

Financial services: challenges and prospects

**Sector research on the impact of globalisation
on the financial services**

**Draft case study report – part 7:
Case study 5: Companies with a “State Ownership” approach**

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by
Kurt Vogler-Ludwig
Danielle Kaisergruber
Helene Giernalczyk

with support from
Luisa Stock
Simone Poppe

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Abbreviations

ABF	Asset Based Finance (division of Commerzbank)
ABS	Asset-Backed Securities
AGM	Annual General Meetings
AM	Asset Management (division of Deutsche Bank)
ATM	Automatic Teller Machine
BaFin	German Federal Financial Supervisory Authority
BFSR	Bank Financial Strength Rating
BGI	Barclays Global Investors (division of Barclays)
bn	Billion = 10 ⁹
bps	Basis points
BSA	Building Societies Association
CB&S	Corporate Banking & Securities (division of Deutsche Bank)
CCP	Central Counter Parties
CDO	Collateralized Debt Obligation

CEA	European Insurance and Reinsurance Federation
CEE	Central and Eastern European Countries
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors
CIB	Corporate & Investment Banking (division of Unicredit)
CIS	Commonwealth of Independent States
CMBS	Commercial Mortgage-Backed Securities
CRM	Customer Relationship Management
CRO	Chief Risk Officer
CTA	Commodity Trading Advisors
DNB	Dutch Central Bank
EACB	European Association of Cooperative Banks
EBF	European Banking Federation
ESRB	European Systemic Risk Board
ESRC	European Strategic Risk Council
ETN	Exchange Traded Note
ETP	Exchange Traded Product
EURIBOR	Euro Interbank Offered Rate; Euro based interest rate for interbank credits
FIC	Fixed Income & Currencies
FICC	Fixed Income, Currency and Commodities
FSA	Financial Services Authority in the UK
FSB	Financial Stability Boards
FSCS	Financial Services Compensation Scheme
FT	Financial Times
FTD	Financial Times Deutschland
FTE	Full-time equivalents
FYE	Fiscal Year End
GRCB	Global Retail and Commercial Banking (division of Barclays)
GTB	Global Transaction Banking (division of Deutsche Bank)
H109	First half of 2009
HB	Handelsblatt
HR Treasury	Her Majesty Treasury
HVB	Hypo Vereinsbank
IASB	International Accounting Standards Board
IBIM	Investment Banking and Investment Management (division of Barclays)
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
IIF	Institute of International Finance
IMF	International Monetary Fund
IPO	Initial Public Offer
LBO	Leveraged Buyout
LIBOR	London Interbank Offered Rate; the interest rate for interbank credits
LOHAS	Lifestyle of Health and Sustainability
m	Million = 10 ⁶
M&A	Mergers & Acquisitions
MIB	Markets & Investment Banking (division of Unicredit)
NPL	Non-Performing Loans
OCG	Office of Governmental Commerce
OTC	Over-the-Counter trade
PLC	Public Limited Company
PPL	Potential Problem Loans
PRU	Portfolio Restructuring Unit (Division of Commerzbank)
PWM	Private Wealth Management (division of Deutsche Bank)
REIL	Risk Elements n Lending
RMBS	Residential Mortgage-Backed Securities
RWN	Rating Watch Negative
SGB	Social Code
SIV	Structured Investment Vehicle
SME	Small and Medium-sized Enterprises
SoFFin	Financial Market Stabilization Fund in Germany
SZ	Süddeutsche Zeitung
TITF	Too Important to Fail
VaR	Value at Risk

Counting convention Million = 10⁶; billion = 10⁹; trillion = 10¹²

List of reports

This report is part of the study “Financial services: challenges and prospects. Sector research on the impact of globalisation on the financial services” which contains the following reports:

- Part 1: Draft final overview report
- Part 2: Case study methodology and annex
- Part 3: Case study 1: Building societies in the UK
- Part 4: Case study 2: Generali
- Part 5: Case study 3: Companies with a “Liberal” approach
- Part 6: Case study 4: Companies with a “Sustainable Finance” approach
- Part 7: Case study 5: Companies with a “State Ownership” approach

1 “State Ownership” approach – Summary

A series of banks had to refer to state guarantees and public capital support. In Europe, for example, Royal Bank of Scotland (RBS), Lloyds, Dexia, Commerzbank and Bayern LB needed support as did their US peers Citygroup, Bank of America and JP Morgan. These financial institutions suffered from the devaluation of financial investments during the crisis as they were strongly engaged in this business or because they were among those that could not exit the markets early enough.

In contrast to the USA, only a few of the European banks under state control have been able to repay government funds by today. The consequence of this is that the restructuring process in these companies is now governed by public authorities. Their main interest is to maintain their investment and safeguard customers’ deposits. Companies therefore have to change their business model to a “back to basics” approach (as ING Group expressed it). All peripheral activities are for sale, also with the aim to refund the public investors. Thus, cost efficiency is important and employment losses are high.

This means that these companies are presently losing market shares and their competitive position is deteriorating. The end of the restructuring process and its outcome is not yet visible as they were all in a dramatic situation.

Strategies of affected banks were revised and the majority switched to a less risky long-term orientation. Remuneration policies were adapted with a focus on long-term success. In addition, general board members often receive a reduced salary as long as the banks are relying on governmental support. Risk assessment gained importance and the tools have been improved. However, whether these changes are sufficient to create sustainable financial institutions will have to be monitored in the following years.

After Dexia Bank Belgium needed capital injections and state guarantees due to serious financial challenges in 2008, a stringent plan to transform its business and to cut costs was implemented.¹ In particular the bank improved its risk profile by disposing of loss-making business segments, refocusing on its principal clients (in particular public and wholesale clients) and core markets and announcing to reduce the cost base by 15 % (€ 600 m) by 2011. The third target was achieved by paying no bonuses to the management and no dividends to shareholders for 2008 as well as 800 jobs cuts, achieved through recruitment freezes, internal flexicurity measures (retaining or function and geographical mobility) and early retirement measures.

For this case study, three representatives were selected: RBS; the bank in Europe with the highest governmental support, Commerzbank; the second largest credit institution in Germany, and Fortis; which was a large financial service provider for insurance, banking and investment management before it encountered severe problems in 2008. This meant that most of Fortis had to be sold in parts, with only insurance activities remaining. Fortis has been included in the “state-ownership” approach case study, in order to show its split up after the crisis and to include an insurance company in the analysis.

The stylised facts for these companies are given in Table 1.

¹ Eurofound (2010): “Cutting costs without direct dismissals. Case study: Dexia Bank Belgium”, European Monitoring Centre on Change, forthcoming

Table 1 “State Ownership” approach companies

Financial institution (source)	Economic performance 2009	Income structure 2009	Business model
Royal Bank of Scotland UK	Pre-tax operating result: € -2.2 bn Tier 1 capital ratio: 14.4 % Leverage ratio: 17x Employment total: 183,700 Employment 2009/08: - 8 %	% of total income 2009: UK Retail (17.8 %), UK Corporate (8.7 %), Wealth (4.0 %), Global Banking & Markets (39.6 %), Global Transaction Services (9.0 %), Ulster Bank (3.7 %), US Retail & Commercial (9.8 %), RBS Insurance (15.7 %) and Non-Core Division & APS (-8.3 %)	Target: to become one of the world's premier financial institutions, anchored in the UK but serving institutional customers in the UK and globally Operation: focus on retail and corporate banking in UK, US and Ireland (Ulster Bank)
Commerzbank DE	Pre-tax result: € - 4.7 bn Tier 1 capital ratio: 12.6 % Leverage ratio: 24x Employment total: 62,671 Employment 2009/08: -9.7 %	% of revenues 2009: Private Customers (59.9 %) Mittelstandsbank (28.5 %) Central & Eastern Europe (1.7 %) Corporates & Markets (23.2%) Asset Based Finance (-2.57%) Portfolio Restructuring Unit (-19.6 %) Others and Consolidation (8.9 %)	Target: to reinforce position as market leader in German private and corporate customer banking Operation: one of the leading banks for private and corporate customers in Germany
Fortis (remaining insurance part; today named Ageas) BE/NL	Pre-tax profit: € 1.6 bn Employment total: 10,613 Employment 2009/08: + 2.3 %	% of net profit 2009: AG Insurance (73.9 %) Fortis Insurance International (18.2 %) General account (7.9 %)	Target: international insurance company with strong partnerships in Europe and Asia Operation: leader in the Belgian market for individual life and employee benefits and leading non-life player through AG Insurance. Internationally, strong presence in the UK and other subsidiaries in France, Germany, Turkey, Ukraine and Hong Kong
BNP Paribas Fortis (also called Fortis Bank) BE	Pre-tax loss: € 1.8 bn Tier 1 capital ratio: 12.3 % Employment total: 35,000 Employment 2009/08: - 5.4 %	% of total income 2009: Retail banking (40.8 %) Asset Management (8.3 %) Private Banking (5.2 %) Merchant Banking (47.8 %) Other Banking (- 1.6 %)	Target: to become the reference bank in Belgium for all its clients Operation: make use of its core activities: Retail & Private Banking, Corporate & Public Banking, Corporate & Investment Banking and Investment Solutions
Note: The % of the net profit of Fortis excludes the net profits gained from the sale of a 25 % plus one share of AG Insurance to Fortis Bank (€ 697 m) in May 2009.			

Source: Company information

1.1 Response to the crisis

All three companies relied on governmental support:

- The UK government became the majority shareholder at RBS and has a stake of 84 %. Altogether, RBS received € 50 bn governmental support. This was necessary due to a strong loss in 2008 (£ 7.1 bn or € 8.2 bn) which was partly caused by the burdening takeover of the Dutch ABN Amro bank. It was forced to make a number of divestments as part of the settlement with the European Commission in respect of the state aid received. Moreover, it is paying about £ 2.5 bn to the Government Asset Protection Scheme until 2011 – an insurance scheme designed to help banks with bad loans.
- Commerzbank experienced a severe pre-tax loss of € 4.66 bn in 2009 and € 5.45 bn in 2008 (on a pro forma basis assuming that Dresdner Bank was already part of Commerzbank Group in 2008). The company's results were heavily burdened by the takeover of Dresdner Bank, the third biggest bank in Germany. Due to the difficulties faced in 2008 its equity was strengthened by the

German Financial Market Stabilization Fund (SoFFin) in January 2009. Altogether the governmental help was € 18 bn (whereof € 8.2 bn was silent participation). The German Federal Government with a 25 % plus one share is now the major shareholder in the new Commerzbank.

- Due to the financial crisis Fortis ran into troubles in the second half of 2008. Fortis was impacted on by a continuously and rapidly decreasing share price. Moreover, Fortis's interbank market access was affected by alarmist rumours and it had to struggle with substantial liquidity requirements. As a consequence the Belgian government invested € 4.7 bn, the Dutch government invested € 4.0 bn and the Luxembourg government invested € 2.5 bn in Fortis Bank in September 2008. In the following months Fortis was split: 50 % plus one share of Fortis Bank were sold to the Belgian State which agreed to transfer 75 % of Fortis Bank to BNP Paribas; the insurance business remained in Fortis (today called Ageas) and the remaining parts were sold to the Dutch state.

The crisis enforced substantial writedowns on assets. At RBS impairment losses increased to £ 13.9 bn (€ 16.1 bn) in 2009 from £ 7.4 bn (€ 8.6 bn) in 2008. Fortis Bank (or BNP Paribas Fortis) had impairment losses of € 340 m in 2009. At Commerzbank provisions for possible loan losses of € 4,214 m in 2009 and € 3,553 m in the previous year were made. RBS and Commerzbank reacted to the financial crisis with strong deleveraging. The volume of total assets decreased by 31 % at RBS and 19 % at Commerzbank (on a pro forma basis). At Fortis Bank (BNP Paribas Fortis) the volume of total assets was reduced by 26 % while the insurance company Fortis experienced a slight increase of 0.4 %. Risk-weighted leverage ratios at the banks have been reduced substantially and accordingly.

The two affected banks both set up new strategies: at Commerzbank the "Roadmap 2012" and at RBS the "Roadmap to Recovery". Both are for reducing risks, increasing profitability and focussing on their core businesses private and corporate customer banking. In addition, both banks introduced a new non-core division (called Portfolio Restructuring Unit at Commerzbank) where toxic assets are winded down and non-core assets can be run-off.

1.2 Business models

The business models of the two banks are mainly characterised by their new strategies which now emphasise the focus on long-term success with fewer risks. In previous years expansion was important, which was reflected in the takeovers of Dresdner Bank by Commerzbank and ABN Amro's investment banking division by RBS. Today, tight risk assessment, cost efficiency and a return to profitability within the next years are the most important targets.

Both banks mainly rely on retail and commercial banking and plan to expand their profits in this segment. RBS has the strategic goal that retail and commercial banking in the UK, the US and Ireland should contribute two thirds to profit, and the Global Banking & Markets (GBM) division (including investment banking) should contribute one third. In 2009 retail and commercial banking in the UK, the US and Ireland contributed to 40 % of total income and GBM contributed the same proportion. The rest came from the divisions Wealth, RBS Insurance and Global transaction Services, while the non-core division created a loss.

At Commerzbank the division Private Customers is the core element, which contributed 60 % to revenues in 2009. The second largest division is the division Mittelstandsbank (28 %) which serves small and medium sized enterprises. Due to Commerzbank's new strategy "Roadmap 2012", the bank wants to reinforce its position as market leader in German private and corporate customer banking. It targets to be a profitable core bank featuring the segments Private Customers, Mittelstandsbank, Corporates & Markets, and Central and Eastern Europe.

After the split up of Fortis the remaining insurance business (Fortis) set up a new strategic plan which focuses on strong partnerships in Europe and Asia and the streamlining of the company's existing portfolio against strict criteria. At Fortis the AG Insurance division contributed the major part (73.9 %) to net profits, while the other divisions provided 26.1 % in 2009.

All three institutions were forced to sell several parts of their business as a consequence of governmental support. Since mid-2009 Commerzbank has sold Privatbank Reuschel & Co, two Swiss subsidiaries, Privatinvest Bank (Austria) and its British Wealth Management segment Kleinwort Benson, Dresdner Van Moer Courtens and the Belgian branch of Commerzbank International S.A. Luxembourg, the Dutch Dresdner VPV (Asset management) and Dresdner Bank Monaco S.A.M.

RBS sold more than 300 UK branches, a commodity trading business, its insurance division and Global Merchant Services – its payments operation.

1.3 Employment

The adjustment strategies of all three companies included a significant decline in the number of jobs. At Commerzbank the number of employees decreased by 9.7 % in 2009 compared to 2008, mainly due to the integration of the Dresdner Bank and due to cost reductions. Around 60 % of job reductions in 2009 were related to the core segments of Private Customers, Mittelstandsbank, Central & Eastern Europe and Corporates & Markets. In addition to that a further reduction of 9,000 jobs within the next three years has been agreed on. Nevertheless, there won't be any enforced redundancies (*betriebsbedingte Kündigungen*) before the end of 2011.

At RBS the number of employees decreased by 8 % in 2009. Since 2007 the number of employees has been reduced every year. Job cuts appeared in several divisions, however between 2008 and 2009 it was predominantly in investment banking due to a cost reduction programme. As a consequence of the integration of ABN Amro's investment bank into RBS's global markets division 7,000 jobs cuts were announced in April 2008.² In April 2009 the bank planned to cut 9,000 jobs worldwide in areas such as technology and call centres, group purchasing and managing group property. Thereof 4,500 jobs in the UK have been affected.³ In addition to that Bloomberg stated in May 2010, that a further 2,600 jobs in RBS's insurance and consumer banking divisions were planned to be cut.⁴

In the course of the financial crisis Fortis was split into Fortis (Ageas), BNP Paribas Fortis and the remaining parts were sold to the Dutch state. Before the crisis around 62,000 people were employed. Today, around 10,000 FTEs work at Fortis (Ageas), 35,000 FTEs at BNP Paribas Fortis (Fortis Bank). Around 4,000 - 5,000 jobs were lost due to the inclusion of Fortis Bank Nederland into ABN Amro Holding N.V.⁵

At RBS the reduction of employment contributed to its profitability. Due to the cost control initiatives across the group including major technology and back office restructuring, the core bank cost/income ratio with net of claims improved from 66.2 % in 2008 to 53.5 % in 2009. In contrast, the cost/income ratio at Commerzbank – i.e. the ratio of operating expenses to total earnings before the deduction of loan loss provisions – rose from 77.1 % in 2008 to 82.2 % in the reporting year.

² Financial Times ft.com 27.05.2008 [[web](#)]

³ Financial Times ft.com 08.04.2009 [[web](#)]

⁴ Bloomberg.com 10.05.2010 [[web](#)]

⁵ Reuter Deutschland, 21.05.2010 [[web](#)]

1.4 Remuneration

The two banks adjusted their remuneration schemes by introducing long-term incentives. Bonus payments are deferred over a period of years and equity based remuneration is a substantial part of total compensation for executives. At Fortis a similar system exists. There, the remuneration of executive committee members comprises a fixed base salary, a variable annual incentive and a variable long-term incentive.

At RBS no discretionary cash bonuses were paid to any employee in 2008 as well as no deferred awards in relation to 2008 performance were given to executive directors. The remuneration of Commerzbank's board of managing directors was strongly reduced due to the requirements of Sofin, which says that they are not allowed to earn more than € 500,000 per year.

At RBS's annual general meeting 2010 the new long term incentive plan was approved. With the adopted plan executives can receive a payout equivalent to four times their salary after three years, subject to three conditions being fulfilled. Half of the award will be paid based on the achievement of certain economic profit targets in 2012. One quarter will be based on total shareholder return relative to peers, while the final quarter will depend on RBS's share price reaching a certain level. All awards are subject to clawback.

At Commerzbank a new bonus-penalty system was introduced in 2009 which targets an appropriate level of risk-taking, sustainability and transparency. An exception compared to other peers is that three models are tailored for managers, employees on non-collective pay scale, and investment bankers.. At management level and for employees with a non-collective pay scale, their salaries depend on the individual's performance as well as to the group's performance (at management level the proportion is 60 % to 40 %). For investment bankers a part of their variable remuneration is delayed and considers both, positive and negative performance at group, segment and divisional levels. 'One third of the total variable remuneration is placed in a bonus bank and depends on future performance'. This mechanism targets 'joint responsibility for results and to [should] inappropriate individual incentives in investment banking.' 50 % of the individual variable remuneration is transformed into share awards which will be paid after three years, while the other half is paid directly.⁶

1.5 Risk management

According to their new strategies the two banks have made considerable efforts to realign risk management and improve assessment methods. In addition to that, a new organisational structure is being applied for risk management.

At RBS a new Board Risk Committee has been created. RBS targets a stable AA category risk profile achieved by de-risking and shrinking the group's balance sheet and the limitation of the over-reliance in wholesale markets for funding. Risk management has particularly been improved by a new credit approval process, a new risk limits framework which will reduce exposures to high risk countries and an improved reporting programme to increase transparency.

Risk appetite is defined in both quantitative and qualitative terms as follows:

- Quantitative: encompassing stress testing, risk concentration, VaR, liquidity and credit related metrics.

⁶ Commerzbank Annual Report 2009, p. 137

- Qualitative: ensuring that the group applies the correct principles, policies and procedures.

Commerzbank also uses stress tests as early warning indicators. In stress scenarios all potential losses of each risk type can be calculated simultaneously. In addition, Commerzbank monitors its risk-taking capability by comparing the capital requirement arising from the risk profile against risk cover. Therefore, a regulatory and economic capital model for analysing the group's capital requirement is used.

At Fortis, risk management is supported by the Audit & Risk Committee which ensures the adequacy of Fortis' capital. For the company, the avoidance of credit risk concentration ('any exposure to counterparties with the potential to produce a significant amount of capital loss due to bankruptcy or failure to pay'⁷) is fundamental and is counteracted by diversified portfolios.

Table 2 shows risk-weighted assets and Tier 1 ratios for the selected banks.

Table 2 "State Ownership" approach – Risk management

In € bn	Commerzbank	Royal Bank of Scotland
Total assets	844	1783
Risk-weighted assets	280	513
Core Tier 1 capital	29.5	56.4
Tier 1 capital	/	73.9
CT1/ RWA (%)	10.5	11
T1/ RWA (%)	/	14.4
CT1 = Core Tier 1 capital; T1 = Tier 1 capital; RWA = Risk-weighted assets		

Source: Company information, Economix

1.6 Ratings

The positive long-term ratings for RBS (A-1, A, AA-) and Commerzbank (Aa3, A, A+) from the three large rating agencies have been improved due to the financial support of governments and the high probability that there would be further support if needed. However, there are also uncertainties about short and medium-term earnings prospects due to difficult economic circumstances.

Standard & Poor's sees RBS's diversified global business and its realistic new strategy as strength, as well as governmental support and the use of the Asset Protection Scheme. However, it also sees that RBS experienced reputational damage due to its misjudged transaction of ABN Amro Bank. In December 2009 Fitch also saw 'substantial challenges faced by the management to achieving its strategic and financial goals [and pointed to] the group's heavy reliance on wholesale funding'⁸. Fitch also saw improvements in the group's capital as well as some progress in restructuring the balance sheet. 'Total third party assets in the non-core division declined by 32 % during the nine months to end-September 2009 because assets were run off and written down. However, non-core assets remain substantial and winding down these assets will be a complicated task, taking several years.'⁹

Commerzbank's financial strength rating from Moody's was changed from being stable to negative due to the adverse impact of capital measures on Commerzbank's future profitability. The coupon

⁷ Fortis Consolidated Financial Statements, p. 41

⁸ Fitch 18.12.2009 [[web](#)]

⁹ Fitch 18.12.2009 [[web](#)]

payments for governmental support received will burden both the profitability and integration costs of Dresdner Bank as well as rising risk charges.

According to Standard & Poor's Commerzbank is also confronted with 'challenges in terms of funding capacity and capital requirements for its large wholesale commercial businesses'.¹⁰ The increased Tier 1 ratio is important for Commerzbank's asset quality. However, 'further rising credit charges on the customer bank will, [according to Moody's], not be the only factor exerting pressure on the Commerzbank's performance during 2010. An improvement in lending margins will not fully offset (...) the decline in revenues that will result from downsizing total assets.'¹¹

Regarding risk management,

'Commerzbank has dedicated significant resources establishing a comprehensive risk-measurement system for its value at risk model and economic capital concept. At the same time, however, risk management has become more reliant on statistical risk modelling, which may have contributed to mispricing risk exposures or underestimating concentration risks. The acquisition of a large, weak and capital markets-oriented bank like Dresdner Bank in the middle of severe financial market turmoil also raises some doubts, according to Standard & Poor's, about Commerzbank's risk appetite, considering the questionable risk-reward trade-off of the transaction.'¹²

1.7 Outlook

According to the rating agencies, the operating environment will continue to be difficult in 2010. The stable outlook of RBS on one hand reflects the expectation that the UK government will remain supportive, and on the other hand that the stand-alone credit profile has the potential to improve over the medium term. Some progress has been seen in restructuring the balance sheet. However, winding down non-core assets will be a complicated task, taking several years.

Standard & Poor's outlook on the short to medium-term challenges for Commerzbank was negative due to the impact of the recession on its loan book, which could still result in more severe losses than currently factored into the ratings. Moreover, the restructuring process needed to reduce its non-strategic and wholesale-oriented activities and its capital leverage will also remain challenging.

Commerzbank and RBS both believe that 2009 was the peak regarding losses and expect a slight improvement in 2010. They also have ambitious targets regarding their profitability:

- RBS plans to 'generate a sustainable 15 % return on equity powered by market-leading businesses in large customer-driven markets.'¹³ The bank aims to have all main core businesses in leadership positions by 2013. Moreover, it is targeting a sustainable 5 % - 10 % of organic growth by 2013. This means that cost control is important as it plans to deliver more than £ 2.5 bn (€ 2.9 bn) efficiency savings by 2011. The cost/income ratio with net of claims is targeted to be lower than 50 % 'which would place RBS among the most efficient of its global peers.'¹⁴ As already mentioned above, two thirds of profits should be contributed by retail and commercial banking in the UK, the US and Ireland and the division Global Banking & Markets should contribute one third.

¹⁰ Standard & Poor's Rating, 1 July 2009, [web]

¹¹ Moody's 11.11.2009 [web]

¹² Standard & Poor's Rating, 1 July 2009, [web]

¹³ RBS Group Annual Report and Accounts 2009, p. 14

¹⁴ RBS Group Annual Report and Accounts 2009, p. 14

- Commerzbank intends to be operating at a profit again by no later than 2011. From 2012 onwards, Commerzbank intends to generate an operating profit result of more than € 4 bn per year, and an after-tax return on equity of approximately 12 %. Therefore, risk-weighted assets will be reduced to less than € 290 bn by 2012. There are particular targets for single business divisions: the Private Customer division's strong market position will be further expanded through the rapid integration of Dresdner Bank and rigorous cost management. The Mittelstandsbank aims to further strengthen its position as the leading export financier in the German economy. The bank expects that economies in Eastern Europe will post stronger growth over the medium and long term than those in Western Europe and in the US. Within its Central and Eastern Europe (CEE) segment, Commerzbank will particularly concentrate on its strong position in Poland. Corporates & Markets (C&M) will increase client-oriented services for the bank's core target groups.. Other business areas will be reduced or discontinued.
- Fortis aims to maintain business momentum and meet the expectations of customers whilst managing legacy issues at the same time. Any decision made will be for the long-term future of the company. In Continental Europe a three stage approach will be pursued to actively manage Fortis Continental Europe's portfolio. Thereby the focus on core competencies, including strengthening partnerships, expanding multichannel distribution, and innovating the product offering is crucial. Moreover, the current portfolio will regularly be assessed and sub-scale activities will be strengthened or divested. Selective investments in areas of growth will also be targeted.
Fortis is burdened because of the turmoil caused by the high debt of European countries. At the end of 2009 the company held bonds from Italy, Greece, Portugal and Spain of around € 18.1 bn. This means that risks regarding bonds will also remain in 2010.

2 Commerzbank

Commerzbank is the second largest credit institution in Germany and one of Europe's major banks. With the merging of Dresdner Bank into Commerzbank in May 2009, Commerzbank is now also one of the leading banks for private and corporate customers in Germany. The new Commerzbank has a total of more than 15 million private and corporate customers worldwide.¹⁵

2.1 Economic performance

Business development

According to its Annual Report Commerzbank experienced sever pre-tax losses of € 4.66 bn in 2009 and € 5.51 bn in 2008 (considering pro forma results which assume that Dresdner Bank was already part of Commerzbank Group in 2008). By comparing the pro forma basis results in 2008 with the figures that exclude Dresdner Bank we can see that the acquisition of Dresdner Bank led to an increase of € 5.07 bn in operating losses.

The German government's Financial Market Stabilization Fund (SoFFin) supported Commerzbank with capital and guarantees amounting to € 18.2 bn at the beginning of 2009 to overcome the financial difficulties which were enforced by the takeover of Dresdner Bank.¹⁶ As a result Commerzbank had to commit to a new strategy less susceptible to risk. Moreover, Commerzbank had to make provisions for possible loan losses amounting to € 4,214 m in 2009 and € 3,553 m in the previous year. In addition the Tier 1 capital ratio was also increased.¹⁷

¹⁵ Commerzbank website [\[web\]](#)

¹⁶ Commerzbank Press release, 08.01.2009 [\[web\]](#)

¹⁷ Commerzbank Annual Report 2009 p. 74

The comparison of total assets of 2008 on a pro-forma basis and on a basis which excludes Dresdner Bank shows that total assets expanded by 67.3 % to € 1,046 bn. In 2009 they were reduced by 19.3 % to € 844.1 bn – mainly as a consequence of Commerzbank's divestment of the newly created non-core division. The steady reduction of the level of total assets over each quarter following the first time consolidation of Dresdner Bank has been an important strategic goal.¹⁸

The leverage ratio – i.e. the ratio of equity attributable to Commerzbank shareholders to net assets – fell to 24 at the end of 2009 compared with 36 at the end of the previous year.¹⁹ The reduction amounted to € 202 bn in all. Thereby some areas were particularly affected: the Corporates & Markets segment because of reduced trading activities, the Public Finance division in the Asset Based Finance segment, and the Portfolio Restructuring Unit, through managing down of the portfolio.

Table 3 Commerzbank – Performance data

	2009	2008		2007	2006
	incl. Dresdner Bank	Pro forma basis ^{a)}	Excl. Dresdner Bank	excl. Dresdner	excl. Dresdner
Total assets (bn €)	844.1	1,046.0	625.2	616.5	608.3
Operating profit (bn €)	-2.27	-5.45	-0.38	2.51	2.65
Pre-tax result	-4.66	-5.51	-0.41	2.51	2.40
Consolidated result ^{b)} (bn €)	-4.54	-4.56	0.00	1.92	1.60
Tier 1 capital ratio (%)	10.5	-	10.1	6.9	6.7

^{a)} Pro forma 2008 assumes that Dresdner Bank was already part of the Commerzbank Group in 2008
^{b)} Insofar as attributable to Commerzbank shareholders

Source: Commerzbank Annual Report 2009, Commerzbank Kennzahlenvergleich [\[web\]](#)

The geographical diversification shows the importance of the German market for Commerzbank: in Germany 84 % of revenues, before provisioning for possible loan losses, were produced in 2009 compared to 14 % in the remaining European countries. All other countries, including America and Asia, contributed 2 %.²⁰

According to an article in the Financial Times, Mr. Blessing, Chairman of Commerzbank, forecasted a "considerable improvement in customer-focussed" units and operating profits for core parts of Commerzbank in 2010.²¹ However he also warned about the impact of its restructuring unit which holds many toxic assets.

Portfolio Restructuring Unit

The Portfolio Restructuring Unit (PRU), which was set up in mid-2009 to respond to the deteriorating financial market crisis and the impact it generated, is a separate segment within Commerzbank. Some newspapers called the PRU the Commerzbank's internal bad bank.²²

In its Annual Report 2009, the Commerzbank explains that asset classes which no longer fitted with Commerzbank's customer-focussed strategy were moved PRU in 2009. 'The majority of these were portfolios from the Corporates and Markets segment related to discontinued proprietary and investment activities. The positions actively managed by PRU include asset-backed securities not guaranteed by the state, other structured credit products, proprietary trading positions in corporate and financial bonds and credit derivatives.'²³

¹⁸ Commerzbank Annual Report 2009 p. 77

¹⁹ Commerzbank Annual Report 2009 p. 77

²⁰ Commerzbank Annual Report 2009, p. 242

²¹ Financial times 24.02.2010 [\[web\]](#)

²² Handelsblatt 06.02.2009 [\[web\]](#)

²³ Commerzbank Annual Report 2009, p. 130

2.2 Employment and branches

Employment

The number of employees decreased by 9.7 % in 2009 compared to 2008. In 2009 around 60 % of job reductions were related to the core segments of Private Customers, Mittelstandsbank, Central & Eastern Europe and Corporates & Markets (see Table 5).

Table 4 Commerzbank – Number of employees

	2009	2008 ^{a)}	2007 ^{b)}	2006 ^{b)}
Total staff group	62,671	69,418	36,767	35,975
Total staff parent bank	44,227	45,648	24,803	24,327

^{a)}2008 Pro forma basis (assuming that Dresdner Bank was already part of Commerzbank in 2008)
^{b)}2007 and 2006: including local staff in representative offices and cleaning and kitchen personnel, excluding staff on maternity leave and long-term sick leave

Source: Commerzbank Annual Report 2009 p. 132 and Annual Report 2007 p. 89

Table 5 Commerzbank – Number of full-time employees per segment

Segment	2009	Change to previous year (%)	2008 ^{a)}
Private Customers	18,580	- 6.9	19,948
Mittelstandsbank	4,791	- 3.1	4,943
Central & Eastern Europe	8,748	-10.8	9,807
Corporates & Markets	2,256	32.2	3,327
Asset Based Finance	1,745	10.0	1,939
Portfolio Restructuring Unit	60	11.1	54
Others and Consolidation	17,051	-11.8	19,340
Group Total	53,231	-10.3	59,358

^{a)}Figures as per 31.12.2008 on a pro forma basis

Source: Commerzbank Annual Report 2009 p. 132

Structure of employment

Tables 6 and 7 comprise information about the age structure and the percentage of women at Commerzbank and Dresdner Bank in 2009. At both companies half of the workforce is female. At Commerzbank about 30 % were below 31 years old, while 60 % were between 31 and 49 years old. The other 20 % was older than 50 years old.

Table 6 Commerzbank – Employees by age groups in Germany in 2009

Age group	Percentage of women	Percentage of men	Total
15 – 19	0.7	1.2	1.8
20 – 24	4.0	5.2	9.2
25 – 29	3.7	4.6	8.4
30 – 34	5.0	5.0	9.9
35 – 39	6.7	7.1	13.8
40 – 44	9.8	9.5	19.3
45 – 49	8.7	8.4	17.1
50 – 54	6.3	5.9	12.2
55 – 59	4.4	2.9	7.2
60 – 64	0.7	0.2	0.9
Total	49.9	50.1	100

Source: Commerzbank HR Policies & Communiation, 2010

Table 7 Commerzbank – Employees by age groups in Germany in 2009 at Dresdner Bank

Age group	Percentage of women	Percentage of men	Total
15 – 19	0.7	1.5	2.2
20 – 24	2.6	4.3	6.9
25 – 29	3.1	4.0	7.1
30 – 34	6.1	6.1	12.2
35 – 39	8.0	7.7	15.7
40 – 44	9.7	9.4	19.1
45 – 49	8.2	7.5	15.7
50 – 54	6.7	6.1	12.8
55 – 59	4.6	3.3	7.9
60 – 64	0.3	0.1	0.4
Total	50.0	50.0	100

Source: Commerzbank HR Policies & Communiation, 2010

In Table 8 employment is broken down by collective pay scales. The proportion of employees who are not part of a collective employment agreement increased in previous years. According to Commerzbank's HR Policies & Communication department this points to a preceding proportion of employees with a higher qualification.

Table 8 Commerzbank – Employees by collective pay scale

	Percentages in 1999	Percentages in 2004	Percentages in 2009
Total collective pay scale	69.8	60.0	51.9
Collective pay scale 1-3	1.2	0.6	0.2
Collective pay scale 4-6	27.5	24.5	16.4
Collective pay scale 7-9	41.1	35.0	35.3
Non-collective pay scale	30.2	40.0	48.1
Total	100	100	100

Source: Commerzbank HR Policies & Communiation, 2010

Expected development of employment

According to the Commerzbank HR Policies & Communication department, a reduction of 9,000 jobs – thereof 6,500 in Germany – within the next few years is already agreed. There won't be any enforced redundancies (*betriebsbedingte Kündigungen*) before the end of 2011. Job cuts will be implemented within the next three years. Commerzbank is confident that the reduction can be implemented with natural fluctuation and voluntary instruments of the social plan.

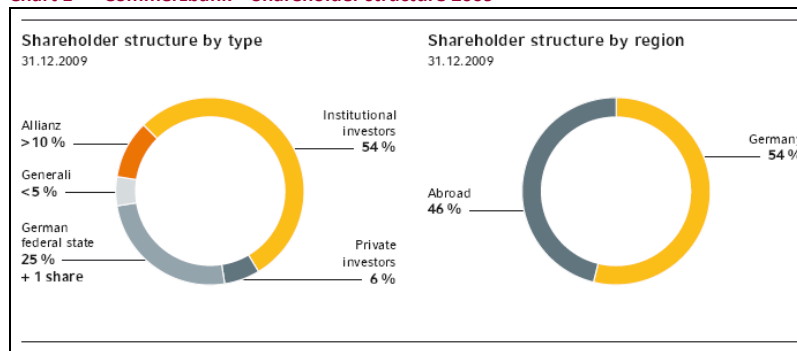
Branches

Commerzbank has 1,537 domestic branches in the private customer business. 'Outside of Germany the bank has 25 operational foreign branches, 33 representative offices and nine significant subsidiaries in 46 countries (2009). The focus of its international activities lies in Europe'.²⁴

2.3 Ownership structure

The German Federal Government holds a 25 % plus one share and is thus the main shareholder in the new Commerzbank at the moment.

Chart 1 Commerzbank – Shareholder structure 2009



Source: Commerzbank Annual Report 2009, p. 36

Table 9 Commerzbank – Shares

	2009	2008	2007
Shares outstanding (in million units)	1,181.4	722.6	657.2
Earnings per share in €	- 4.40	0.0	2.92
Book value per share in € (excluding hedges and minority interests)	8.51	16.42	22.9

Source: Commerzbank Annual Report 2009 p. 38 and Annual Report 2007 p. 24

'Irrespective of performance, no dividend will be paid in respect of the financial year 2009, as was also the case for 2008. This is a condition attached to the funds provided by SoFFin.'²⁵

2.4 Important business events

- **Governmental support:**²⁶ In January 2009 the Financial Market Stabilization Fund (SoFFin), Allianz and Commerzbank intended to strengthen the new Commerzbank's equity;
 - Additional equity of € 10 bn (This will be realised by issuing roughly 295 million ordinary shares, plus a silent participation of approximately € 8.2 bn)
 - Core capital ratio of the new bank to be approximately 10 %
 - Federal Government as the major shareholder with a 25 % plus one share in the new Commerzbank
 - Allianz strengthens the capital of Dresdner Bank by € 1.45 bn

In order to concentrate on the core business and/or to fulfil the requirements of the European Commission of being allowed to use the support of Soffin, Commerzbank has sold the following parts since mid-2009: Privatbank Reuschel & Co, two Swiss subsidiaries, Privatinvest Bank (Austria), British Wealth Management segment Kleinwort Benson, Dresdner Van Moer Courtens and the Belgian branch of Commerzbank International S.A. Luxembourg, the Dutch Dresdner VPV (Asset management) and Dresdner Bank Monaco S.A.M.²⁷

²⁴ Commerzbank Annual Report 2009, p. 66

²⁵ Commerzbank Annual Report 2009, p. 36

²⁶ Commerzbank Press release, 08.01.2009 [web]

²⁷ Several Commerzbank press releases

- *Acquisition:* ‘The most important event in the business policy in 2009 was the completion of the Dresdner Bank acquisition in January. The total purchase price for Dresdner Bank was € 4.7 bn. Along with a cash component and the transfer of cominvest to Allianz, under the terms of the agreement Allianz received some 163.5 million new Commerzbank shares from a capital increase against non-cash contributions. On May 11 2009, Dresdner Bank AG was merged with Commerzbank. Since then, further important steps have been taken in the integration process.’²⁸ For example, since 01.09.09 the investment banking segment of the Commerzbank Group and Dresdner Bank were concentrated in the brand Commerzbank. The brand “Dresdner Kleinwort” is not used anymore.²⁹
- *New brand:* Due to the merger of Commerzbank and Dresdner Bank the former Commerzbank brand is repositioning itself as a new Commerzbank.. The new brand will be rolled out with immediate effect via selected beacon projects before being introduced in the branches at the beginning June 2010.³⁰
- *Integration of Dresdner Bank:* The integration of Dresdner Bank is proceeding without problems.³¹ According to a presentation of Commerzbank about preliminary results for 2009, the integration of the leading private and corporate bank in Germany is well on track and divestments are ahead of time. Moreover, cost synergies are 27 % higher than expected in the initial synergy plan and have increased to € 2.4 bn. In Corporate & Markets the personnel integration is almost completed and the re-dimensioning of the segment is on track. According to employee surveys the agreement of employees to the integration of the Dresdner Bank is high. The commissioned external research institute has acknowledged that the results are above average compared to the market.³²
- *Reaction of customers:* In an interview with Dr. Hedrich, Group Communication, Commerzbank revealed the following reactions of bank customers:
 - In general a higher risk aversion of customers is visible, but some customers also want financial products with higher rents and risks.
 - After the statement from the Federal Chancellor A. Merkel about the assurance of private deposits, the trust of customers increased. When Commerzbank received governmental support, deposits even increased.

2.5 Strategy

In order to respond to the financial crisis and to the integration of Dresdner Bank a new strategy ‘Roadmap 2012’ was set up in spring 2009. The main target is to reinforce the bank’s position as market leader in German private and corporate customer banking.

‘Commerzbank’s focus is on being a profitable core bank featuring the segments Private Customers, Mittelstandsbank, Corporates & Markets, and Central and Eastern Europe.’³³

Roadmap 2012

²⁸ Commerzbank Annual Report 2009, p. 70

²⁹ Commerzbank Press Release, 01.09.09 [web]

³⁰ Commerzbank homepage [web]

³¹ Commerzbank Presentation [web]

³² Information provided by Commerzbank HR Policies & Communication, 2010

³³ Commerzbank Annual Report, p.66

In May 2009 Commerzbank launched the strategic programme “Roadmap 2012”, which is its response to the challenges of the financial market crisis. According to the Commerzbank Annual Report 2009³⁴ the new group structure focuses on the customer-oriented core business in the core bank. At the same time Commerzbank is seeking to optimise and realign the scale of its asset-based financing activities. The PRU enables the bank to separate out portfolios that Commerzbank does no longer want. With this structure, Commerzbank is concentrating on three key tasks:

- increasing profitability
- unlocking cost synergies
- reducing risk

‘Commerzbank will build on its strengths as the main bank for private and corporate customers in Germany and will gear its business model accordingly. By no later than 2011, the bank intends to be operating at a profit again. From 2012 onwards, Commerzbank intends to generate an operating profit result of more than € 4 bn per year, and an after-tax return on equity of approximately 12 %. This is perfectly compatible with the business model and the risk profile of Commerzbank. Risk-weighted assets will be reduced to less than € 290 bn by 2012.’³⁵

The table below compares important parts of the bank’s strategy in 2007 and 2009. While in 2009 the integration of the Dresdner bank and the “Roadmap 2012”, in order to overcome the difficulties caused by the financial market crisis, were most important, in 2007 the focus was more on growth and efficiency.

Table 10 Commerzbank – Comparison of strategy in 2009 and 2007

Annual Report 2009	Annual Report 2007
“Achieving more together”	“Focus on growth and efficiency”
<p>Our challenge: Severe financial and economic crisis and integration of Dresdner Bank</p> <p>Our response: Strategic three-point programme entitled “Roadmap 2012”</p> <p>Our objective: “Hausbank” for private and corporate customers in Germany</p> <p>Our strategy:</p> <ul style="list-style-type: none"> – We will focus: Create a “client-centric bank” with profitable core business areas – We will optimize: Scale down our asset-based credit business – We will downsize: Maximize value through active management of downsized portfolios 	<p>Focus on growth and efficiency ...</p> <p>... for the benefit of our shareholders, customers and staff.</p> <p>We are expanding organically in our core business fields and regions on the strength of our own efforts.</p> <p>We also seize economically viable opportunities to expand by means of acquisitions. Moreover, it is equally important to work towards greater efficiency in all areas of business.</p> <p>This is how we are improving our profitability.</p>

Source: Commerzbank Annual Report 2009 (p. 18) and 2007

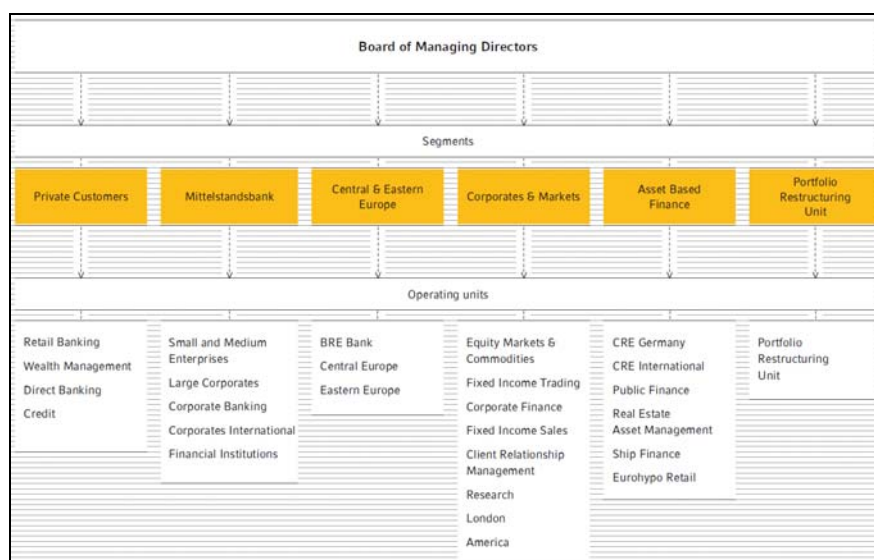
2.6 Performance of business segments

The chart below gives information about the structure of Commerzbank Group and the operating units of each of the six business segments.

Chart 2 Commerzbank – Structure of Commerzbank Group

³⁴ Commerzbank Annual Report 2009, “The new bank, strategy”,

³⁵ Commerzbank Annual Report 2009, p. 71



Source: Commerzbank Annual Report 2009

The table below shows the performance of the divisions. Almost all segments experienced a significant rise in provisions for possible loan losses. In the Central & Eastern Europe segment this was necessary due to the region's extremely weak economy. 'Asset Based Finance suffered mainly in the commercial real estate markets of the USA and Spain.' In addition, 'the Mittelstandsbank was hit by a significant increase in loan loss provisions due to defaulting at banks and the rising number of insolvencies in the SME segment caused by the economic downturn. Higher loan loss provisions were also necessary in the Private Customers segment as a result of the recession. The Portfolio Restructuring Unit and Corporates & Markets segments were primarily affected by higher risk provisioning as a result of the financial market crisis.'³⁶

Considering the revenue after provisioning for possible loan losses, it becomes visible that Private Customers (59.9 %) is the core business of Commerzbank, followed by Mittelstandsbank (28.5 %). The segment Corporates & Markets contributed 23.2% to revenues in 2009 and Central & Eastern Europe 1.7 % while Asset Based Finance and Portfolio Restructuring Unit made a loss.

The strong increase in the operating loss of the group was driven by high restructuring expenses amounting to € 1.62 bn and € 1.55 bn related to the integration of Dresdner Bank.

Table 11 Commerzbank – Economic performance of divisions

In € m	Private Customers	Mittelstandsbank	Central & Eastern Europe	Corporates & Markets	Asset Based Finance	Portfolio Restructuring Unit	Others and Consolidation	Group
Provision for possible loan losses								
2009	-246	-954	-812	-289	-1,588	-327	2	-4,214
2008 ^{a)}	-19	-286	-190	-363	-900	-68	-29	-1,855
Revenue after provisioning for possible loan losses								
2009	4,032	1,918	114	1,559	-173	-1,317	601	6,734
2008 ^{a)}	2,438	1,535	865	682	-301	-908	263	4,574
Operating profit								
2009	170	584	-374	-421	-837	-1,463	71	-2,270
2008 ^{a)}	569	719	313	-63	-948	-908	-64	-382
Pre-tax result								
2009	-168	510	-379	-572	-1,638	-1,465	-947	-4,659

³⁶ Commerzbank Annual Report 2009, p. 74

2008 ^{a)}	569	719	313	-63	-973	-908	-64	-407
Note: the numbers of 2008 are the results of Commerzbank without assuming that Dresdner Bank was already a part of it.								
^{a)} After counterparty default adjustments								

Source: Commerzbank Annual Report 2009 and 2008

2.7 New remuneration model

According to Commerzbank's Annual Report 2009 it developed a new remuneration system as response to the crisis and 'to foster responsible and sustainable behaviour while averting short-term risk-taking'³⁷ The bank sees its new bonus-penalty system as role model in the financial world.

'The new remuneration system incorporates long-term, variable components combining three main aspects: an appropriate level of risk-taking, sustainability and transparency. It also pays greater consideration to performance and differentiation targets. Instead of incentivising individuals, it places importance on the interests of the company, staff and owners.' In addition the new model comprises three models for three different groups of employees:

Management model

The new management model applies to the first and second management levels of Commerzbank (excluding investment banking). 60 % percent of the variable remuneration component depends on individual performance and 40 % on the group's performance. If group performance is negative, this reduces the managers' individual performance component. As an additional sustainability component, part of the variable remuneration is converted into share awards to be paid after three years.

NPS model

The NPS (non-collective pay scale) model applies to employees of Commerzbank (excluding investment banking) who are not part of a collective employment agreement. The amount of variable remuneration depends on both individual performance and group performance. 60 % of the variable remuneration of NPS staff comprises a performance-based payment and a group bonus. The amount of the group bonus depends on the overall volume of individual performance-based payments made.

Investment banking model

The new investment banking model applies to all non-collective pay scale employees and all management levels in Corporates & Markets and Treasury. Payment of part of their variable remuneration is delayed and takes account of both positive and negative performance at group level, segmental level and divisional level. One third of the total variable remuneration is placed in a bonus bank and depends on future performance. This bonus bank is intended to foster joint responsibility for results and to avoid inappropriate individual incentives in investment banking. Half of the individual variable remuneration is converted into share awards to be paid after three years, the other half is paid directly.

In the course of revising the remuneration models, Commerzbank set up a Remuneration Committee, which comprises a Compensation Committee and an Executive Compensation Committee. This monitors the remuneration policy throughout the group in terms of regula-

³⁷ Commerzbank Annual Report 2009, p. 137

tory requirements, deciding the amount and the distribution of the variable remuneration components, and offers advice in individual cases. Both committees reduce the risks inherent in remuneration decisions, as well as ensuring a balance between shareholder interests and business policy.

So far there are no signs of lacking acceptance of the new remuneration model in Investment Banking. According to Commerzbank's HR Policies & Communication the new model is market-driven and is in accordance with the working culture in this business segment.³⁸

Remuneration of particular groups

The remuneration of the board of managing directors was strongly reduced due to requirements of SoFFin. In 2009 € 5,877 m were spent compared to € 12,207 m in 2008.³⁹ The Commerzbank's Annual Report 2009 gives detailed information about the remuneration in the form of a basic salary and as variable remuneration for every member of the board of managing directors.

The remuneration for financial advisors who are paid according to a collective pay scale has not changed. For financial advisors who are not part of a collective employment agreement, the new NPS model as described above is in force.⁴⁰

³⁸ Commerzbank Annual Report 2009, p. 137

³⁹ Commerzbank Annual Report 2009, p. 302

⁴⁰ Information provided by Commerzbank HR Policies & Communication, 2010

2.8 Evaluation of rating agencies

Commerzbank's long-term and short-term ratings were upgraded from A to A+ and from F1 to F1+, respectively. The overall positive rating of 2009 reflects the German government's support of Commerzbank through SoFFin.

Table 12 Commerzbank – Rating

Rating Agencies	Long-term rating				Short-term rating			
	2009	2008	2007	2006	2009	2008	2007	2006
Moody's Investors Service, New York	Aa3	Aa3	Aa3	A2	P-1	P-1	P-1	P-1
Standard & Poor's, New York	A	A	A	A-	A-1	A-1	A-1	A-2
Fitch Ratings, London	A+	A	A	A	F1+	F1	F1	F1

Note: An explanation of rating codes can be found in the Annex

Source: Commerzbank Annual Report 2009 (Five year overview)

Rationale

According to Moody's Investors Service at 13.01.2009⁴¹, the positive long-term rating Aa3 of Moody's already incorporated the (at this time very likely) financial support and partial ownership of the German government. The 'increased Tier 1 ratio should provide Commerzbank with a sufficient capital cushion to accommodate even significant potential losses over the next couple of years and allow it to remain well capitalised within its own target range of 8 % - 10 %'.

However, Moody's also changed the Commerzbank's C bank financial strength rating (BFSR) from stable to negative. This 'reflects Moody's concern that the capital measures will have a strongly adverse impact on Commerzbank's future profitability, given the resulting high proportion of hybrid capital. The coupon payments for the combined € 17.15 bn of silent participations, which have been provided to Commerzbank and its new subsidiary Dresdner Bank since December 2008, will amount to € 1.5 bn p.a. with an effect on net profits of approximately € 800 m p.a. These additional charges to the income statement are considered substantial for the combined bank given that Moody's is expecting weak earnings for the next 12 to 24 months. Profitability will be burdened by integration costs, pressure on revenues and rising risk charges as the adverse impact of the current recession on asset quality becomes increasingly evident.'⁴²

Standard & Poor's⁴³ 'ratings for Commerzbank reflect a combination of extraordinary external support from the government of the Federal Republic of Germany (AAA/Stable/A-1+) and the bank's own credit characteristics. Standard & Poor's Ratings Services' expectation of future and existing government support lifts the Commerzbank ratings by four notches, above the bank's stand-alone credit profile.'⁴⁴

According to Standard & Poor's:

'Commerzbank faces challenges in terms of funding capacity and capital requirements for its large wholesale commercial businesses, owing to a fundamentally changing banking environment. There are also uncertainties about Commerzbank's short-term to medium-term earnings prospects, in light of ongoing market dislocations, which particularly affect Dresdner Bank's sales and trading business and Commerzbank's mortgage bank subsidiary Eurohypo

⁴¹ Moody's Investors Services „Moody's affirms Commerzbank's Aa3 long-term ratings, stable outlook", 13.01.2009 [web]

⁴² Moody's Investors Services „Moody's affirms Commerzbank's Aa3 long-term ratings, stable outlook", 13.01.2009

⁴³ Standard & Poor's Rating, 10 June 2009, [web]

⁴⁴ Standard & Poor's Rating, 1 July 2009, [web]

AG. Commerzbank's stand-alone credit profile benefits from its position as the second largest private bank in Germany with a nationwide network in retail and corporate banking, sound diversification across business lines, and substantial extraordinary government support that has strengthened the group's capitalisation and liquidity.'⁴⁵

'The individual rating [of Fitch] takes into account the considerable downside risk to performance as several key operating segments are facing a downturn. Significant exposure to commercial real estate and operations in Central and Eastern Europe, shipping and leveraged finance, and a large book of asset backed securities are most likely to adversely affect asset quality. Integrating Dresdner Bank AG and re-scaling investment banking will create an execution risk.'⁴⁶

Asset quality

'Moody's'⁴⁷ notes that the risk stemming from the Commerzbank's substantial lending operations, in particular its exposures to highly cyclical industries (...), highlights the credit importance of the group's high capital ratio.'⁴⁸ 'Further rising credit charges on the customer bank will, [according to Moody's], not be the only factor exerting pressure on the group's performance in 2010. (...) An improvement in lending margins will not fully offset the decline in revenues that will result from the downsizing of total assets.'⁴⁹

Moreover, 'Moody's expects the Portfolio Restructuring Unit to be the subject of further impairment charges, even though substantial mark-downs [have] already [been] taken on higher-risk assets.'⁵⁰

Risk management

According to Standard & Poor's:

'Commerzbank's enterprise risk management is still quite adequate compared to its peers', considering that, to date, and excluding the Dresdner Bank transaction, it has avoided the worst of the problems affecting many other banks. However, (...) the economic recession has also revealed material weaknesses in risk governance and management of credit risk.(...) Commerzbank's moderate profit margin and capitalisation was inadequate at the onset of the market crisis given the risks in its loan book. Commerzbank has dedicated significant resources to establishing a comprehensive risk-measurement system for its value at risk model and economic capital concept. At the same time, however, risk management has become more reliant on statistical risk modelling, which may have contributed to mispricing risk exposures or underestimating concentration risks.'⁵¹

'The acquisition of a large, weak and capital markets-oriented bank like Dresdner Bank in the middle of severe financial market turmoil also raises some doubts, according to Standard & Poor's, about Commerzbank's risk appetite, considering the questionable risk-reward trade-off of the transaction. In particular, the takeover has increased the group's single name concentrations and market risk exposures. Losses in subsidiaries, such as those from large single transactions at Eurohypo or from market risk-taking in the group's public finance business,

⁴⁵ Standard & Poor's Rating, 1 July 2009

⁴⁶ Fitch Rating, 29 July 2009, [web]

⁴⁷ Moody's Rating, 11 November 2009 [web]

⁴⁸ Moody's Rating, 11 November 2009 [web]

⁴⁹ Moody's Rating, 11 November 2009

⁵⁰ Moody's Rating, 11 November 2009

⁵¹ Standard & Poor's Rating, 1 July 2009

also suggest that the reach of the risk management function may not be broad enough across the group.’⁵²

⁵² Standard & Poor’s Rating, 1 July 2009

2.9 Risk management

Risk management strategy

According to Commerzbank's Annual Report 2009 (p. 154) risk management will be adapted as follows:

'Responsibility for implementing the risk policy guidelines that have been laid down by the board of managing directors for quantifiable risks throughout the group lies with the chief risk officer (CRO). The CRO regularly reports to the board of managing directors and the Risk Committee of the Supervisory Board on the overall risk situation within the Group.

Taking account of experiences from the financial market crisis, the bank systematically adjusted the structure of Commerzbank's group wide risk management as of October 1 2009. Risk management activities were are now centred on four groups, namely Credit Risk Management, Market Risk Management, Intensive Care and Risk Controlling and Capital Management. They all have a group wide focus and report directly to the CRO. Together with the four heads of the divisions, the CRO forms the Risk Management Board within Group Management.

The aim of this reorganisation is to eliminate frictional losses between business areas by creating a functional structure, and to further reduce complexity and pool tasks across segments in a risk-congruent manner. Another objective of the new organisational structure is to create the conditions for the comprehensive and rigorous implementation of cross-segment credit risk and market risk strategies and policies within the new Commerzbank, while harmonising the process landscape.'⁵³

Stress tests

According to the Annual Report 2009 (p. 155) Commerzbank's risk management practices incorporate comprehensive stress tests as early warning indicators and for estimating sensitivities. These tests assume deterioration in all relevant risk parameters. In the stress scenario all potential losses of each risk type occur simultaneously. Thus, a correlation between risk types is taken into account.

In the current financial year Commerzbank plans to continue expanding its methodology for simulating macroeconomic stress scenarios and their impact on the capital requirement, the income side and risk cover.

Regulatory and economic risk-weighted assets

Commerzbank monitors its risk-taking capability by comparing the capital requirement arising from the risk profile against risk cover. Therefore, a regulatory and economic capital model for analysing the group's capital requirement is used. 'Like the regulatory capital model, the economic capital model aims to quantify extreme, unexpected losses with a view to determining an adequate capital position.'⁵⁴

The table below shows Commerzbank's risk-weighted assets calculated by using the regulatory and the economic capital models. The significant increase in the economic capital employed in 2009 reflects the introduction of the new credit portfolio model in January 2009, which resulted in an increased value at risk and a higher evaluation of economic risk-weighted assets. The second reason

⁵³ Commerzbank Annual Report 2009, p. 154

⁵⁴ Commerzbank Annual Report 2009, p. 155

for the increase is the integration of Dresdner Bank. In addition to that, the improvement of the Tier 1 capital ratio to 10.5 % can be attributed to 'additional capital measures (including the second SoF-Fin tranche) and the intended decrease of capital employed.'⁵⁵

Table 13 Commerzbank – Risk-taking capability

In € bn	Dec 2009	Mar 2009	Dec 2008
Capital for risk coverage	30	21	23
Regulatory RWA	280	316	222
thereof credit risk	246	286	207
thereof market risk	14	13	5
thereof operational risk	20	17	9
Economic RWA (stress scenario)	358	358	203
thereof credit risk	206	219	90
thereof market risk	79	78	69
thereof operational risk	53	45	34
thereof business risk	20	16	10
Tier 1 capital ratio	10.5 %	6.8 %	10.1 %
Economic capital ratio (stress scenario)	8.2 %	6.0 %	11.1 %

Source: Commerzbank Annual Report 2009, p. 156

Credit risk analysis by segments

Commerzbank's credit risk parameters by segment as at December 31 2009 signal the high risks associated with the newly formed PRU and Asset Based Finance segments. The distribution of risks by segment is shown in the table below.

Table 14 Commerzbank – Credit risk parameters by segments – as at Dec 2009

	Exposure at Default (€ bn)	Expected Loss (€ m)	Risk Density (in bp)	Unexpected Loss (€ m)
Focus: Core bank	336	1,390	41	7,625
Private Customers	78	262	34	1,155
Mittelstandsbank	110	495	45	3,189
Central & Eastern Europe	24	295	122	931
Corporates & Markets	89	323	36	2,046
Others and Consolidation	36	15	4	303
Optimisation	253	722	29	4,412
Asset Based Finance	253	722	29	4,412
Commercial Real Estate	77	320	42	
Eurohypo Retail	19	37	19	
Shipping	28	283	102	
Public Finance	129	82	6	
Downsize	32	234	73	1,760
PRU	32	234	73	1,760
Group	621	2,346	38	13,796

Source: Commerzbank Annual Report 2009, p. 158

2.10 Outlook

According to the Annual Report 2009 of Commerzbank, the bank plans to reduce the default portfolio further with the next years and it feels well prepared for expected regulations on different supra-national levels:

Default portfolio

From today's perspective, the default portfolio reached its peak in 2009 which means that from next year, [Commerzbank] can continue reducing the volume successfully with a value

⁵⁵ Commerzbank Annual Report 2009, p. 156

driven approach as it did before the crisis started. Even if the inflow remains relatively high, in 2010 at least, recoveries will increase again noticeably in the near future. For 2010 [the bank] is therefore expecting a net reduction in the default portfolio which should gather more pace in 2011.⁵⁶

Regulatory environment

The measures announced by the G20 and the Basel Committee, as well as the new regulations which have already been discussed and agreed on at the European level, will lead to a significant increase in capital requirements.

[Commerzbank feels] well positioned to meet the regulatory capital requirements with the current capital position under even more stringent regulatory conditions. [The bank] is actively monitoring the ongoing consultations and impact studies on the new regulatory requirements.⁵⁷

Outlook for single business divisions

'In the Private Customers segment, the target structure for the new Commerzbank will represent the largest advisory network on the German banking market, with some 1,200 branches. Its strong market position will be further expanded through the rapid integration of Dresdner Bank and rigorous cost management. The Mittelstandsbank will focus on services for German companies on the domestic and international market. The aim is to further enhance its position as the leading export financier in the German economy. Economies in Eastern Europe will post stronger growth over the medium and long term than those in Western Europe and in the US. Within its Central and Eastern Europe segment, Commerzbank will particularly concentrate on its strong position in Poland. Corporates & Markets will place client-oriented services for the bank's core target group at the centre of its activities. Other business areas will be reduced or discontinued. The main locations will be Frankfurt and London. In the Asset Based Finance segment, risk-weighted assets have been scaled back and activities refocused within Commercial Real Estate, Public Finance and Shipping. In real estate finance, there are plans to downsize the portfolio to about € 60 bn by the end of 2012. In Public Finance, the goal is to scale back the portfolio to a maximum of € 100 bn by 2010. The ship financing activities will also be consolidated. Portfolios that do not form part of the realigned core bank (other types of structured products and credit derivatives) will be grouped together within the Portfolio Restructuring Unit where they will be actively managed and reduced to optimise value.'⁵⁸

Outlook of rating agencies

In May 2009⁵⁹, Standard & Poor's revised Commerzbank's outlook from stable to negative and affirmed the 'A' long-term and 'A-1' short-term counterparty credit ratings on the bank. The potential for government support is based on Standard and Poor's assessment of Commerzbank as a highly systemically important bank for Germany, the government's capital injections into the bank – amounting to € 18.2 bn – through its Financial Markets Stabilization Fund, and the government's consequent ownership of a 25 % plus one share in the bank.

According to Standard & Poor's 'negative outlook of the short-term to medium-term challenges that Commerzbank is likely to face in coping with the financial market crisis; the impact of the recession

⁵⁶ Commerzbank Annual Report 2009, p.190

⁵⁷ Commerzbank Annual Report 2009, p.190

⁵⁸ Commerzbank Annual Report 2009, p.75

⁵⁹ Standard & Poor's, 12.05.2009 [[web](#)]

on its loan book which could still result in more severe losses than currently factored into ratings, and the restructuring process needed to reduce its non-strategic and wholesale-oriented activities, capital leverage, funding needs, and cost base' will all be affected. Standard & Poor's has considered lowering the ratings if the provided state support were to be insufficient. 'Rating implications could be positive if Commerzbank's restructuring process were to make progress and if the downside risk to asset quality and earnings were to diminish while the bank continues to benefit from government support.'⁶⁰

⁶⁰ Standard & Poor's 12.05.2009, p. 3

3 Royal Bank of Scotland

The Royal Bank of Scotland Group (RBS) is a British universal bank in which the UK government holds 84 % of shares. RBS received a giant bailout as a consequence of the global financial crisis. Losses in 2008 and 2009 were also caused by the takeover of the Dutch ABN Amro bank which appears to be a serious burden to profits.

3.1 Economic performance

The economic performance of RBS is provided in pro forma data for 2008 and 2009. These results include only those business units of ABN Amro that will be retained by RBS. The balance sheet decreased by 31 % compared to 2008. This decrease was caused by largerepayments of customer loans and advances , as a consequence of lower corporate customer demand and corporates which tired to deleverage their balance sheets.

According to RBS's Annual Report 2009 (p. 76) net interest income decreased by 14 % to £ 13,567 m, while average loans and advances to customers fell by 4 % and average customer deposits fell by 7 %. The net interest margin of the group fell from 2.08 % to 1.76 % which largely reflects the pressure on liability margins, the low interest rate environment, and strong competition, which is particularly high for longer-term deposits and the build up of the group's liquidity portfolio. On the other hand, non-interest income increased from £ 4,835 m to £ 15,858 m in 2008, mainly due to improvements in income from trading activities, which were caused by improved asset valuations which resulted in lower credit market losses. Moreover, the division Global Banking & Markets (GBM) benefitted from restructuring its business in order to focus more on core customer franchises.

The bank experienced a large operating loss of £ 6,232 m in 2009, while the loss in 2008 was even bigger (£ 6,938 m) due to strongly increased impairment losses (2009: £ 13,899 m and £ 7,432 m in 2008). £ 2,182 m of the increase in impairment losses between 2008 and 2009 occurred in core activities and £ 4,285 m in non- core activities.

Loans and advances to other banks strongly decreased by £ 45.6 bn (35 %) to £ 83.9 bn, largely due to reduced wholesale funding activity in GBM. Loans and advances to customers were also down by £ 135.6 bn (19 %) at £ 595.7 bn. Moreover, the bank missed the government set target of providing £ 25 bn of new lending to its customers. RBS argued that there was not enough demand for credit.⁶¹

The fraught situation on financial markets made RBS'S accession to the Asset Protection Scheme (APS) and the issue of B shares to the UK government in December 2009 necessary. As a consequence its Core Tier 1 capital ratio on a proportionally consolidated basis improved from 5.9 % to 11.0 %, at 31 December 2008. This increase benefitted from risk-weighted asset relief (260 basis points) which was provided by the APS. On 31 December 2009 the Tier 1 ratio was 14.4 % (2008: 9.9 %) and the total capital ratio was 16.3 % (2008: 14.2 %).

Table 15 Royal Bank of Scotland – Performance data

in £m	Pro forma ^{a)}		2007	2006
	2009	2008		
Total assets	1,522,481	2,218,693	1,840,829	871,432
Net-interest income	13,567	15,764 ^{b)}	12,069	10,596
Non-interest income	15,858	4,835 ^{b)}	18,297	17,406
Operating (loss)/profit before tax	(1,928)	(8,296) ^{b)}	9,832	9,186
(Loss)/profit for the year	(1,661)	(7,102) ^{b)}	7,712	6,497

⁶¹ The Wall Street Journal: "Shareholders revised pay plan", 29.04.2010 [\[web\]](#)

Core Tier 1 ratio (%)	11.0	5.9		
Tier 1 ratio (%)	14.4	9.9	7.3	7.5
^{a)} Pro forma results only include those business units of ABN Amro that will be retained by RBS. ^{b)} The pro forma results for 2008 have been restated for the amendment to IFRS 2 'Share-based-Payment'. This has resulted in an increase in staff costs amounting to £ 169 m.				

Source: RBS Group Annual Report and Accounts 2009, 2007, 2006

RBS deleveraged its business volume. During 2009 total assets were reduced by £ 696 bn while funded assets decline by £ 143 bn. Moreover, the non-core division reduced its total third party assets, (excluding derivatives), to £ 201 bn. Thus, it was possible to reduce the Tier 1 leverage ratio declined from 21.2x in 2008 to 17.0x in 2009.⁶²

Organisational structure and business overview

According to the Annual Report 2009 (p. 55) In 2009 the group's operating segments were changed after a comprehensive strategic review. The most important change was the creation of a non-core division which comprises those business parts, portfolios and individual assets which the group plans to run off or sell. In restoring RBS the non-core division will play a key part as it will run assets that have been impaired as a result of the economic downturn. Moreover, some segments were reorganised in 2009.

3.2 Employment and branches

Employment

The number of employees on 31st December 2009 was 183,700, a decrease of 16,100 compared with the previous year.

Table 16 Royal Bank of Scotland – Number of employees

	2009	2008	2007	2006
Employees ^{a)}	183,700	199,800	226,400	135,000

^{a)} Full time equivalents rounded to the nearest hundred.

Source: RBS Group Annual Report and Accounts 2009 p. 107, RBS group Annual Report and Accounts 2007

The number of employees is broken down into divisions as shown in the table below. The highest number of employees work in the division Business Services & Central Functions (26 % of total employment) followed by UK Retail (14 %).

Table 17 Royal Bank of Scotland – Number of employees by division in 2009

	2009	2008
UK Retail	25,500	28,400
UK Corporate	12,300	13,400
Wealth	4,600	5,200
Global Banking & Markets	16,800	16,500
Global Transaction Services	3,500	3,900
Ulster Bank	4,500	5,400
US Retail & Commercial	15,500	16,200
RBS Insurance	13,900	14,500
Central items	4,200	4,300
Non-Core Division	15,100	19,000
Business services	44,200	47,600
Integration	500	900
RFS Holdings minority interest	23,100	24,500
Total	183,700	199,800

Note: Full time equivalents rounded to the nearest hundred.

Source: RBS group Annual Report and Accounts 2009, p. 107

Job cuts

⁶² RBS Group Annual Report and Accounts 2009, p. 15

Since 2007 the number of employees has been reduced every year. Job cuts have appeared in several divisions, however between 2008 and 2009 it was particularly visible in investment banking:

- Due to the integration of ABN Amro's investment bank into RBS's global markets division 7,000 job cuts were announced in April 2008.⁶³
- In April 2009 the bank planned to cut 9,000 jobs worldwide in areas such as technology and call centres, group purchasing and managing group property. Thereof 4,500 jobs in the UK were affected. In the previous year it had already slashed about 10,000 jobs in its investment banking division. This was part of a programme to reduce annual costs by £ 2.5 bn within the next three years.⁶⁴
- According to information from Bloomberg in May 2010, a further 2,600 jobs in RBS's insurance and consumer banking divisions are planned to be cut.⁶⁵

Branches

RBS has about 4,000 branches of which the majority is located in the UK. By the end of 2009, RBS had 649 and NatWest had 1,612 retail branches, in the UK. Across Northern Ireland and the Republic of Ireland, Ulster Bank owns 238 branches and an extensive network of business banking offices. In the USA 1,512 retail banking offices existed in 2009.⁶⁶

Table 18 Royal Bank of Scotland – Number of branches by division

	Dec 2009	Dec 2008	Dec 2007
UK Retail RBS	649	651	649
UK Retail NatWest	1,612	1,628	1,629
Ulster Bank	238	295	282
US Retail & Commercial	1,512	1,606	1,616
Total	4,011	4,180	4,176

Source: RBS Group Annual Report and Accounts 2009, 2008, 2007

3.3 Ownership structure

Dividends

RBS stopped dividend payments for its ordinary shares in 2008 and is not expected to resume payments before 2011.⁶⁷ The last final dividend for the year ending 31st December 2007 was 27.8 pence per ordinary share.⁶⁸

Main shareholders

At the moment the UK government is the majority shareholder of RBS. In November 2008 it held a 58 % stake in the company which was increased to 70.3 % of the ordinary shares in April 2009 with the conversion of £ 5 bn preference shares.

'The UK government wants RBS to operate on a commercial basis and intends to act as an arm's length commercial shareholder, meaning it will sell its interests in RBS and other banks at the earliest attractive time.'⁶⁹

⁶³ Financial Times ft.com 27.05.2008 [web]

⁶⁴ Financial Times ft.com 08.04.2009 [web]

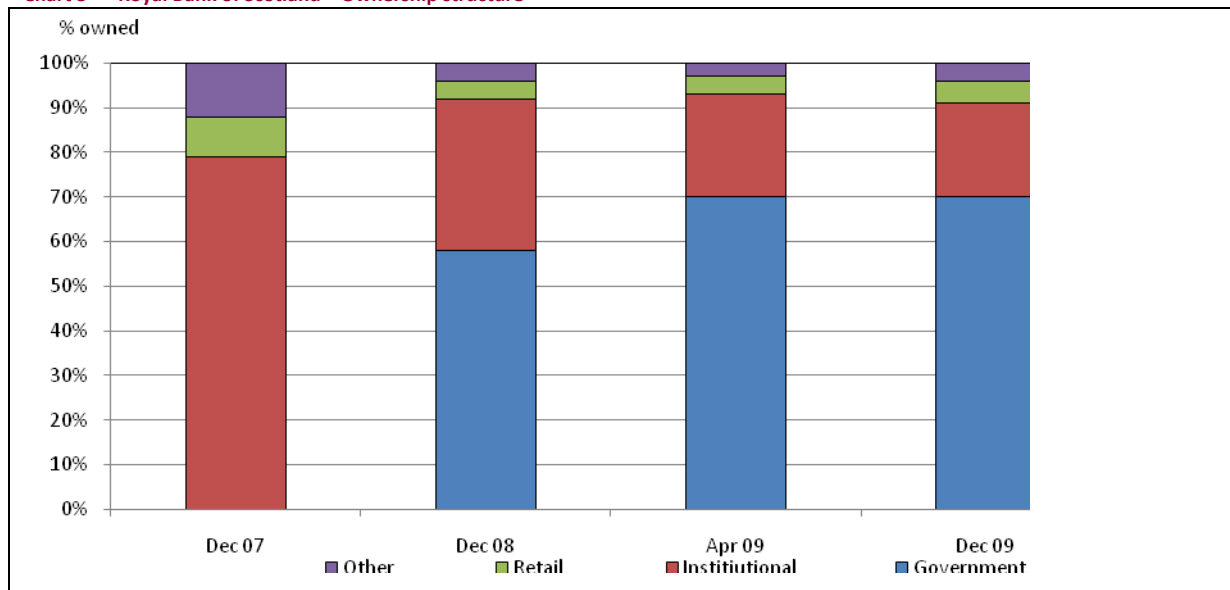
⁶⁵ Bloomberg.com 10.05.2010 [web]

⁶⁶ RBS group Annual Report and Accounts 2009, p. 362

⁶⁷ Reuters, 04.11.2008 [web]

⁶⁸ RBS Group Annual Report and Accounts 2009, p.378

⁶⁹ RBS website [web]

Chart 3 Royal Bank of Scotland – Ownership structure

Source: Royal Bank of Scotland Group website [\[web\]](#)

3.4 Important business events

Acquisitions and disposals

- 2007 An RBS-led consortium consisting of the Spanish Santander and the Belgo-Dutch Fortis Group took control of ABN Amro after a long takeover battle with Barclays. ABN's shareholders accepted the £ 48.5 bn unconditional offer. ABN Amro was broken up and shared amongst the banks with RBS receiving its investment banking unit.⁷⁰
- 2008 The UK government started to nationalise parts of the UK banking system to prevent systemic failure by injecting £ 37 bn into three of the country's biggest banks leading to a majority stake in RBS. RBS tried to raise £ 15 bn in a placing of ordinary shares, which its shareholders refused to buy. Finally the government underwrote the shares. With the £ 5 bn for preference shares RBS received a total of £ 20 bn.⁷¹
- 2009 RBS announced the sale of 10.8 bn shares from the Bank of China worth £ 1.6 bn to strengthen the bank's balance sheet.⁷²
- 2009 RBS announced to place assets valued at £ 325 bn under the Asset Protection Scheme (APS) provided by the UK government. APS is an insurance scheme designed to help banks with bad loans. RBS' involved assets include corporate and leveraged loans, commercial and residential property loans, mortgage backed securities and collateralised debt obligations. Share of risk was negotiated down to 6 % rather than 10 % making RBS liable for only the first £ 19.5 bn of future losses on these assets. The insurances fees came to £ 6.5 bn (or 2 %) to be payable over seven years.⁷³
- 2009 The restructuring plan agreed with the European Commission includes RBS divestment of parts of its UK branches and corporate businesses, RBS Insurance, Global Merchant Services and its interest in RBS Sempra Commodities within the next four years.⁷⁴

⁷⁰ Financial Times ft.com 11.10.2007 [\[web\]](#)

⁷¹ Financial Times ft.com 13.10.2008 [\[web\]](#)

⁷² Financial Times ft.com 13.01.2009 [\[web\]](#)

⁷³ HM-Treasury.gov.uk 26.02.2009 [\[web\]](#)

⁷⁴ Guardian.co.uk, How many bucks can you pass? 07.03.2009 [\[web\]](#)

RBS reached an agreement with the UK government on revised key terms of the Asset Protection Scheme to those announced in February. The size of the covered assets was reduced to £ 282 bn and the first loss on pool increased to £ 60 bn.

RBS received a further capital injection amounting to £ 25.5 bn. The costs of APS cover will be paid for with an annual fee of £ 700 m between 2009 and 2011 and will drop to £ 500 m thereafter. The previously announced initial fee of £ 6.5 bn no longer applies.⁷⁵

2010 The bank is being forced to sell a wide range of assets to comply with state aid rules – including more than 300 UK branches, a commodity trading business, its insurance division and Global Merchant Services – its payments operation.⁷⁶

Others

'RBS has already used up nearly half of the APS £ 60 bn buffer that protects the British taxpayers from the bank's worst loans. The bank released figures showing it had racked up losses of £ 26.6 bn on its toxic assets by the end of June 2009. It announced that a further £ 3.2 bn of loan losses were incurred in the third quarter of 2009 which are expected to rise to almost £ 30 bn.'⁷⁷

3.5 Strategy

Strategy in previous years

In its 2007 Annual Report, RBS indicated the intention to rebuild the capital ratio which dropped in association with the bid for ABN Amro. The bank created options 'to pursue the opportunities for profitable growth stemming from economic changes' in the developing world and especially Asia.⁷⁸ This position for growth was intensified by the acquisition of ABN Amro's investment banking division.

In October 2008 RBS abandoned this risk-taking strategy which helped it become one of the world's biggest banks and said it would concentrate on conservative lines of business. The move – forced on RBS by the government as part of its £ 20 bn bail-out – will see the bank cut its corporate banking business.⁷⁹

New strategy 2009: Roadmap to recovery

This change of strategy was considered in the Annual Report 2009 by a set of new business objectives. RBS's first business objective is 'to generate a sustainable 15 % return on equity powered by market-leading businesses in large customer-driven markets'.⁸⁰ RBS intends to achieve this by:

- *Market-leading franchises:* [Measurement of] market positions and customer satisfaction in all core businesses. The bank aims to have all main core businesses in leadership positions by 2013.
- *Income growth:* Focus on businesses capable of delivering sustainable growth and achieve market-level growth. The bank is aiming for a sustainable organic growth of 5 % - 10 % by 2013.
- *Cost Control:* Delivery of more than £ 2.5 bn efficiency savings by 2011. A cost/income ratio with net of claims below 50 % is the target, which would place RBS among the most efficient of its global peers.
- *Rigorous capital and cost allocation:* Accurate deployment of the groups' capital and allocation of appropriate costs to focus the divisions on returns and profit growth. Already implemented tar-

⁷⁵ RBS press release 03.11.2009 [web]

⁷⁶ Financial Times ft.com 29.01.2010 [web]

⁷⁷ Telegraph.co.uk 06.11.2009 [web]

⁷⁸ RBS Group Annual Report and Accounts 2007, p. 14

⁷⁹ Telegraph.co.uk 13.10.2008 [web]

⁸⁰ RBS Group Annual Report and Accounts 2009, p. 14

gets are risk-weighted assets, return on equity and fully allocated cost/income ratio targets set at divisional level and group level.'

The second strategy and business objective is to deliver the full strategy from a stable AA category risk profile and balance sheet defined by:

- *Reduced balance sheet scale:* De-risking and shrinkage of the group's balance sheet, including careful control of future asset growth achieved by the run-off of non-core assets and the reduction of derivatives exposure.
- *Funding programme:* Plans to limit over-reliance on wholesale markets to meet the funding requirements, while building up an appropriate liquidity reserve. Key target is a group loan/deposit ratio of 100 %, wholesale funding reliance below £ 150 bn and a liquidity reserve of £ 150 bn
- *Stable and robust capital support:* Focus on the implementation of state of the art risk controls, run-off of excess risk concentrations and maintenance of strong equity capital. Main target is a Core Tier 1 capital ratio > 8 %'

The chosen business mix has to 'produce an attractive blend of profitability, stability and sustainable growth' and is set by following the sub-objectives;

- Focus on retail and commercial banking in the UK, the US and Ireland with the target of two thirds of profit and revenue coming from those divisions
- Re-focus on the core strength of GBM and generating one third of profit and revenue
- Exit of non-core business lines

The final business objective is the 'hallmark of RBS management to include an open, investor-friendly approach, discipline and proven execution effectiveness with strong risk management and a central focus on the customer'. Therefore RBS is working to:

- Publish clearly defined targets for risk/return balance for the group and individual divisions
- Improve levels and frequency of disclosure
- Set customer franchise targets for every business
- Change management by completely restructuring the board and senior management team
- Achieve strong risk management by regularly analysing the risk profile of the new board risk committee

3.6 Performance of business segments

Overview

Net interest income declined in four of nine divisions, reflecting the difficult economic environment. Regarding the non-interest income there were reductions in UK Retail, Wealth and Ulster Bank while the non-interest income of the Global Banking & Markets division increased from £ 274 m to £ 8,766 m in 2009. This was induced by strong equity capital markets with rising client activity and market volatility, as well as marked improvement from credit markets.⁸¹

Operating profits were reduced in UK Retail, UK Corporate, RBS Insurance and the non-core division. In the UK Retail and UK Corporate divisions it decreased by 68 % and 37 % respectively affected by increased impairment losses (-65 % and + 191 %). In the non-core division & APS the highest operating loss was obtained (£ 14,557 m) as it contains lines of business, portfolios and individual assets that the group intends to run off or sell. Moreover, impairment losses rose to £ 9.2 bn, as a conse-

⁸¹ RBS Group Annual Report and Accounts 2009, p. 74

quence of the weak economic environment, especially across the corporate and property sectors. However, towards the end of the year RBS expects a slowdown in the rate of provisioning.⁸²

In almost all divisions the number of jobs was reduced. Those most affected have been the non-core division, UK Retail, Ulster Bank and Wealth. One reason for these job cuts is a programme to reduce annual costs by £ 2.5 bn within the next three years.⁸³

Table 19 Royal Bank of Scotland – Performance of business segments I

In £ m	UK Retail	UK Corporate	Wealth	Global Banking & Markets	Global Transaction Services	Ulster Bank	US Retail & Commercial	RBS Insurance	Non-Core Division & APS
Net interest income									
2009	3,452	2,292	663	2,243	912	780	1,775	4,354	1,534
2008	3,187	2,448	578	2,440	937	773	1,726	4,306	2,156
Non-interest income									
2009	1,495	1,290	446	8,766	1,575	254	949	-	-3,835
2008	1,751	1,289	481	274	1,494	266	861	-	-5,188
Impairment losses									
2009	1,679	927	33	640	39	649	702	8	9,221
2008	1,019	319	16	522	54	106	437	42	4,936
Operating profit/loss									
2009	229	1,125	420	5,709	973	-368	-113	58	-14,557
2008	723	1,781	348	1,796	1,002	218	528	584	-11,351
Cost/income ratio (%)									
2009	59.8	42.7	59.2	42.3	59.3	72.8	78.3	17.0	-106.3
2008	62.4	43.8	65.6	146.9	56.6	68.8	62.7	17.4	-88.5
Employees									
2009	25,500	12,300	4,600	16,800	3,500	4,500	15,500	13,900	15,100
2008	28,400	13,400	5,200	16,500	3,900	5,400	16,200	14,500	19,000

Note: These are pro forma results which include only those business units of ABN Amro that will be retained by RBS.

Source: RBS group Annual Report and Accounts 2009, RBS group Annual Report and Accounts 2008

Table 20 Royal Bank of Scotland – Performance of business segments II

% change to previous year	UK Retail	UK Corporate	Wealth	Global Banking & Markets	Global Transaction Services	Ulster Bank	US Retail & Commercial	RBS Insurance	Non-Core Division & APS
Net interest income	8	-6	15	-8	-3	1	3	1	-29
Non-interest income	-15	0	-7	3099	5	-5	10	/	26
Impairment losses	65	191	106	23	-28	512	61	-81	87
Operating profit/loss	-68	-37	21	218	-3	/	/	-90	-28
Employees	-10	-8	-12	2	-10	-17	-4	-4	-21

Source: Economix

3.7 New remuneration model

Changes in remuneration policy in 2008

In the RBS Annual Report 2008 fundamental changes to the way remuneration works throughout the group are described, which have become necessary due to the crisis in the global financial services. In particular the following key decisions were taken:⁸⁴

⁸² RBS Group Annual Report and Accounts 2009, p. 107

⁸³ Financial Times ft.com 08.04.2009 [web]

- In 2008 zero discretionary cash bonuses for any employee for performance were paid. No bonuses for anyone directly associated with the group's major losses.
- Exceptional performance by key individuals and teams were rewarded with deferred bonus awards subject to clawback (payment can be reduced or cancelled if the performance caused material loss or reputational damage)
- No profit share payment for the financial year Annual base salary increases in 2009 will be made to a limited number of employees and salary increases will be below inflation for all businesses across the group.
- No bonuses paid to executive directors in relation to 2008 performance, and no deferred awards given.

New long term incentive plan

The Annual Report 2009 describes the general group's remuneration policy which should motivate employees 'to deliver superior long-term business performance within acceptable risk parameters'.⁸⁵

At the annual general meeting 2010 the new long-term incentive plan was approved which replaces a medium-term performance plan and a share-option programme. The bank's incentive scheme is a particularly sensitive issue, as the remuneration report of last year was voted down by shareholders. This year more than 99 % of investors approved the new remuneration policy. However, RBS bowed to the pressure of shareholders to review the share price target which is part of its long-term incentive scheme. The current share price target allows executives a significant portion of performance-linked rewards when RBS's share price hits 50p. As RBS shares closed at 55.8p the week before the annual general meeting shareholders were angry about this rule. RBS plans to raise the share price target soon.⁸⁶

Due to the adopted plan executives can receive a payout equivalent to four times their salary by the third anniversary of the award, subject to three conditions being fulfilled. Half of the award will vest based on the achievement of certain economic profit targets in 2012. One quarter will be based on total shareholder return relative to peers, while the final quarter will depend on RBS's share price reaching a certain level.⁸⁷

According to the new long term incentive plan 'awards will be structured as performance-vesting deferred shares'. Thereby 'the primary requirement for awards to vest is that (...) risk management is effective at group and divisional / functional levels during the performance period.'⁸⁸ Another important improvement is that clawback will apply to all awards.

At the annual general meeting one shareholder, John Horrocks, criticised that the bank has not changed its culture regarding remuneration policy following the financial crisis, as payments are only delayed for three years now.⁸⁹

Pension for former chief executive

At the RBS annual general meeting in April 2009 RBS shareholders voted against the remuneration policy proposed by the bank's board. 90.4 % of shareholders voted against the remuneration policy which contained the £ 700,000 a year pension awarded to Sir Fred Goodwin, RBS's disgraced former chief executive. Sir Fred's name is linked with the group's disastrous acquisition of Dutch bank ABN

⁸⁴ RBS Group Annual Report and Accounts 2008, p. 159

⁸⁵ RBS Group Annual Report and Accounts 2009, p. 225

⁸⁶ Financial Times, ft.com: "Tougher RBS pay plan approved", 28.04.2010 [[web](#)]

⁸⁷ The Wall Street Journal: "Shareholders revised pay plan", 29.04.2010 [[web](#)]

⁸⁸ RBS Group Annual Report and Accounts 2009, p. 227

⁸⁹ The Telegraph.co.uk, RBS shareholders back executive pay at AGM, 29.04.2010 [[web](#)]

Amro and his refusal to succumb to public sanction and to hand back his pension entitlement.⁹⁰ According to the RBS Annual Report 2009 Sir Fred Goodwin's pension was reduced to £ 342,500 a year.

3.8 Evaluation of rating agencies

Table 21 Royal Bank of Scotland Credit rating

	Short-term	Long-term	Outlook
Moody's Investors Service	P-1	A-1	Stable
Standard & Poor's	A-1	A	Stable
Fitch Ratings	F1+	AA-	Stable

Note: An explanation of rating codes can be found in the Annex

Source: RBS website [\[web\]](#)

Strengths and weaknesses

Standard & Poor's defined the following strengths and weaknesses of RBS in its rating in June 2009:⁹¹

Strengths:

- Government ownership
- Forthcoming entry to Asset Protection Scheme
- Diversified global bank
- Realistic new strategy
- Capital

Weaknesses:

- Loss making
- Credit risk
- Reputational damage
- Execution risk arising from new strategy
- Need to reduce wholesale funding reliance

Rationale

The ratings of all three agencies reflect the high level of capital and funding support for the group given by the UK government, in particular the implementation of the APS.

Standard & Poor's also saw reputational damage which arose in 2008 due to 'its misjudged transaction for ABN Amro Bank (...), the loss of market confidence that led it to require substantial government support in October 2008, the reporting of a record loss for a UK business in 2008 and the poor prospects for its loan book' due to challenging economic conditions.⁹²

Strategy

Standard & Poor's pointed to the challenging task of the new management team to implement a comprehensive strategic review and to adapt risk management. The rating agency has evaluated the RBS actions as a 'suitable and pragmatic approach to rebuilding the group's reputation. Examples of this approach are the enhanced public disclosure, revised approach to risk management, and a sensible recognition that its recovery will not be a near term event.'⁹³

⁹⁰ Banking Times: "RBS shareholders revolt against remuneration policy", 05.04.2009 [\[web\]](#)

⁹¹ Standard & Poor's, Ratingsdirect, 03.06.2009 [\[web\]](#)

⁹² Standard & Poor's 03.06.2009, p.2

⁹³ Standard & Poor's 03.06.2009, p.5

The strategic review is seen as a major change process, whereby the creation of a non-core division and participation in APS are both very important. Standard & Poor's interprets these culture and strategic initiatives as positive rating developments.

Challenging restructuring of balance sheet and reliance on wholesale funding

In December 2009 Fitch saw improvements in the group's capital in addition to some progress in restructuring the balance sheet. 'Total third party assets in the non-core division declined by 32 % during the nine months to end-September 2009 as assets have been run off and written down. However, non-core assets remain substantial and winding down these assets will be a complicated task taking several years.'⁹⁴

'Fitch also sees substantial challenges faced by the management in achieving its strategic and financial goals and [points to] the group's heavy reliance on wholesale funding. Execution risk for the new, lower risk strategy is high, given the scale of the task and is complicated further by the European Commission's state aid requirements, other political interference and regulatory changes.

'Although liquidity and funding has strengthened over the course of 2009, RBS group is a heavy user of the wholesale funding markets and still has high levels of state supported funding (for example the credit guarantee scheme). Re-shaping and improving the quality of its funding remains one of the group's most critical and potentially difficult challenges.'⁹⁵

3.9 Risk management

Improvements in the risk management strategy

Due to the new strategic framework called "Roadmap to recovery", risk management was improved in 2009. Therefore a number of management disciplines were introduced. One of them is the introduction of a new Board Risk Committee which has the task to provide oversight and to give advice to the group board regarding potential risks.⁹⁶

The groups' Annual Report 2009 comprises 90 pages about the banks' risk management, capital management and liquidity management. One core aim of the general review of the strategic plan has been to improve the risk profile and to balance the risk appetite of the group. Therefore, enhancements have been made to a number of the risk frameworks, such as:⁹⁷

- Introduction of a new credit approval process, based on a pairing of business and risk managers authorised to approve credit
- Reduction of exposures to higher risk countries and implementation of a new risk limits framework across the group
- Single name and sector wide credit concentrations continue to receive a high level of attention and further enhancements to the frameworks were agreed on in the fourth quarter of the year
- In addition to the move to value at risk based on a 99 % confidence level (from 95 %), the group has improved and strengthened its market risk limit framework increasing the transparency of market risk taken across the group's businesses in both the trading and non-trading portfolios
- The group's funding and liquidity profile is supported by explicit targets and metrics to control the size and extent of both short-term and long-term liquidity risks

⁹⁴ Fitch rating, 18.12.2009 [\[web\]](#)

⁹⁵ Fitch rating, 18.12.2009 [\[web\]](#)

⁹⁶ RBS Group Annual Report and Accounts 2009, p. 119

⁹⁷ RBS Group Annual Report and Accounts 2009, p. 117

- An improved reporting programme has been implemented to increase transparency and improve the management of risk exposures.

Risk-weighted assets

Risk-weighted assets were reduced by 24 % during 2008 and 2009, mainly caused by the participation in the Asset Protection Scheme (APS). Without the support of the APS the risk-weighted assets would have decreased by only 5 %.

RBS sees the APS as a worthwhile investment because it makes it possible for the bank to pass the Financial Services Authority's stress tests. In addition, 'it fills the hole in(...) capital ratios created by the losses made in 2009, the further charges expected in 2010, and the associated increase in risk-weighted assets from pro-cyclicality and regulatory change'.⁹⁸

Table 22 Royal Bank of Scotland – Risk-weighted assets by division

In £ bn	2009	2008
UK Retail	51.3	45.7
UK Corporate	90.2	85.7
Wealth	11.2	10.8
Global Banking & Markets	123.7	151.8
Global Transaction Services	19.1	17.4
Ulster Bank	29.9	24.5
US Retail & Commercial	59.7	63.9
Other	9.4	7.1
Core	394.5	406.9
Non-core	171.3	170.9
Benefits of Asset Protection Scheme	-127.6	n.a.
Total	438.2	577.8

Source: RBS group Annual Report and Accounts 2009, p. 87, 175

Risk elements in lending and potential problem loans

The table below gives information about risk elements in lending (REIL) and potential problem loans (PPL) for the group and the amount relating to assets in the APS. REIL 'comprise non-accrual loans, accruing loans which are contractually 90 days overdue or more as to principal or interest and troubled debt restructurings'.⁹⁹ PPL are defined as 'loans other than non-accrual loans, accruing loans which are contractually overdue 90 days or more as to principal or interest and troubled debt restructurings where known information about possible credit problems of the borrower causes management to have serious doubts about the borrower's ability to meet the loan's repayment terms'.¹⁰⁰

Non-performing loans strongly increased within the group by 86 % while PPLs also increased by £ 698 between 2008 and 2009. Thereby the proportion of REILs and PPLs is much higher in the non-core division (66 %) than in the core division.

Table 23 Royal Bank of Scotland – Risk elements in lending (REIL) and potential problem loans (PPL)

In £ m	2009		2008	
	Group	APS	Group	APS
Non-performing loans	31,811	22,335	17,082	12,679
Other REIL	3,178	2,092	1,709	1,498
Total REIL	34,989	24,427	18,791	14,177
PPL	924	580	226	187
REIL and PPL	35,913	25,007	19,017	14,364
Core	12,361	7,170	-	-
Non-Core	23,552	17,837	-	-
Total	35,913	25,007	-	-

Source: RBS group Annual Report and Accounts 2009, p. 183

⁹⁸ RBS Group Annual Report and Accounts 2009, p. 2

⁹⁹ RBS group Annual Report and Accounts 2009, p. 387

¹⁰⁰ RBS group Annual Report and Accounts 2009, p. 386

3.10 Outlook

RBS's outlook

In the Group Chief Executive's review from 2009 the outlook is characterised as being cautiously encouraging for RBS as well as stating clear risks. Improvements are expected regarding loan impairments (as the peak was in 2009) and net interest margin. The execution of restructuring challenges remains important in the future.¹⁰¹

However, RBS expects some important developments to become clearer over the course of 2010 which will also clarify the RBS's development:

- Firstly, 'the shape and pace of economic recovery and the way it feeds through to business activity, interest rates and credit impairments' are important drivers.
- 'Secondly, prospective regulatory change (...) is likely to be significantly shaped in 2010 while the timing of implementation will also be clearer. This will affect customer activity and pricing as well as capital structure and shareholder returns.'
- 'Thirdly, as the prospect of share sales becomes more realistic, RBS can transition from financial "problem" to "opportunity".'
- 'Finally, while the riskiest part of the recovery plan lies behind [the bank], 2010 will be [challenging]. Though non-core impairments and writedowns are expected to improve they are likely to remain high and will once again continue to weigh against the strong core operating profits.'¹⁰²

At the beginning of 2010 the group chief executive still sees RBS as a complex story and he expects it to become simpler, clearer and more valuable due to its new strategy.¹⁰³

The bank's outlook regarding the risk management

In 2009 credit impairments were higher than in the previous year. 'It is expected that the results for 2010 and 2011 will continue to be affected by a heightened level of credit impairments as exposures in the non-core division are managed down and the economic environment continues to impact the core business. The risk weightings applied to assets are also expected to increase due to pro cyclical-ity.' Due to this development the amount of capital that banks are generally required to hold will increase. 'Future regulatory changes are also expected to increase the capital requirements of the banking sector. Against this background, the non-core portfolio is being reduced and the group has materially strengthened its capital base' in 2009.¹⁰⁴

Outlook of rating agencies

According to Standard & Poor's rating in November 2009, the stable outlook on one hand reflects the expectation that the UK government will remain supportive, and on the other hand that the stand-alone credit profile has the potential to improve over the medium term. Over time, the stand-alone credit profile could improve if RBS can to demonstrate sound progress with its restructuring.¹⁰⁵ Fitch also sees some progress in RBS's restructuring the balance sheet. However, winding down 'non-core' assets will be difficult and take several years.¹⁰⁶

¹⁰¹ RBS group Annual Report and Accounts 2009, p. 5

¹⁰² RBS group Annual Report and Accounts 2009, p. 5

¹⁰³ RBS group Annual Report and Accounts 2009, p. 6

¹⁰⁴ RBS group Annual Report and Accounts 2009, p. 117

¹⁰⁵ Standard & Poor's 03.11.2009 [[web](#)]

¹⁰⁶ Fitch rating, 18.12.2009 [[web](#)]

4 Fortis

'Fortis was renamed in Ageas in April 2010. Ageas is an international insurance company with a heritage spanning more than 180 years. Ranked among the top 20 insurers in Europe, Ageas has chosen to concentrate its business activities in Europe and Asia, which together make up the largest share of the global insurance market (...). It (...) is a leader in the Belgian market for individual life and employee benefits, as well as a leading non-life player through AG Insurance. Internationally, Ageas has a strong presence in the UK, where it is the third largest private car insurer.'¹⁰⁷

'The company also has subsidiaries in France, Germany, Turkey, Ukraine and Hong Kong. Ageas has a strong track record in developing partnerships with (...) key distributors in different markets and (...) operates partnerships in Luxembourg, Italy, Portugal, China, Malaysia, India and Thailand. Ageas employs more than 11,000 people and has annual inflows of around € 16 bn.'¹⁰⁸

'Ageas's assets include a 75 % stake in AG Insurance; 100 % of Fortis Insurance International; a 45 % stake in Royal Park Investments; and other financial assets and liabilities of various financing vehicles.'¹⁰⁹

4.1 Important business events

Before the financial crisis the Fortis banking and insurance business performed satisfactorily in the first half of 2008, including the activities acquired from ABN Amro in April 2008. The majority of commercial operations continued to grow their underlying revenues.¹¹⁰ In May 2008 Fortis could report a net profit of € 808 m for the first quarter in 2008.

On 26th June 2008 Fortis announced an accelerated capital plan anticipating that this 'would have a positive impact on the market's perception of the company's financial situation.'¹¹¹ This was not achieved and was followed by falling share prices from € 12.65 on 25th June to € 10.20 on 26th June. On 4th August Fortis was still able to report an interim net profit of € 1.6 bn.

Due to the financial crisis Fortis ran into trouble in the second half of 2008 which led to the sale of Fortis' main banking activities and its Dutch insurance activities.¹¹² The September events in the US regarding the takeover of Fannie Mae and Freddie Mac by US authorities, the bankruptcy of Lehmann Brothers and the takeover of Merrill Lynch by the Bank of America caused many problems all over the world. In particular Fortis was affected by a continuously and rapidly decreasing share price.¹¹³ As the global financial situation deteriorated, Fortis's interbank market access was affected by alarmist rumours while it at the same time had to struggle with substantial liquidity requirements.¹¹⁴

¹⁰⁷ Ageas website, 14.5.2010/07.9.2010 [web]

¹⁰⁸ Ageas website [web]

¹⁰⁹ Ageas Website, 14.05.2010 [web], Fortis Annual Review 2010, p.1 [web]

¹¹⁰ Fortis Annual Review 2008, p.4

¹¹¹ Fortis Annual Review 2008, p. 5

¹¹² Fortis Annual Review 2008, p. 4-9 [web]

¹¹³ Fortis Annual Review 2008, p. 5

¹¹⁴ Fortis Annual Review 2008, p. 6

On 29th September 2008, Fortis announced that the Belgian government would invest € 4.7 bn, the Dutch government would invest € 4.0 bn and the Luxembourg government would invest € 2.5 bn in the Fortis bank.¹¹⁵

On 3 October 2008 Fortis sold the Fortis Bank Nederland (Holding) N.V., Fortis Verzekeringen Nederland N.V. and Fortis Corporate Insurance N.V. to the Dutch state for a total consideration of € 16.8 bn, which was allocated as follows:¹¹⁶

- Fortis received € 12.8 bn for the Dutch banking activities (including ABN Amro) which remained within Fortis
- Fortis received € 4 bn for the Dutch insurance activities which went to the Fortis Holding company

On 10th October 2008 the remaining 50 % plus one share of Fortis Bank were to be sold to the Belgian State for € 4.7 bn. The Belgian government agreed separately with BNP Paribas to transfer 75 % of Fortis Bank to BNP Paribas in return for shares of BNP Paribas.¹¹⁷

On 6th March 2009 a new agreement was reached between Fortis, BNP Paribas and the Belgian state which comprised the sale of 25 % of Fortis Insurance Belgium to Fortis Bank.¹¹⁸

Several of the agreements made were later in the following rejected by the parties involved, especially the shareholders. The shareholders of Fortis SA/NV and Fortis N.V. approved the projects with the Belgian state and BNP Paribas in April 2009.

Since 12th May 2009 Fortis consists of the Belgian and international insurance business, in particular:¹¹⁹

- 75 % minus one share of AG Insurance, previously called Fortis Insurance Belgium (the name was changed in June 2009)
- Fortis Insurance International, a number of international life and non-life insurance activities in Europe and Asia
- General Account comprising the holding companies and various financing vehicles

Other sales:

- The British insurer Amlin purchased Fortis' company insurance segment for € 350 m¹²⁰
- ABN Amro's parts of commercial activities in the Netherlands were sold to the Deutsche Bank for € 700 m in 2010.¹²¹ These parts of ABN Amro were purchased in April 2008 before the financial crisis broke out.

In September 2009 two new partnerships were announced by Fortis:¹²²

- In the UK, Tesco and Fortis UK decided offer motor and household insurance through a newly created entity. The entity is expected to be operational by the end of 2010 and to contribute € 570 m of gross written premiums on an annual basis
- In Italy, Fortis and BNP Paribas Assurance acquired a 50 % plus one share stake in UBI Assicurazioni, one of the leading non-life bancassurance companies in Italy

¹¹⁵ Fortis Annual Review 2008, p. 6

¹¹⁶ Fortis Annual Review 2008, p. 6

¹¹⁷ Fortis Annual Review 2008, p. 7

¹¹⁸ Fortis Annual Review 2008, p. 9

¹¹⁹ Fortis Annual Review 2009, p. 39

¹²⁰ Handelsblatt 14.05.2010 'Amlin kauft Fortis Sparte für Firmenversicherung ab'

¹²¹ See Case study Deutsche Bank

¹²² Fortis Annual Review 2009, p. 39

Moreover, in Thailand, Fortis decreased its economic interest in the life and non-life insurance activities of Muang Thai from 40 % to 31 % and from 15 % to 12 %.

In 2010 Fortis changed its name into Ageas.

4.2 Brief description of BNP Paribas Fortis

Ownership structure

'The Fortis Bank SA/NV, which is the legal name of BNP Paribas Fortis, is owned by BNP Paribas holding (74.93 % of shares), the Belgian state (25 % of shares) and minorities (0.07 % of shares).'

¹²³

'Fortis Bank SA/NV owns Fortis Bank Polska (99.8 %), Fortis Bank Turkey (94 %), Fortis Investment Management, its asset manager (85 %, the other 15 % is held by BGL BNP Paribas) and BGL BNP Paribas (50.01 %).'

¹²⁴

Key figures

Net losses of € 710 m were realised in 2009, an improvement compared to the loss of € 20.5 bn in 2008. Net interest income increased by 18 % compared to the previous year and it amounted to € 4,675 m in 2009. This result was caused by the strong rise of interest revenues in global market activities in the course of favourable funding conditions.¹²⁵ 'The positive evolution of the Tier 1 capital ratio can be explained by the material reduction in risk-weighted assets (€ -55 bn or 27 %), offsetting the decrease of Tier 1 capital (€ 3.4 bn)'¹²⁶. Fortis bank realised € 340 m of impairment losses in 2009.¹²⁷

Table 24 Fortis Bank – Performance data

	2009	2008
Total assets	435,038	586,777
Profit before taxes (€ m)	-1,789	-9,158
Net /profit loss for the period (€ m)	-710	-20,543
Net interest income ^{a)} (€ m)	4,675	3,963
Tier 1 capital ratio (%)	12.3	10.7

^{a)}result includes discontinued operations

Source: BNP Paribas Fortis Bank Annual Report 2009, pp. 42, 242 [web]

Employment

BNP Paribas Fortis employs around 35,000 full time equivalents (in 2008: around 37,000¹²⁸). These can be broken down into geographical areas as follows:¹²⁹

- 17,800 in Belgium
- 5,200 in Turkey
- 2,600 in Poland
- 2,400 in Luxembourg
- 7,000 in 40 other countries

Core activities

¹²³ BNP Paribas Fortis website, 20.05 2010 [web]

¹²⁴ BNP Paribas website, 20.05 2010

¹²⁵ BNP Paribas Fortis, Annual Report 2009, p.24

¹²⁶ BNP Paribas Fortis, Annual Report 2009, p.29

¹²⁷ BNP Paribas Fortis, Annual Report 2009, p.98

¹²⁸ BNP Paribas Fortis, Annual Report 2008, p. 11 [web]

¹²⁹ BNP Paribas Fortis website, 20.05 2010

BNP Paribas Fortis pursues four core activities: Retail & Private Banking, Corporate & Public Bank Belgium, Corporate & Investment Banking and Investment Solutions. Moreover, BNP Paribas Fortis and Fortis/Ageas hold a strategic partnership in the Belgian market with AG Insurance (in which it holds a 25 % stake).¹³⁰

Table 25 Fortis Bank – Total income by operating segments

Total income, net of interest expenses in € m	2009	2008
Total Banking	7,443	5,012
Retail Banking	3,040	3,289
Asset Management	616	449
Private Banking	388	455
Merchant Banking	3,558	1,184
Other Banking	-120	-339
Eliminations	-39	-26

Source: BNP Paribas Fortis, Annual Report 2009, pp. 177-178

Evaluation of Rating Agencies

Fortis Bank's long term credit ratings were upgraded by Standard & Poor's from AA- to AA and by Fitch from A+ to AA-.

Table 26 Fortis Bank – Credit ratings

	Long-term	Outlook	Short-term
Standard & Poor's	AA	Negative	A-1+
Moody's	A1	Stable	P-1
Fitch ratings	AA-	Negative	F1+

Source: BNP Paribas Fortis Annual Report 2009, p. 21, actual ratings at 12/02/2010

4.3 Economic performance of Fortis

The number of total assets of the Fortis insurance company increased between 2008 and 2009 and totalled € 93,243 m in 2009. The net profit recovered from its collapse in 2008 (- € 28 bn) and amounted to € 1,192 m in 2009. The loss in 2008 was mainly caused by a negative result of discontinued operations accounting for € 27.4 bn, which were due to a loss on the sale of banking activities, partly offset by a profit on the sale of the Dutch insurance activities.¹³¹ Total income rose by 87.9 % between 2008 and 2009. The strong decrease of total assets between 2007 and 2008 reflect the split of Fortis. BNP Paribas Fortis included 586,777 assets in total at the end of 2008. These were lost for Fortis Insurance due to the sale.

Table 27 Fortis – Performance data

(€ m)	2009	2008	2007	2006
Total assets	93,243	92,870	871,179	775,229,
Net profit	1,192	-28,022	3,994	4,352
Total income	16,730	8,904	120,457	96,541
Net earned premiums	9,023	8,251	-	-
Interest, dividend and other investment income	3,123	3,660	95,955	73,579
Investment income related to unit linked contracts	2,307	-3,191	648	1,929
Profit before taxation	1,630	-477	2,826	5,382

Source: Fortis Consolidated Financial Statements 2007 and, 2009, Annual Review 2007 and 2009

4.4 Employment and employment development

Employment

¹³⁰ Fortis Bank Annual Report 2009, p.14

¹³¹ Fortis Annual Review 2008, p. 4

Fortis as an insurance group employed 10,613 people in 14 countries in 2009. Before the financial crisis and the following redistribution of Fortis' business areas the group employed around 62,010 full-time employees in 2007.¹³²

Table 28 Fortis – Geographical breakdown of FTEs

	2009		2008	2007 ^{b)}
	Number	%		
Belgium	4,517 ^{a)}	42.6	4,556	
UK	2,827	26.6	2,621	
France	554	5.2	614	
Germany	576	5.4	590	
Portugal	451	4.2	437	
Turkey	295	2.8	301	
Hong Kong	299	2.8	268	
Other Countries	1,095	10.3	987	
Total	10,613	100	10,374	10,163

Note: FTE =Full-time equivalent
^{a)}Not including the subsidiary Interparking
^{b)}Adjusted to company's redistribution

Source: Fortis Annual Review 2009, p. 29

The highest number of employees is based in Belgium (42.6 %) followed by the UK (26.6 %). The number of workers in the existing business areas has remained almost stable over the last few years. 53 % of employees are employed in the Belgian insurance area (AG Insurance with its subsidiaries) and 47 % in the international insurance area (Fortis Insurance International). 'The sharp increase in the number of FTE's in the UK reflects the development of the business, including Fortis Life activities, while the decrease on the part of General Account is a consequence of the (...) transition.'¹³³

Table 29 Fortis – Business breakdown of FTEs

	2009		2008	2007 ^{b)}
	Number	%		
Insurance Belgium	5,635	53.1	5,542	5,298
Insurance International	4,940	46.5	4,718	4,686
General Account	38 ^{a)}	0,4	114	181
Total	10,613	100	10,374	10,163

Note: FTE =Full-time equivalent
^{a)}Not including employees with an AG insurance for a Fortis Insurance International contract
^{b)}Adjusted to company's redistribution

Source: Fortis Annual Review 2009

Employment development

In the course of the financial crisis Fortis was split into Fortis/Ageas, BNP Paribas Fortis and the remaining parts were sold to the Dutch state. Before the crisis around 62,000 people were employed. Today, around 10,000 FTEs work at Ageas/Fortis, and 35,000 FTEs work at BNP Paribas Fortis (Fortis Bank). Around 4,000 - 5,000 jobs were lost due to the inclusion of Fortis Bank Nederland into ABN Amro Holding N.V.¹³⁴

4.5 Ownership structure

The total number of Fortis shares issued was 2,516,657,248 at the end of 2009, unchanged from the previous year. The share price was on average € 2.34 in 2009 which is € 8.11 lower than in 2008 and € 22.05 lower than in 2007. While no dividends were paid out in 2008, the board of directors decided to pay a dividend of 8 Euro cents per share in 2009.¹³⁵

¹³² Fortis Annual Review 2007, p. 93 (inside back cover)

¹³³ Fortis Annual Review 2009, p. 29

¹³⁴ Reuter Deutschland, 21.05.2010 [web]

¹³⁵ Fortis Annual Review 2009, p. 38

Table 30 Fortis – Share performance

(Year end)	2009	2008	2007	2006
Year average share price in €	2.34	10.45	24.39	24.75
Number of shares issued in m	2,517	2,517	2,367	1,343
Earnings per share in €	0.48	-12.21	2.30	2.83
Gross dividend per share ^{a)} in €	0.08	0.00	1.18	1.17

^{a)}Proposed dividend for approval at shareholders' meeting of 28 and 29 April 2010

Source: Fortis Annual Review 2009, p. 56

Table 31 Fortis – Overview of shareholders

(At year end 2009)	%
Ping An Insurance	4.81
Fortis Bank ^{a)}	4.98
BlackRock Inc. ^{b)}	3.39
UBS AG	3.10
Other shareholders in:	
Belgium/Luxembourg ^{c)}	31
The Netherlands ^{c)}	8
United Kingdom	18
Germany	5
Rest of world	22
Total (rounded figures)	100

^{a)} The 125,313,283 shares linked to the CASHES will not carry voting or dividend rights until the CASHES are exchanged for the underlying Fortis shares

^{b)} On 1 December 2009, Barclays Global Investors (BGI) was acquired by BlackRock, Inc. The combined holdings of BlackRock, Inc. following the acquisition triggered this disclosure requirement

^{c)} based on an extrapolation of an external shareholders' identification survey based on data at the end of December 2009

Source: Fortis Annual Review 2009, p. 57

According to the Fortis Annual Review 2009 (p. 56) 'the table above provides an overview of institutional shareholders that meet the statutory disclosure threshold of 3 % and the geographical breakdown of the shareholders base within the main regions,. Retail shareholders are estimated at around 25 % of the total shareholding.'

4.6 Strategy

Strategic plan

After the shareholders' approval of the revised transaction with BNP Paribas, Fortis Bank, and the Belgian state in April 2009 the company moved forward as an international insurance group. A strengthened board of directors was installed, an enhanced government model was adapted, and a new management team under the leadership of Bart De Smet was appointed.¹³⁶ Moreover, a strategic plan was developed which focuses on the following pillars:¹³⁷

- Focussing on a partnership in Europe and Asia
- Leverage of Fortis's strengths in partnerships
- Streamlining the company's existing portfolio against strict criteria

According to the strategy a new insurance partnership was announced with Tesco in the UK, which represents 500 new jobs in the UK and more than € 570 m of additional annual gross written premiums are expected from the first year. Moreover, a strategic partnership in Italy was established with BNP Paribas Assurance and UBI Banca, a leader of non-life insurance distribution via banks in Italy.¹³⁸

'As an international insurance group Fortis plans to excel in partnerships with leading local distribution partners in Europe and Asia.' This is, according to Fortis, its core competence and will make the foundation of the company's growth. Moreover, Fortis will 'capitalise on its market position in stable and cash generative core markets [and simultaneously] seek presence in a number of selected high-growth markets.'¹³⁹

¹³⁶ Fortis Annual Review 2009, p. 6

¹³⁷ Fortis Annual Review 2009, p. 6

¹³⁸ Fortis Annual Review 2009, p. 9

¹³⁹ Fortis Annual Review 2009, pp. 9 -10

Regarding the streamline of the current portfolio against specific performance-related criteria, Fortis will 'manage the General Account with a view to maximising value'¹⁴⁰. Additionally, almost half of the capital held in the General Account, around € 1.3 bn, will be used to provide a prudential buffer and available resources for potential investments.¹⁴¹

Dividend policy

'Fortis published its new dividend strategy on 25th September 2009. This shows its intention to pay a regular annual cash dividend based on the net profit of the insurance activities. Fortis is targeting a dividend pay-out ratio of 40 % - 50 %. Furthermore, and as part of the global agreement between Fortis, BNP Paribas and the Federal Participation and Investment Corporation, Fortis SA/NV has been granted a non-standard cash-settled call option that allows it to benefit from the appreciation in the value of the BNP Paribas shares held by the SFPI/FPIM. In order to comply with all the requirements of the European Commission, and in addition to its regular dividend policy, Fortis announced on 27th July 2009 that it will propose to its shareholders the distribution in the form of a dividend of any gains from the exercise or monetisation of the call option.'¹⁴²

4.7 Performance of business segments

Fortis is organised in the following three operating business segments;

- AG Insurance which comprises the Belgian insurance activities
- Fortis Insurance International comprising the UK, Continental Europe and Asia
- General Account

AG Insurance

'AG Insurance delivers a comprehensive range of life and non-life-products. [It sells its products to] private individuals and to small and medium-sized enterprises via more than 3,000 independent brokers and via the bank channel of BNP Paribas Fortis branches, the branches of its subsidiary the Belgian Post Office Bank and the branches of its second brand Fintro.'¹⁴³ The business unit AG Employee Benefits sells group life and healthcare products, mainly to larger enterprises. In 2009 the company served more than 2.5 million customers.¹⁴⁴

In 2009, the total gross inflow amounted to around € 7 bn, of which approximately 78 % related to life insurance and 22 % to non-life insurance. Most of the employees are located in Brussels and in the regional offices in Antwerp and Charleroi.¹⁴⁵

Table 32 Fortis – AG Insurance

(€ m)	2009	2008
Gross inflow	6,867	6,282
Life	5,352	4,817
Non-life	1,515	1,465
Operating costs	427	403
Net profit	366	6
Combined ratio (non-life) in %	103.2	100.9
FTEs ³⁾ (year end)	5,635	5,542

³⁾FTE =Full-time equivalent

Source: Fortis Annual Review 2009, p.2

¹⁴⁰ Fortis Annual Review 2009, p. 10

¹⁴¹ Fortis Annual Review 2009, p. 10

¹⁴² Fortis Annual Review 2009, p. 58

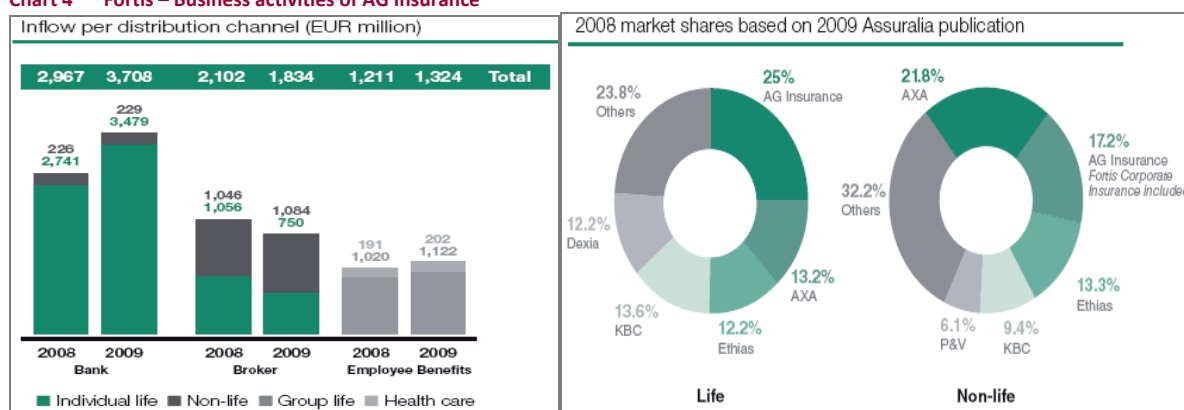
¹⁴³ Fortis Annual Review 2009, p. 16

¹⁴⁴ Fortis Annual Review 2009, p. 16

¹⁴⁵ Fortis Annual Review 2009, p. 16

'AG Insurance strengthened its market leadership position in life (both retail and group life), while consolidating its market share in non-life.¹⁴⁶

¹⁴⁶ Fortis Annual Review 2009, p.17

Chart 4 Fortis – Business activities of AG Insurance

Source: Fortis Annual Review 2009, p. 17

AG Insurance was rebranded on 22nd June 2009.¹⁴⁷ At the end of the year AG Insurance paid compensation to its clients of around € 0.9 bn in non-life and in addition € 4.9 bn within 'the framework of life insurance contracts, including guaranteed returns and profit sharing'.¹⁴⁸

Insurance International

Insurance International can be divided up into the UK, Continental Europe and Asia. All in all, Insurance International realised a total gross inflow of around € 5 bn, of which approximately 78 % related to life insurance and 22 % to non-life insurance. The distribution is thus also equal to AG Insurance at the international level.

Table 33 Fortis – Insurance international

(€ m)	2009	2008
Gross inflow	5,152	5,330
Life	4,013	4,102
Non-life	1,139	1,228
Operating costs	392	393
Net profit	90	0
Combined ratio (non-life) in %	107.8	98.4
FTEs ^{a)} (year end)	4,940	4,718

^{a)}FTE =Full-time equivalent

Source: Fortis Annual Review 2009, p.2

UK

'Fortis UK is a leading national provider of non-life and life protection insurance solutions.'¹⁴⁹ The company follows a customer-focussed strategy which orients its activities on 'how customers want to buy insurance'¹⁵⁰. In particular, high quality and innovative products services are delivered. Moreover RIAS, which is a subsidiary of Fortis UK, focuses on customers aged over 50 and is ranked one of the top two of car insurance providers in UK.¹⁵¹

Fortis UK realised a gross written premiums inflow of around € 920 m, an increase of 6 % compared to 2008. Altogether Fortis UK serves around 7 million customers and employs around 3,000 people.

¹⁴⁷ Fortis Annual Review 2009, p. 18

¹⁴⁸ Fortis Annual Review 2009, p. 18

¹⁴⁹ Fortis Annual Review 2009, p. 19

¹⁵⁰ Fortis Annual Review 2009, p. 19

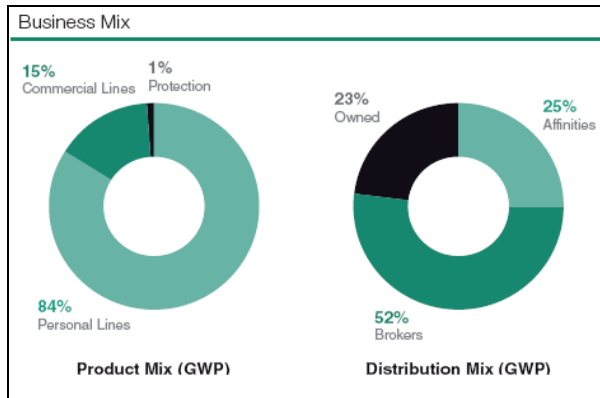
¹⁵¹ Fortis Annual Review 2009, p. 19

¹⁵² Moreover, Fortis UK is the eighth biggest personal general insurer in the UK, one of the leading providers of insurance solutions, and the second largest car insurer in the UK.¹⁵³

¹⁵² Fortis Annual Review 2009, p. 19

¹⁵³ Fortis Annual Review 2009, p. 20

Chart 5 Fortis – Business activities of Fortis UK



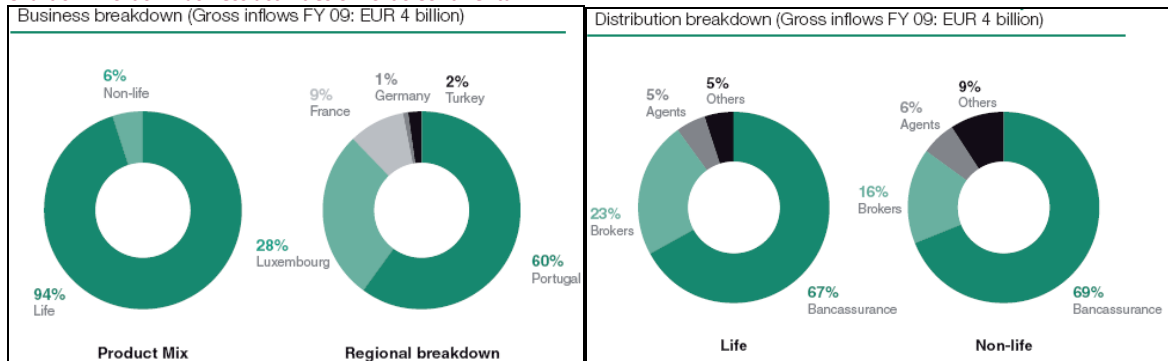
Source: Fortis Annual Review 2009, p.19

Continental Europe

This segment consists of insurance activities in seven countries: Portugal, Luxembourg, France, Germany, Turkey, Ukraine and Italy. All in all a premium income of € 3.9 bn was realised in 2009, of which 94 % were in life insurance and 6 % in non-life insurance. The work force comprises around 1,400 people.¹⁵⁴

Due to the consequences of the financial crisis the segment’s portfolio ‘was assessed in terms of its position in the market, its critical size and its ability to generate a meaningful contribution within three to five years.’¹⁵⁵ In this context, non-life activities were sold in Luxembourg and life business in Russia was run-off.

Chart 6 Fortis – Business activities of Fortis Continental



Source: Fortis Annual Review 2009, p. 22

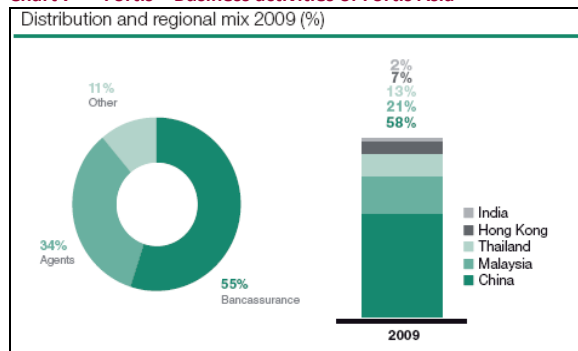
Asia

Since 2001 Fortis has been present in Asia and now acts in five different regions: Hong Kong, China, Malaysia, Thailand and India.¹⁵⁶

¹⁵⁴ Fortis Annual Review 2009, p. 21

¹⁵⁵ Fortis Annual Review 2009, p.21

¹⁵⁶ Fortis Annual Review 2009, p.23

Chart 7 Fortis – Business activities of Fortis Asia

Source: Fortis Annual Review 2009, p. 23

General Account

The General Account mainly comprises activities which are not related to the core business insurance segments, such as group finance and other holding activities. Moreover, the General Account includes the investment in Royal Park Investments, the call option on BNP Paribas shares and the liabilities related to CASHES.¹⁵⁷

In 2009 the General Account realised € 736 m which mainly reflects recurring and non-recurring elements. Regarding non-recurring elements, the main contribution to the net result comes from the capital gain of € 697 m related to the sale of a 25 % plus one share of AG Insurance to Fortis Bank in May 2009. The recurring elements mainly relate to net interest income and corporate expenses.¹⁵⁸

4.8 Remuneration

In the course of renewals due to the split of Fortis, a newly structured board was appointed which implemented a new governance model. This included the composition of a new Remuneration Committee. The Remuneration Committee is responsible for the remuneration of executive and non-executive directors and the executive management.

Non-executive board members

The remuneration of non-executive board members comprises a 'basic annual salary plus attendance fees for board committee meetings. [Moreover}, non-executive board members can also receive remuneration in the Fortis subsidiaries in which they hold a non-executive board position.'¹⁵⁹ No variable or profit-related incentives, option rights, shares or other fees are paid. The remuneration paid to non-executive directors was € 0.46 m in 2009.¹⁶⁰

Executive Committee members

The remuneration of executive committee members comprises a 'fixed base salary, a variable annual incentive and a variable long-term incentive (...).[The variable remuneration depends on] individual performance, the performance of the business relative to predefined targets, and Fortis's performance relative to several of its peers in the insurance sector.'¹⁶¹

Changes in remuneration

¹⁵⁷ Fortis Annual Review 2009, p.26

¹⁵⁸ Fortis Annual Review 2009, p.37

¹⁵⁹ Fortis Annual Review 2009, p. 43

¹⁶⁰ Fortis Annual Review 2009, p. 43

¹⁶¹ Fortis Annual Review 2009, p. 45

According to the Annual Review 2009:

'As from 1 January 2010 (and in line with the Belgian Corporate Governance Code) the contracts provide for a maximum severance pay of 12 months total cash compensation (fixed plus variable) in the case of termination without cause for the CEO and other members of the Group Executive Committee. In specific circumstances such as seniority in excess of 20 years, circumstances related to health and other cases to be determined by the Remuneration Committee, a higher severance pay (up to max. 18 months of basic and variable remuneration) is allowed upon recommendation by the Remuneration Committee.'¹⁶²

Staff expenses

The expenses for company staff are summarised in the following table:

Table 34 Fortis – Staff expenses

In € m	2008	2009
Salaries and wages	456	457
Social security charges	110	110
Pension expenses relating to defined benefit plans	9	27
Defined contribution plan expenses	18	15
Share based compensation	8	14
Other ^{a)}	39	3
Total staff expenses	640	644

^{a)} includes the cost of termination benefits and restructuring costs and non-monetary benefits such as medical costs

Source: Fortis Consolidated Financial Statements 2009, p. 151

4.9 Risk management

Risk organisation

'At Fortis the Audit & Risk Committee supports the board to understand and monitor the key risks to which Fortis is exposed, to oversee the appropriate management of those risks, and to ensure the adequacy of Fortis's capital. At the executive level, the Group Risk Committee ensures that the risk management framework is appropriate, monitors the key risks and makes recommendations to the Executive Committee on risk issues. The Fortis Asset Liability & Investments Committee provides an oversight of the group investment policy and the group's overall market risk position.'¹⁶³

Types of risk

Fortis faces financial risks, insurance risks, operational risks and strategic risks. These are summarised as follows:¹⁶⁴

- Financial risk encompasses all risks relating to the value and performance of financial assets including credit risks, market risks, liquidity risks and concentration risks
- Insurance risk comprises all insurance underwriting risks arising from uncertainty and claims, as well as changes to expenses and lapses
- Operational risk refers to inadequately controlled internal processes or systems, human error or non-compliance, and to external events and the uncertainty inherent in all business undertakings
- Strategic risk consists of changes in the regulatory or competitive landscape, and reputation risks

Credit risk concentration

According to Fortis Consolidated Financial Statements (p. 41), 'credit risk concentration is any exposure to a counterparty or an aggregate of exposures to a number of positively correlated counterpar-

¹⁶² Fortis Annual Review, p. 49

¹⁶³ Fortis Annual Review 2009, p. 32

¹⁶⁴ Fortis Annual Review 2009, p. 33

ties (i.e. tendency to default under similar circumstances) with the potential to produce a significant amount of capital loss due to bankruptcy or failure to pay. Avoidance of concentrations is therefore fundamental to the Fortis credit risk strategy of maintaining granular, liquid and diversified portfolios.'

'The table below [gives] information about the concentration of on balance credit risk by location of the Fortis entities as at 31 December 2009.'¹⁶⁵

Table 35 Fortis – Credit risk concentration

	2009		2008	
	Credit risk exposure on balance (€ m)	In %	Credit risk exposure on balance (€ m)	In %
On balance				
Benelux	51,234	81.4	57,660	85.5
Other European countries	10,776	17.1	8,848	13.1
Asia	952	1.5	968	1.4
Total on balance	62,962	100	67,476	100

Source: Fortis Consolidated Financial Statements 2009, p. 41

4.10 Outlook

The company sees 2010 as another crucial year. Fortis aims to maintain business momentum and meet the expectations of customers while managing legacy issues at the same time. Any decisions which are made will be for the long-term future of the company.¹⁶⁶

In Continental Europe, in particular, a three stage approach will be pursued to actively manage Fortis Continental Europe's portfolio:¹⁶⁷

- Focus on Fortis's core competencies, including strengthening partnerships, expanding multichannel distribution, and innovating the product offering
- Continuously assessing the current portfolio to determine where sub-scale activities will be strengthened or divested
- Selective investments in areas of growth

In risk management Fortis will also 'continue to strengthen its risk management framework with clear lines of responsibility and accountability and a transparent process designed to [identify] every [type] of risk [. In this process] solvency is carefully monitored and [Fortis is aiming for a high] 200 % to ensure that the company maintains strong solvency in all scenarios.'¹⁶⁸

Fortis is burdened because of the turmoil caused by the high debt of European countries. At the end of 2009 the company held bonds in Italy, Greece, Portugal and Spain of around € 18.1 bn. Thus risks regarding the bond will also remain in 2010.¹⁶⁹

¹⁶⁵ Fortis Consolidated Financial Statements 2009, p. 41

¹⁶⁶ Fortis Annual Review 2009, p. 4

¹⁶⁷ Fortis Annual Review 2009, p. 21

¹⁶⁸ Fortis Annual Review 2009, p. 30

¹⁶⁹ Handelsblatt 14.05.2010, „Fortis lässt mit neuem Namen Krise hinter sich“