
> Business model, strategy and management system

Profile of comdirect

In terms of the number of custody accounts and securities transactions executed, the comdirect group is the market leader in online securities business for modern investors and one of the leading direct banks. Our range of products and services is aimed at enabling all customers to make better financial decisions, not only with regard to financial and securities investments but also for payment transactions and financing.

We offer our current 1.7 million direct banking customers high-performance and secure products for banking and brokerage, including an extensive information offering, 24-hour Customer Services and independent advice.

Furthermore, there are the more than 1 million end customers of our B2B partners – insurance companies, banks, financial intermediaries, asset managers and investment companies. Through our subsidiary ebase, we offer these customers comprehensive product solutions for financial investments.

Group legal structure and major locations

As the parent company of the comdirect group, comdirect bank AG is directly responsible for direct business with private customers (business-to-customer, B2C business line). Its subsidiary ebase GmbH (European Bank for Fund Services) is in charge of business with institutional partners and their end customers (business-to-business, B2B business line). The registered office of comdirect bank AG is in Quickborn near Hamburg and the registered office of ebase GmbH is in Aschheim near Munich.

Online business at the comdirect group is carried out primarily via the websites, but also through other access channels such as mobile banking and software banking. The bank offers round the clock Customer Services for contact with customers by email, telephone, fax or letter. Advisory services are predominantly provided by telephone, via co-browsing or by video-telephony as part of a pilot project. In addition, we offer face-to-face advice for building finance at the four locations in Berlin, Frankfurt/Main, Hamburg and Munich.

Management and control

The comdirect group is managed by the Board of Managing Directors of comdirect bank AG, which currently comprises three members. Martina Palte was appointed as a member of the Board of Managing Directors of comdirect bank AG with effect from 1 July 2012. She succeeds Carsten Strauß, who resigned from office on 30 June 2012. As a fully qualified banker and business economics graduate, she started her professional career in the private customer business of Commerzbank and has been with comdirect bank since 2000. After posts in Customer Services and Risk Management, she was most recently Head of Internal Audit.

Responsibilities of the members of the Board of Managing Directors (at the end of 2012)

Dr. Thorsten Reitmeyer Chief Executive Officer	Information Technology Marketing & Sales Product Management & Treasury Internal Audit Corporate Communications
Dr. Christian Diekmann	Business Development business partners/ebase (B2B) Compliance & Money Laundering Prevention Finance, Controlling & Risk Management Human Resources
Martina Palte	Advisory Services Customer Services Organisation & Consulting Legal Services & Data Protection

The Supervisory Board works closely with the Board of Managing Directors and monitors and provides advice to the Board of Managing Directors on a regular basis on all material issues relating to the management of the company. Personnel changes on the Supervisory Board and its committees are outlined in the Report of the Supervisory Board.

The main features of the compensation system for the Board of Managing Directors and the Supervisory Board as well as the breakdown by individual members are shown on pages 75 to 81.

Corporate Governance statement

Management and control of the comdirect group comply with generally accepted high standards. These are summarised in the Corporate Governance statement pursuant to Section 289a of the German Commercial Code (HGB). This statement includes the Declaration of Compliance pursuant to Section 161 of the German Stock Corporation Act (AktG) as well as the Corporate Governance report in accordance with Section 3.10 of the German Corporate Governance Code which contains information on our compliance standards.

The Corporate Governance statement can be viewed and downloaded from the website at www.comdirect.de/ir.

Previous versions of published documents can also be viewed on the website.

Inclusion in the Commerzbank Group

comdirect bank is quoted on the Prime Standard (Regulated Market) and with a market capitalisation of €1.11bn (as of end 2012) is listed in the SDAX. The majority of the shares are held indirectly by Commerzbank AG. This stake had been held via Commerzbank Inlandsbanken Holding GmbH, but in November 2012 Commerzbank AG switched the shareholding to another wholly-owned subsidiary, Commerz Bankenholding Nova GmbH, and increased its holding by 0.60 percentage points to 81.13% at the same time. As a result, 18.87% of the shares are in free float. Commerzbank AG provides a range of services for comdirect bank. These relate, for example, to the processing of securities trading transactions, payment transactions and some of the processes in risk management. In addition, the Treasury department of comdirect bank works closely with Commerzbank and generates interest income mainly from money market and capital market transactions with Commerzbank AG or its affiliated companies.

Up until the middle of the year, comdirect bank provided administrative services to a small extent for Commerz Direktservice GmbH, which is part of the Commerzbank Group. The company moved to a new location and the service agreement was consequently terminated in the second half of the year.

A detailed overview of the business relations can be found in the group notes on pages 102 to 105.

B2C business line

Business model

In the B2C business line, the range of products and services is pooled in the brokerage, banking and advice fields of competence. The B2C business line also includes separate assets in the form of five special funds which are part of the Treasury investments.

In its brokerage field of competence, comdirect facilitates speedy, secure and cost-effective trading and provides a continually expanded and optimised selection of products for medium and long-term investing. In brokerage, comdirect primarily generates commission income from the securities trading of its customers and associated services on the one hand, and from front-end loads and sales follow-up commission in its funds business on the other. In addition, there is interest income from loans against securities and settlement accounts.

In the banking field of competence, comdirect offers products for short through to long-term investment as well as daily money transactions. In banking, comdirect generates interest income by reinvesting customer deposits in the money and capital markets.

The advice field of competence comprises the three offerings Baufinanzierung PLUS, Anlageberatung PLUS and Vorsorgeberatung PLUS. In its advisory services, comdirect earns commission income from placing building finance and provisioning products as well as fees from investment advice.

comdirect bank's product range

Custody accounts & securities	Custody account offering (comdirect Depot, JuniorDepot and VL-FondsDepot) Trading platforms Trading services
Accounts & financial investments	Current account with Visa card Investment accounts (Tagesgeld PLUS, fixed-term deposit account, time deposit account and currency investment account) Money savings plan Anlageberatung PLUS
Provisioning & finance	Baufinanzierung PLUS Vorsorgeberatung PLUS Consumer loans Loans against securities

Market, competitive position and key influencing factors

comdirect bank is in competition with other direct banks and online brokers as well as traditional retail banks.

In terms of the number of customers, custody accounts and executed orders, comdirect bank is one of the market leaders in online securities business in Germany. Over the past few years, we have continually expanded our position in the direct banking market and are one of the leading direct banks.

The development of the money market and capital market environment is a material factor influencing the business performance and earnings situation of comdirect bank. In the B2C business line, the level of commission income in brokerage is affected by trading activity on the stock markets as well as in OTC trading and CFD trading. The valuation of fund holdings and level of sales follow-up commission margins on portfolio holdings also have an impact. With regard to long-term securities investments as well as investment and provisioning advice, the general trends in asset accumulation for private households are of particular importance.

The terms and conditions in the deposit business as well as the interest margin are primarily affected by the movements in the money market and capital market interest rates and spreads in addition to the terms and conditions of competitors. Changes in the ratings of banks and companies and their bond issues are another important influencing factor for Treasury. Our provisioning and financing activities are affected among other things by the demand for various forms of private provisioning and conditions in the property market, as well as the building finance terms and conditions of our financing partners.

The main industry-related factors refer to the level of acceptance of direct banking models among bank customers in Germany and the intensity of competition in our market segments, in addition to technical aspects such as the penetration of broadband and mobile phone technology in particular. The long-term industry trends are positive: direct banks have gained new customers in the past few years and still have significant growth potential (see outlook and opportunity report starting on page 70).

Strategy

The strategy of comdirect bank is to exploit the trend towards web-based banking and securities transactions using the corresponding product initiatives and intensive marketing. As a full-service and main bank for modern investors, comdirect bank aims to consolidate its strong position in online securities business and increase its market share in banking.

During the reporting year, we continued the current growth course based on our “complus” strategy programme. We met the needs of a broad-based target group with an even more attractive, easier to use and more secure primary range of products and services. As Germany’s “Beste Bank” (Euro 2012) with high customer satisfaction scores, a large range of products and services and excellent service quality, comdirect is well-placed to cultivate new target groups beyond its core market in the online securities business, and to benefit from sustained growth in online and mobile banking.

The focus in 2012 was therefore on further developing our primary range of products and services centred on the current account with satisfaction guarantee. The payWave function and SMS info service, for instance, have made paying with our fee-free Visa card more convenient and secure. In future debiting is carried out weekly, which means we are consequently granting our customers a short-term credit facility. We also invested in a simpler payment procedure for online purchases and in our app offering for mobile banking and brokerage that has been available for use with all smartphone operating systems since 2012.

In addition, we extended our range of services for active traders. Real-time prices, which are available free of charge and automatically displayed in the new domestic order mask, plus the direct linking of analysis tools and order functions make trading even faster and easier to carry out.

Our advisory offerings for building finance, investments in securities and provisioning have been pooled in a new field of competence. Advice via video-telephony, which was successfully trialled in 2012, is set to make the offering more personal and customer-focused. This service will be rolled out nationwide for building finance over the course of the coming year.

Moreover, to improve the explanations of comdirect products and services for existing and prospective customers, we further enhanced our information offering using new video tutorials and more interactive online seminars (webinars), which were very well received in the reporting year.

We carry out active marketing to continually raise our profile and increase awareness of our brand. Our latest TV spot and intensified advertising in print and online media already proved successful in the reporting year.

B2B business line

Business model

Through its B2B partners, ebase offers tailored solutions for asset accumulation, investment and drawdown. The investment custody accounts and deposit accounts are available in partner-specific configurations and in the branding of the respective B2B partner on request. End customers can choose from a wide range of investment funds and ETFs. More than 5,000 investment funds, including 160 ETFs, are eligible for inclusion in savings plans; of these 285 are also suitable for the investment of capital-building payments (VL).

The B2B partners are subdivided into the segments insurance companies, investment companies, banks, financial intermediaries, asset managers and independent financial advisers (IFA). ebase provides special products and services for banking and brokerage for the individual target segments. Tailored solutions in partner-specific configuration and in the branding of the B2B partner mean that the offering can be integrated into the partner’s respective

business model. The new ebase Managed Depot custody account for standardised fund asset management has been available since December 2012. As part of this, ebase obtained its operating licence for financial portfolio management in June.

The online sales partner portal and ebase app provide the partners with comprehensive services and offer easy access to portfolio and transaction data. Account and custody account management is flanked by extensive services, which include commission processing and professional data management, as well as marketing and sales support for the partners.

The earnings model of ebase primarily centres on fees for custody account management and is supplemented by commission from funds business, interest income and transaction fees. In future, ebase will additionally receive fees from asset management as well.

ebase’s product range

Investment custody accounts	ebase custody account (Order Desk Depot, Managed Depot, custody accounts for company pensions (bAV) and working hours custody accounts) ETFs Savings and drawdown plans VL custody account (investment of capital-building payments)
Investment accounts	Call money account Fixed-term accounts
Loans	Overdrafts Loans against securities
Asset management	ebase Managed Depot (available in five investment strategies)

Market, competitive position and key influencing factors

ebase is in competition with other B2B and service banks and with providers of standardised asset management products through the ebase Managed Depot custody account. In terms of custody assets in investment funds placed by third parties, ebase has a leading position in Germany among B2B platforms. It is also the partner of first choice in the insurance company and independent financial adviser (IFA) customer segment. Over 50,000 intermediaries use ebase as the partner for maintaining customers’ accounts and custody accounts. Furthermore, the partner network comprises around 103 financial service providers, 44 insurance companies and banks, 21 asset managers as well as 11 investment companies (in each case as of end 2012).

Strategy

ebase has set itself the overriding objective of supporting the business models of its cooperation partners with a comprehensive spectrum of tailored and B2B-type banking and brokerage products and services. The strategy centres on expanding custody account services and supplementing these with B2B-type banking and brokerage solutions, as well as partner-specific configurations and white labelling variants of the product offering. This allows partners to offer all key services for their end customers from one source and retain funds in their management operations through suitable follow-on products. Ultimately this is aimed at attracting new partners, end customers and assets in the respective target segments, and at securing existing cooperations long term. ebase is positioning itself throughout Germany as a B2B direct bank with the depth of products and services offered by a fund platform and increasingly with the breadth of products and services offered by a full-service bank.

The product spectrum is being expanded in line with this strategy. The focal areas are

- further development of the custody account architecture, which is tailored to investment funds, to produce an open custody account for different types of securities; this will be completed in 2013.
- expansion of account functionalities with the aim of creating a central instrument for overall customer management. ebase already completed the development of an online-type account with extended payment transaction functions in the third quarter of 2012. In October, the settlement accounts linked with the custody account were replaced by the new “Flex account”, which can feature a credit line if the partner so request. Proceeds from fund sales are automatically credited to the account; the funds thus remain in the information and management operations of the B2B partners.

- Support for independent financial advisers with standardised product solutions against the backdrop of liability issues. Through the ebase Managed Depot custody account launched in the fourth quarter of 2012, ebase meets a range of investment needs which are primarily determined by the individual life phase of the end customer. Asset accumulation, maintenance and drawdown are implemented using five different investment strategies. All investment strategies are managed by ebase on a standardised basis, with recommendations from asset managers as sub-advisers. The Institut für Vermögensaufbau (IVA) AG (Institution for Asset Accumulation) supervises the portfolios through ongoing risk monitoring and carries out regular certifications.

In addition to the existing target customer segments, ebase is cultivating the market outside the financial sector. This approach centres especially on non-financials with a large customer base that are looking to offer the banking services facilitated by ebase to make customer relationships profitable and increase customer loyalty.

Financial and risk strategy

The strategic financing measures of the comdirect group are described on page 48, while our risk strategies are explained in the risk report starting on page 57.

Management

The Board of Managing Directors manages the comdirect group on a holistic basis, taking account of all material risks and opportunities and ensuring in particular that the balance between short-term profitability and long-term increase in value is maintained. The monthly overall bank management reporting shows whether the strategic and operating goals of comdirect group are within the target range or whether unexpected variances have occurred. Selected performance indicators are monitored and managed at shorter intervals.

Non-financial performance indicators

The development of the comdirect group is also determined to a major extent by non-financial factors. Above all, these include the quality of the range of products and services, relationships with customers and institutional partners, awareness of the brand and employee-related aspects.

comdirect bank measures the quality of its customer relationships using regular customer surveys in Customer Services and independent customer satisfaction analyses. These are supplemented by feedback processes as part of ebase's key account management.

An important indicator for the quality of banking products and related services is their use by customers and here we record, for instance, the proportion of customers with at least two comdirect products. Additional insights are provided by the results of performance comparisons such as the "Beste Bank" award presented by finance magazine "Euro".

Brand awareness and likeability are key competitive factors in existing and new customer business. This is especially true in the B2C business line. The scores for the comdirect brand are therefore continually checked by independent market research organisations.

The management quality, service expertise, process intelligence and innovative power of the bank essentially depend on the expertise of its employees. We enhance our employee's skills as part of our personnel development and management training measures; key indicators for internal management include the number of employees participating in continued professional development measures, the proportion of certified employees in Customer Services and the results of regular staff surveys.

The indicators relating to customers, products, brands and employees are supplemented by special performance indicators that make it possible to measure the sustainable development of the comdirect group.

Details of the comdirect group's presence in the capital market and its activities in Investor Relations in the reporting year are given on pages 54 to 55.

Financial performance indicators

Financial performance is illustrated using the following key indicators:

- net commission income as the sum of the commission income generated from securities and advisory business as well as commission income from payment transactions and other commission income less commission expenses, at group and segment level;
- net interest income before provisions as the balance of interest income and expenses. At group level we also look at the sum of earnings associated with deposit business (net interest income before provisions, result from financial investments, trading result, result from hedge accounting) in relation to the total income of the bank;
- the cost/income ratio as the ratio of administrative expenses to income (before provisions) at group and segment level;
- the return on equity (RoE), which corresponds to the ratio of pre-tax profit to average equity (excluding revaluation reserve).

Selected financial performance indicators

Performance indicator	Definition	B2C business line		B2B business line	
		2012	2011	2012	2011
Return on equity before tax	Pre-tax profit/average equity excluding revaluation reserve (in %)	16.5	20.7	30.3	29.5
Cost/income ratio	Administrative expenses/(net interest income before provisions + net commission income + result from financial investments + other operating income + result from hedge accounting + trading result) (in %)	69.5	66.2	80.3	80.2
Net interest income per customer	Net interest income after provisions/number of customers on average for the year (in €)	88	93	1	1
Net commission income per customer	Net commission income/number of customers on average for the year (in €)	72	89	45	41
Profit per customer	Pre-tax profit/number of customers on average for the year (in €)	50	62	9	9