opportunity
- comdirect's cost/income ratio compares to small players lacking scale



Source: companies and Bloomberg as of 08/09/2017
 Note: FY 2016 data, 10:1 scale for AuC : Market cap
 1) Adjusted for the VISA sale gain.

Evolution of ebase Assets under Custody vs. PBT

- Despite growing the asset base substantially, ebase management has not managed to grow profitability
- This points to enormous in-efficiencies and cost opportunities in the business








Note: ebase assumed as the entirety of B2B segment. 1,000:1 scale for AuC : PBT



Potential Conflicts of Interest




Overview of Potential Conflicts of Interest (1/2)

	Potential Conflict of Interest	Assessment	Potential Impact	
Fees for Mid- and Back-office	<ul style="list-style-type: none"> ● comdirect represents a significant share of Commerzbank's retail mid- and back-office cost / infrastructure ● Service agreements in place regulating prices 	<ul style="list-style-type: none"> ● Arms' length terms of current conditions would need to be properly tested including via tendering the full mid- and back-office to outsourcing partners ● Extremely high cost / income ratio of comdirect could be the result of potential significant overcharging by Commerzbank ● comdirect apparently not sharing in any of the €1.1bn cost savings targeted by Commerzbank in the mid- and back-office 	<p>A cost gap of €30-50m can be implied from a peer comparison⁽¹⁾</p>	
Relationship with Commerzbank Treasury	<ul style="list-style-type: none"> ● comdirect needs to channel its assets to Commerzbank Treasury ● Commerzbank Treasury decides on the type of funding 	<ul style="list-style-type: none"> ● Dependence on one single counter-party bears significant risk ● Commerzbank Treasury is a Profit Centre and thus implicitly charges for what should be a comdirect core competence ● Duration match depends on „analytical“ maturity of deposits (average term combined with max historical reduction) 	<p>Risk / return impact potentially very significant</p>	
Other Service Agreements	<ul style="list-style-type: none"> ● Many further service agreements in place (admin functions, etc.) 	<ul style="list-style-type: none"> ● Given Commerzbank's chronically inflated cost structures, high risk the terms are not the best available in the market 	<p>See cost gap to peers</p>	
Open Platform vs. Commerzbank Product Distribution	<ul style="list-style-type: none"> ● Growing the asset management business important ● Open platform strategies tend to perform better 	<ul style="list-style-type: none"> ● Commerzbank's in-house products potentially in competition with growth targets/ opportunities 	<p>Could hamper growth opportunity</p>	
Governance / Supervisory Board	<ul style="list-style-type: none"> ● Supervisory Board is mainly Commerzbank bankers ● Only one independent director (Georg Rönning) 	<ul style="list-style-type: none"> ● Raises many question marks around independence of supervisory board, especially given overlap or potential business overlap of comdirect and Commerzbank 	<p>Likely a reason for comdirect's narrow strategy and growth plan</p>	

Source: Petrus Advisers

(1) See page 12.

Overview of Potential Conflicts of Interest (2/2)

	Potential Conflict of Interest	Assessment	Potential Impact	
Management	<ul style="list-style-type: none"> ● Management historically sent in by Commerzbank with route back to the mothership ● Part of bonus linked to Commerzbank Group performance ● Share incentive programme based on Commerzbank AG shares (!!!) 	<ul style="list-style-type: none"> ● Very limited / no expertise in online / direct banking ● People from Commerzbank CEO's inner circle / former Dresdner boys running comdirect ● Link of economic incentives to Commerzbank sets wrong incentives 	Management with wrong background / capability set and flawed incentives	
Growth Strategy	<ul style="list-style-type: none"> ● comdirect with potential to grow business with traditional Commerzbank customers ● Internat. growth logical option 	<ul style="list-style-type: none"> ● Current strategy seems too narrow and clearly a result of a multi-channel approach dictated by Commerzbank ● No international growth agenda despite formidable business model and profitable adjacent markets 	Substantially limits growth options	
comdirect Equity Story / Focus	<ul style="list-style-type: none"> ● Comdirect a small part of the Commerzbank Group ● Hard for top management to fully focus on comdirect strategy and investor relations ● No clear strategy in place 	<ul style="list-style-type: none"> ● Company and stock appears neglected – not surprising given Commerzbank's transformational cost and improvement programme ● Stock has become un-investable as a result ● Significant growth opportunity remains under-exploited ● Players such as Fineco, Avanza or Hargreaves Lansdown have demonstrated that profitable growth is possible <ul style="list-style-type: none"> ● Fineco: from heavy traders focus to more profitable light asset management ● Avanza: systematic focus on attracting savers in addition to traders ● Hargreaves Landown: efficient access to funds for investors with open platform approach 	No clear strategy No liquidity Stock not investable	

IV

Petrus Advisers Demands

Petrus Advisers demands for comdirect (1/3)

	Point	Petrus Advisers Assessment	Demand
<p>1.</p> <p>Reduce Mid- and Back-office Cost / Other Cost</p>	<ul style="list-style-type: none"> ● comdirect's mid- and back-office fully integrated into Commerzbank's IT backbone ● Cost / Income ratio demonstrates massive cost inefficiencies ● Commerzbank's announced cost savings program of €1.1bn that focuses mainly on mid- and back-office will not result in any cost savings for comdirect 	<ul style="list-style-type: none"> ● Back- and mid-office cost seems higher than what „market rates“ could achieve ● comdirect's cost / income ratio (BtC only) lags peers by some 20% (!) despite what appear to be reasonable revenue levels from commissions and to a lesser extent net interest margins ● Cost potentials of €30-50 million can be derived 	<ul style="list-style-type: none"> ● Reduce back- mid-office cost in comdirect by at least €25-35m ● Consider outsourcing IT functions
<p>2.</p> <p>Improve or Sell ebase</p>	<ul style="list-style-type: none"> ● ebase business as a separate business and entity lacks any form of synergies with comdirect's core BtC business ● Historical development of ebase's earnings contribution has been underwhelming despite growth in Assets under Custody 	<ul style="list-style-type: none"> ● No clear and independent strategy in place to grow ebase profitably ● No synergies ● Cost inefficiencies are apparent 	<ul style="list-style-type: none"> ● Option 1: Focus including expansion of business model combined with €3-5m cost savings programme ● Option 2: Sell

Petrus Advisers demands for comdirect (2/3)

	Point	Petrus Advisers Assessment	Demand
<p>3.</p> <p>Full Access to Commerzbank Client Base</p>	<ul style="list-style-type: none"> ● Official strategy is to be “Germany’s leading direct bank with the aspiration to be the first choice for saving, investing and trading in securities“ ● In reality: comdirect currently damned to focus on narrow client profile (‘hard-core traders’) 	<ul style="list-style-type: none"> ● Significant potential exists to grow comdirect to address a broader group of clients ● Conflicts of interest exist given Commerzbank’s strategy to grow its own online-, direct-, savings- and asset management business 	<ul style="list-style-type: none"> ● Commerzbank to prioritize growth of comdirect over own growth for as long as it dominates the company
<p>4.</p> <p>Decrease Time-to-Market</p>	<ul style="list-style-type: none"> ● Time-to-market for new comdirect products is up to 9 months ● The full integration into Commerzbank’s mid- and back-office make it difficult to speed up 	<ul style="list-style-type: none"> ● Developing new and innovative products is a key success factor for comdirect ● It seems there are “negative synergies“ from being integrated into Commerzbank 	<ul style="list-style-type: none"> ● Prioritize time-to-market for comdirect ● Likely involves significant cost for Commerzbank to make their systems / processes more flexible
<p>5.</p> <p>Review Funding Structure</p>	<ul style="list-style-type: none"> ● comdirect’s deposits to be lent to Commerzbank’s Treasury Profit Centre ● No independent funding decisions ● BaFin waver for “Grosskredite“ (significant single creditor) ● Profit margin for Commerzbank Treasury 	<ul style="list-style-type: none"> ● Opaque and questionable funding structure ● Significant concentration risk ● Commerzbank dictates one of the key parts of the business ● „Analytical“ duration of deposits likely quite long / sticky 	<ul style="list-style-type: none"> ● Review alternative funding options ● Optimize risk / return situation for comdirect ● Optimize duration match ● Needs to be driven by independent experts / management team

Petrus Advisers demands for comdirect (3/3)

	Point	Petrus Advisers Assessment	Demand
<p>6.</p> <p>Qualified & Independent Management Team and Supervisory Board</p>	<ul style="list-style-type: none"> ● comdirect run and governed by Commerzbank employees ● Only “independent“ director is Georg Rönning ● Quality and relevant direct banking experience of comdirect management board highly questionable ● Share incentive programme of comdirect management is based on Commerzbank shares 	<ul style="list-style-type: none"> ● comdirect is run by Commerzbank employees who lack relevant experience and / or management quality ● Serious question marks around conflicts of interest in the management and governance structure exist ● We deem it unheard of that a management is incentivised on the share price of a parent without a domination agreement in place 	<ul style="list-style-type: none"> ● Supervisory Board should be 2-3 independent directors with relevant industry experience ● Management’s incentives need to urgently be de-coupled from Commerzbank – independent programme to be put in place ● Strengthening of comdirect management team with high calibre people who have relevant experience appears necessary
<p>7.</p> <p>Make comdirect an Investable Stock</p>	<ul style="list-style-type: none"> ● Stock has hardly any liquidity ● Management are doing IR work “in proportion to free float“ ● No clear strategy in place 	<ul style="list-style-type: none"> ● comdirect not an “investable“ stock – completely orphaned ● Investors including retail suffer from lack of liquidity ● Management not capable of designing and presenting a growth strategy 	<ul style="list-style-type: none"> ● Business needs a clear growth strategy to take net profits to €200 million plus ● Management to properly market the stock to investors ● Focus on bringing in high quality investors and improve liquidity of the stock

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