> Market environment

Assessment of economic framework conditions

The economic framework conditions have had a direct influence on the business performance and earnings situation in both business lines:

- As a result of declining money market interest rates and bond yields, the interest income generated on the investment of customer deposits was lower than in the previous year. However, as the interest rates offered on deposits were adjusted accordingly, net interest income before provisions is still slightly up on the previous year.

- In securities business, the financial crisis in the eurozone and muted economic expectations, together with less pronounced short-term price volatility, led to a fall in the number of trades. Overall, funds recorded net inflows.

Moreover, there were positive effects from the significant price rises in European equity markets at the start of the year and in the second half of the year. These impacted on sales follow-up commission in funds business as well. Nevertheless, net commission income failed overall to match the previous year's high level.

Macroeconomic framework conditions

Economic environment

The momentum in global economic growth slowed by comparison with 2011. This was mainly due to the downturn in growth in China and the curbing effects of the European sovereign debt crisis. While the eurozone as a whole slid into a mild recession in 2012, Germany's performance was somewhat more stable with GDP growth of 0.7%. However, because of the decline in capital investment and weaker rise in consumption, growth by no means reached the level achieved in the previous year (3.0%).

The macroeconomic environment in Germany remained intact: disposable income was up by 2.3% year-on-year and the savings ratio remained almost stable at 10.3%. The inflation rate of 2.0%, coupled with the debate concerning the stability of the single currency, led to greater investment in real assets including property, and prices here increased substantially in major conurbations. At the same time, a larger share of consumption was financed by credit, in part because of low interest rates.

Framework conditions for banking

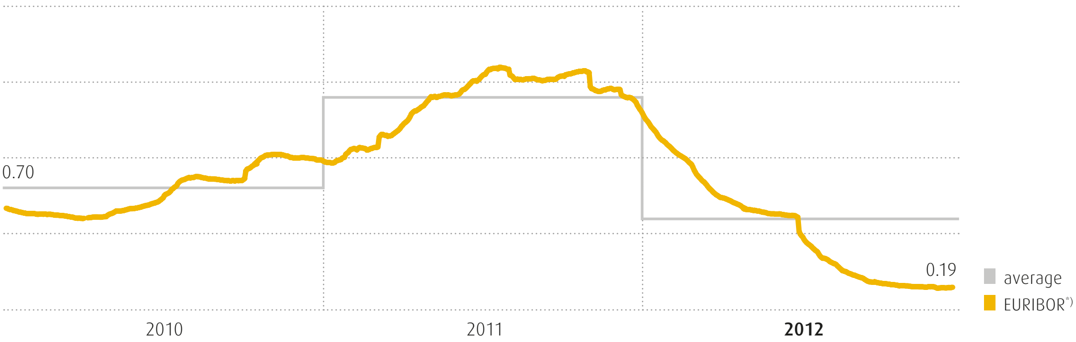
The European Central Bank (ECB) maintained its expansive monetary policy in order to contain the financial and economic crisis in the eurozone. This policy was reflected by a cut in the main lending rate of 25 basis points to 0.75% (July 2012) on the one hand, and by the extensive injection of liquidity into the banking system on the other.

Three-month EURIBOR, which is the decisive rate for some of our investments, reached new historical lows. At 0.57% on average for the year, the rate was 82 basis points below the respective figure for 2011 (1.39%).

In the bond markets, the situation notably eased in September 2012 following the announcement by the ECB that it would buy the bonds of beleaguered euro countries on an unlimited basis if necessary in order to rescue the euro. While interest rates for triple A states persisted at historically low levels, spreads for countries with lower credit ratings reduced sharply. Yields also declined on corporate bonds; many companies took advantage of this to issue bonds and the primary market picked up as a result.

This environment meant that it was only possible to reinvest maturing securities at less favourable interest rates. Consequently, yields in comdirect's Treasury portfolio, which focuses on high ratings, declined overall.

Three-month EURIBOR 2010 – 2012
(in %)



Source: EURIBOR EBF

* Three-month money

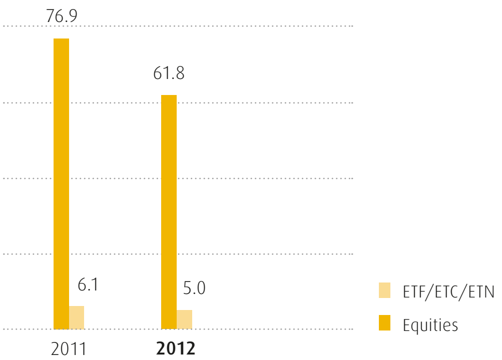
The measures taken at political level to combat the sovereign debt crisis in the eurozone only had a marginal impact on the comdirect group. As part of a bailout for Greece, a debt reduction package was implemented in the first quarter which involved private creditors, including comdirect bank to a very minor extent.

Framework conditions for brokerage

Development in the equity markets was pleasing overall. The DAX started 2012 with strong price gains, but nearly all of these were temporarily wiped out in the spring against the backdrop of the sovereign debt crisis. The second half of the year was once again dominated by a strong upswing, which led to a price gain of 29.1% over the year. On the one hand, this upward trend was due to the increased attractiveness of equity investments compared with the lower returns on investments in the bond and money markets. On the other hand, stabilisation of the markets following the various measures to counter the sovereign debt crisis also had an impact.

Despite the friendlier environment, the number of orders reduced, as did the volume of trading in terms of value in the German spot market (XETRA and Frankfurt). This was because trading was substantially quieter than in the previous year, which had been characterised by high volatilities due to extraordinary effects. With regard to equities, the number of shares traded fell by 19.6% and the trading volume decreased by 22.5%. The trading volume recorded by exchange traded funds (ETF), exchange traded commodities (ETC) and exchange traded notes (ETN) was 33.7% lower than the previous year. The number of orders for this product category declined by 19.3%.

Number of orders Deutsche Börse*
shares traded (in billion)



Source: Deutsche Börse AG

* XETRA and Frankfurt Stock Exchange

DAX development from 30.12.2011 to 28.12.2012
(in points)

Source: Bloomberg

In derivatives trading too, the volume fell short of the respective figure for 2011. Stock exchange turnover on both the Stuttgart (Euwax) and Frankfurt (Scoach) stock exchanges dropped by 26.1% overall. The downturn in leveraged certificates (38.5%) was considerably bigger than in investment certificates (14.5%).

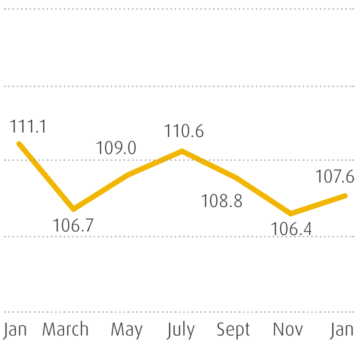
Retail funds recorded small inflows again in 2012. According to statistics from the Bundesverband Investment und Asset Management e.V. (BVI), net fund inflows stood at €24.6bn compared with a negative figure of €–15.3bn in the previous year. However, the upturn was due in large part to demand for bond funds and mixed funds. Other fund categories, particularly equity and guaranteed funds, recorded outflows. The situation was exacerbated by market strains resulting from the winding up of several open-ended property funds. Overall, the framework conditions for funds business were therefore not more favourable than in the previous year.

Demand for private provisioning products weakened somewhat in 2012. In the first nine months of the year, the number of contracts increased by only 1.8%, primarily as a result of the "Eigenheimrente" pension provisioning scheme. There was only a marginal change in the number of insurance and fund contracts.

Framework conditions for advice

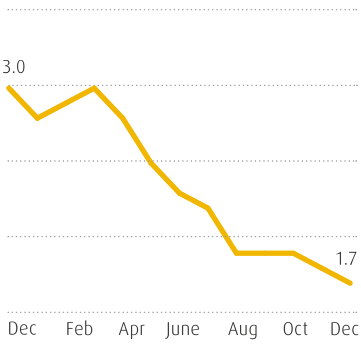
The market situation continued to remain positive for building finance. Concerns over inflation and low savings interest rates, coupled with favourable loan interest rates, led to ongoing strong interest in buying property. The volume of loans for residential property construction in 2012 was up 1.9% on 2011. Here, loans with long-term fixed rates dominated again and were once more somewhat cheaper than in the previous year. comdirect's Building Finance Sentiment Index, which is calculated in conjunction with opinion research institute Forsa, remained considerably above 100 points throughout the whole of the year and thus indicated a high level of willingness to buy.

Building Finance Sentiment Index (January 2012 – January 2013)
(in points)



Source: comdirect bank

Ten-year mortgage interest rates (December 2011 – December 2012)
(in %)



Source: Deutsche Bundesbank

Industry framework conditions

The market for online banking and brokerage continued to record dynamic growth in 2012. In the past year, the number of users increased by 6.9% to over 28.0 million (as of September 2012, Statista), corresponding to around 34% of the population. As before, security concerns regarding online banking remain pronounced in Germany but are easing. At the moment, 25% of internet users do not carry out online banking for security reasons; a year earlier the figure was 28%.

The number of mobile banking users also increased again in 2012. In July 2012, 5.74 million Germans were already managing their accounts via smartphone (previous year: 3.13 million). This pushes up the demand for banking applications accordingly. Over 21 million Germans, i.e. a good one in four of the population, are meanwhile using apps of all types on their mobile phones (previous year: 15 million).

In 2012, the industry environment for B2B and service banks was dominated by the issues of preserving assets under management, attracting new customers and adjusting the range of products and services in line with the challenges posed by new regulatory framework parameters.

Fund advisers, who represent an important target group for ebase, traded less in investment funds overall compared with the previous year. The ebase fund barometer, which is published four times a year and illustrates the trading volume of over 50 thousand fund advisers, showed below average trading activity in most months of 2012.

The trend towards safety-oriented investments strengthened; mixed funds and bond funds posted high inflows, while equity funds and funds of funds recorded high outflows. This made it increasingly difficult for advisers to retain the funds of their customers in their management operations.

Many financial intermediaries reviewed their business models in the wake of the amendment of the Trade Regulation (GewO). As of the start of 2013, the rules governing placement of financial investments under Section 34 et seq. of the Trade Regulation (GewO) are being replaced and newly regulated by Section 34 et seq. GewO. In accordance with Section 34 et seq. of the Trade Regulation (GewO), financial intermediaries for investment funds, closed-end funds or other assets within the meaning of Section 1(2) of the Asset Investment Act must now demonstrate to the competent Trade Office that they are sufficiently knowledgeable. Intermediaries who have joined a "liability umbrella" will also have to provide evidence of their expertise in future. To minimise the risks involved in investment advice, intermediaries are seeking liability-reducing product solutions – a need which is now also being met by the standardised fund asset management offered by ebase in its role as asset manager.

Regulatory environment

With our range of products and services, we are active in highly regulated markets. The Federal Financial Supervisory Authority and the Deutsche Bundesbank are presently responsible for banking supervision in Germany. The core issues under supervisory regulations comprise the solvency, liquidity and lending activities of banks. In our advice business, we are also operating in market segments governed by dense regulation. Implementing new legal and regulatory requirements involves additional costs, for example for the extended documentation requirements for advisory services.

In 2012, comdirect carried out preparations to switch over to the SEPA system (Single Euro Payments Area), which creates uniform procedures and standards for the processing of euro payments throughout Europe as of 2014.

Furthermore, comdirect commenced the implementation of the Foreign Account Tax Compliance Act (FATCA) adopted by the US government in 2010, through which the US tax authorities intend to find the clandestine accounts of US citizens worldwide. In addition to Germany, France, Spain, Italy and the UK have agreed to implement FATCA.

The CRD IV directive and CRR regulation are aimed at transposing the new capital and liquidity requirements under Basel III into European/national law. They were scheduled to come into force at the beginning of 2013, but the start date has been postponed for the time being as a result of the ongoing debate and consultation at EU level. In terms of content, comdirect implemented the relevant issues in 2012 and it remains to be seen if there will be any changes.

The amended MaRisk published in December 2012, which came into force at the start of 2013, does not result in any material new regulations for comdirect.