> Business performance and earnings situation at the comdirect group

Overall assessment of the economic situation

Given the difficult market environment, the comdirect group performed well in terms of business and earnings development. It has continued its growth course and further improved its positioning in both business lines.

In the B2C business line, we increased the number of customers, as well as the portfolio and deposit volumes. We are convinced that investors will continue to set great store by the quality and features offered by banking products. Net investments by customers in brokerage show that here too we have adopted the right approach by extending the range of investments and functionalities. Assets under management reached the highest level in the company's history during the reporting year.

In the B2B business line, ebase rigorously pursued its further development from fund platform to B2B direct bank in the previous year. ebase combines the depth of products and services offered by a fund platform with the breadth of products and services of a B2B direct bank and has aligned its offering even more closely with the requirements of its different customer groups. The increasingly integrated spectrum of custody accounts and account products, embedded in the branding of the respective partners, meets the needs of the target segments identified by ebase, and sets the path for further growth.

Despite increased investment in growth in the second half of the year, we achieved a good result of €92.3m.

Net interest income was roughly on a par with the previous year, but historically low interest rates in the money market left their mark over the course of the year, as did declining bond yields. The considerably more expansive course adopted by the ECB since mid-2012, which was accompanied by a cut in the key lending rate, means that the framework conditions for deposit business have worsened again, including looking ahead to 2013.

Net commission income matched the long-term average, but was below the exceptional level recorded in 2011. With less pronounced volatility than in the previous year and ongoing uncertainty over the sovereign debt crisis and economy, order activity on the part of our customers decreased overall.

The financial situation and assets of the comdirect group remain sound. The same applies for the risk position: the overall risk diminished and the limit utilisation level was consistently non-critical across all risks at all times. We will continue to manage our future growth on a risk and return-oriented basis.

Target/actual comparison of selected key performance indicators

			2011	**Target 2012**	**Actual 2012**
Net interest income before provisions	€ million		150.8	Slight increase	151.8
Net commission income	€ million		182.6	–	166.4
Administrative expenses	€ million		232.1	–	236.7
Pre-tax result	€ million		108.1	85 to 90	92.3
Deposit volume	€ million	31.12.	10,705	Stable	11,720
Number of customers B2C		31.12.	1,632,467	Increasing	1,716,783
Number of employees		31.12.	1,148	Slight increase	1,176

Business performance

Number of customers and customer satisfaction

The comdirect group gained 124.7 thousand customers overall in 2012. With a total of 2.76 million customers (previous year: 2.63 million customers), the comdirect group remains one of the leading direct banks in Germany.

The B2C business line increased the number of customers by 84.3 thousand to 1.72 million, thus outstripping the figure for the previous year (73.5 thousand).

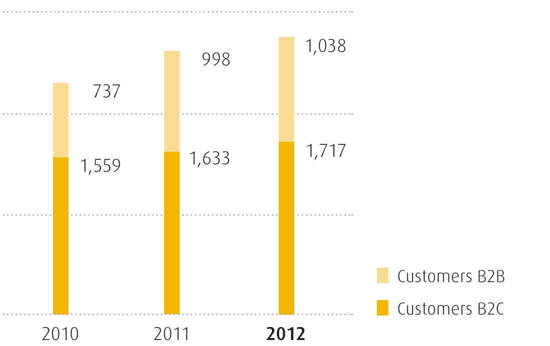
This was due, on the one hand, to intensified marketing activities in the second half of the year, and 62% of net new customers were gained in this period. According to the latest comdirect market research survey, awareness of the comdirect brand increased compared with the previous year. Furthermore, the willingness of respondents to conduct banking transactions via comdirect was higher. Another important aspect is the very high level of willingness of comdirect customers to recommend the bank; this was surveyed in a customer loyalty study and rose again in the past year.

On the other hand, the successive expansion of the range of products and services in banking and brokerage resulted in even greater customer satisfaction than in the previous year, as well as a correspondingly strong level of loyalty among existing customers. As many as 49% of customers (previously 40%) believe comdirect offers a specific advantage over other direct banks or online brokers.

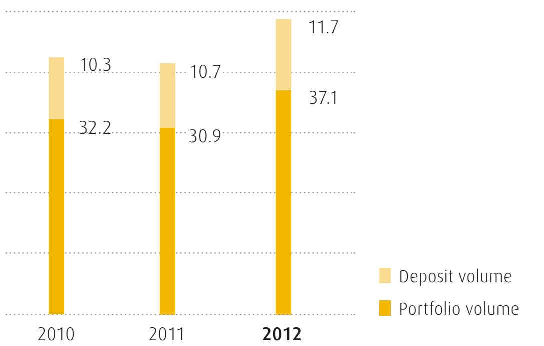
Product penetration too was up on the previous year. The total number of custody accounts, current accounts and Tagesgeld PLUS (call money PLUS) accounts in the B2C business line was up by 9.3%, with the increase once again higher than in the number of customers. At the end of 2012, 52.5% of B2C customers had a current account and 78.3% a Tagesgeld PLUS account.

In the B2B business line, the number of customers climbed by 40.4 thousand to 1,038.5 thousand. This was especially due to the takeover of custody account management for Generali Investments Deutschland in the first quarter (see page 46). As the year progressed, persistent weak demand for funds and cancellation of custody accounts for capital-building payments following expiry of the corresponding VL contracts led to a slight drop in customer numbers.

Number of customers of comdirect group as of 31.12.
(in thousand)



Total assets under custody of comdirect group as of 31.12.
(in € billion)



The 17.5% increase in assets under management to €48.85bn (previous year: €41.59bn) stemmed from price effects, as well as net investments by customers which totalled €7.27bn in the reporting year. The portfolio volume advanced to €37.13bn compared with €30.88bn in the previous year. It is attributable to 1.70 million custody accounts, which is a rise of 1.1% on the previous year.

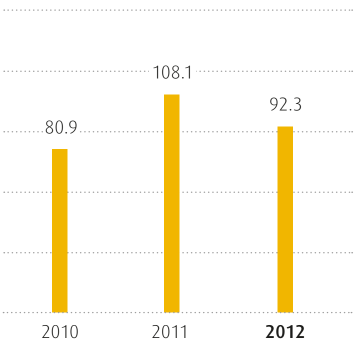
Growth in the deposit volume of 9.5% to €11.72bn (end 2011: €10.70bn) results from the increased number of customers and accounts in the B2C business line.

Earnings situation

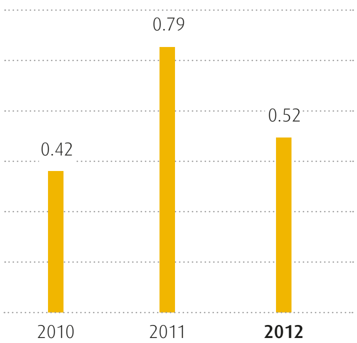
With pre-tax profit of €92.3m, the comdirect group achieved its profit target in operating terms in the reporting year. The respective figure for 2011 (€108.1m) included interest payments on a tax refund of €9.2m, while an extraordinary effect of €4.9m was posted in the reporting year as a result of the further settlement of the positive ruling in the appeal proceedings in the previous year.

The decrease in income of 2.4%, primarily due to lower net commission income, was countered by a modest rise in administrative expenses of 2.0%. The cost/income ratio increased from 68.0% in the previous year to 71.0%. The return on equity (before tax) fell to a lower, but still very good level of 17.3% (previous year: 21.2%).

Pre-tax profit of comdirect group
(in € million)



Earnings after tax per share
(in €)



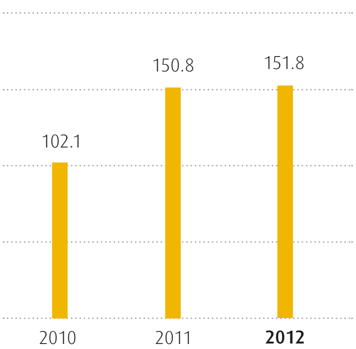
Of the total income, €155.5m (previous year: €143.8m), or 46.6% (previous year: 42.1%), was attributable to the income relating to deposit business and Treasury portfolio management: net interest income, result from financial investments, trading result and result from hedge accounting. These earnings components are viewed on a holistic basis, as market interest rate developments can sometimes trigger opposing movements.

Income taxes amounted to €18.9m and include a tax refund, which at around €5.5m impacts positively on tax expenses and results from the further settlement of the positive ruling in the appeal proceedings in the previous year. This relates to the tax appeal proceedings pertaining to the non-recognition of write-downs to going concern value on foreign activities in financial year 2001, which were decided in favour of the bank in November 2011. In financial year 2011, this resulted in tax relief of €32.4m.

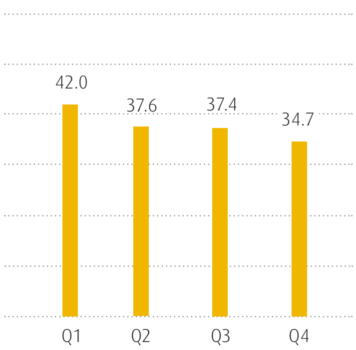
Consolidated net profit of €73.4m (previous year: €111.8m) corresponds to earnings per share of €0.52 (previous year: €0.79).

The comprehensive income of the comdirect group of €117.6m (previous year: €92.4m) also includes the change in the revaluation reserve (see note (52) page 123).

Net interest income before provisions
(in € million)



Net interest income on a quarterly comparison
(in € million)



Proposal for appropriation of profit

The Board of Managing Directors and Supervisory Board will propose to the annual general meeting in Hamburg on 16 May 2013 that the distributable profit of comdirect bank AG calculated in accordance with the German Commercial Code (HGB) of €62.1m be used for a dividend of €0.44 per share (previous year: €0.56). Based on comdirect group's consolidated net profit in accordance with IFRS, this results in a transfer to retained earnings of €11.2m.

Net interest income and provisions

At €151.8m, net interest income before provisions is slightly higher than the previous year's figure (€150.8m). However, the development in money market interest rates and bond yields made itself felt over the course of the year; in the first quarter net interest income was still up on the previous year, but in the fourth quarter was down by 14.5% on the respective figure for 2011. The market-related decline in interest income from investing customer deposits was only partially offset by the adjustment of interest rates on call money and fixed-term deposits during the year, and the average interest margin fell as a result. Growth in the deposit volume countered this to a moderate extent.

Over the year as a whole, 62.5% (previous year: 56.7%) of the interest income amounting to €263.9m (previous year: €269.1m) was attributable to income from lending and money market transactions, with 37.0% (previous year: 42.8%) attributable to fixed-income and variable yield securities (available for sale). Interest expenses totalled €112.1m (previous year: €118.2m).

At €4.4m, charges for provisions were substantially up on the previous year (€1.3m). This is mainly due to changing the Visa card from a debit card to a credit card with weekly debiting in September 2012 (see page 63). We have recognised additional provisions to take account of the risk resulting from the credit facilities granted.

Net interest income after provisions amounted to €147.4m (previous year: €149.5m).

Result from financial investments

Reallocations within the special funds, in particular, made a positive contribution to the result from financial investments of €3.7m. The previous year's figure (€–6.0m) was especially dominated by losses on sales and impairments. In the first quarter of 2012, comdirect bank participated in the rescheduling of Greek debt. In exchange for the only, largely written-down, Greek government bond it still held, the bank received new debt securities which it immediately sold. This resulted in a small loss of €0.1m. At €–0.6m, charges for impairments were considerably lower than in the previous year (€–2.9m).

Result from hedge accounting

Interest rate swaps were again used in the reporting year to hedge individual positions against a loss in value. The nominal volume decreased slightly in the reporting year to €118m (end 2011: €123m). Since the interest rate swaps qualify as effective fair value hedges, the results of the valuation of hedged items and hedging transactions are reported in the result from hedge accounting. In the reporting year, this amounted to €–8 thousand (previous year: €49 thousand).

Unlike the previous year (€–1.1m), there was no trading result to report.

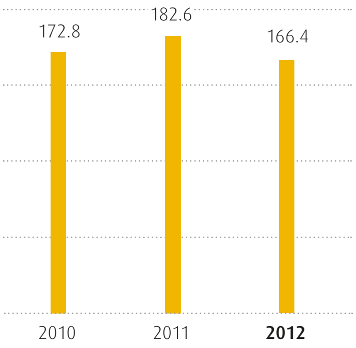
Net commission income

Net commission income totalled €166.4m and was thus 8.9% below the previous year's figure (€182.6m).

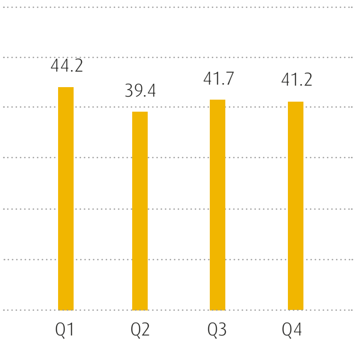
This resulted mainly from the downturn in net commission income from securities business to €147.0m (previous year: €166.0m). This was because of extraordinarily active levels of trading in the previous year as a result of the disaster in Japan and higher market volatility in the wake of the euro crisis. The proportionate decrease in net commission income was slightly bigger than in the number of orders and was due to the increased share attributable to CFD trading, where earnings per trade are lower. Otherwise, development in earnings per order, including in flat-fee campaigns, was largely stable. Sales follow-up commission in funds business surpassed the previous year's figure due to the rise in the fund volume.

As in the previous year, net commission income from payment transactions recorded a rise, climbing 3.5% to €9.9m (previous year: €9.6m). This is due to the increased number of current accounts and the fees associated with payment transactions as well as card income.

Net commission income
(in € million)



Net commission income on a quarterly comparison
(in € million)



At €9.5m, other commission was significantly higher than the previous year's figure of €7.0m. This is attributable to a stronger contribution from the advisory services as well as a rise in the placement of consumer loans. In contrast, there was only a minor change in the volume of financing placed as part of Baufinanzierung PLUS (see page 44).

Other operating result

As in 2011, the other operating result of €11.5m reflects the impact of the further settlement of the positive ruling in the appeal proceedings in the previous year. In total, the sum reported amounts to €4.9m and stems from interest payments by the tax office and Commerzbank AG refunds resulting from the single entity relationship for tax purposes in place at the time. In addition, the result includes a one-off payment from Commerz Direktservice GmbH of €1.3m. This relates to the premature termination of the service agreement due to the company's relocation. comdirect received compensation for the use of technical infrastructure, although a small extraordinary write-down was recognised here. The other operating result also includes a payment from a sales partner of comdirect bank. Furthermore, the reversal of provisions and accruals led to higher earnings contributions than in the previous year.

The other operating result in the previous year (€15.1m) was heavily dominated by interest income relating to the above tax refund.

Administrative expenses

The modest 2.0% rise in administrative expenses to €236.7m (previous year: €232.1m) reflects the comdirect group's focus on growth.

Personnel expenses increased by 2.2% to €69.0m (previous year: €67.5m). The rise is essentially attributable to the increased number of employees and salary adjustments. Expenses were reduced by lower deferrals for performance-related compensation components.

At €152.2m, other administrative expenses were up 3.0% on the previous year's figure (€147.9m). Among other factors, the rise stemmed from increased communication and consulting expenses, which were largely attributable to the expansion of the bank's range of products and services. Expenses for external services were also higher than in the previous year. Despite the intensification of our campaigns in the fourth quarter, there was a modest decrease in marketing expenses year-on-year, which reflects our restraint in the first half of 2012. Sundry administrative expenses were essentially unchanged.

Depreciation decreased by comparison with the previous year (€16.7m) and was down 7.4% to €15.5m. Intangible assets accounted for €11.0m, which relates among others to the scheduled depreciation on internally generated software, as well as the Amex customer base acquired in 2006. The respective figure for 2011 (€12.7m) additionally included unscheduled deprecation of €2.1m. The increase in depreciation of office furniture and equipment to €4.5m (previous year: €4.0m) resulted in particular from the extraordinary write-down of €0.7m on technical infrastructure relating to the termination of the service agreement with Commerz Direktservice GmbH.