



Commerzbank AG

Volatility Target Strategy Index

Investment linked to the World's Growth Engine - China

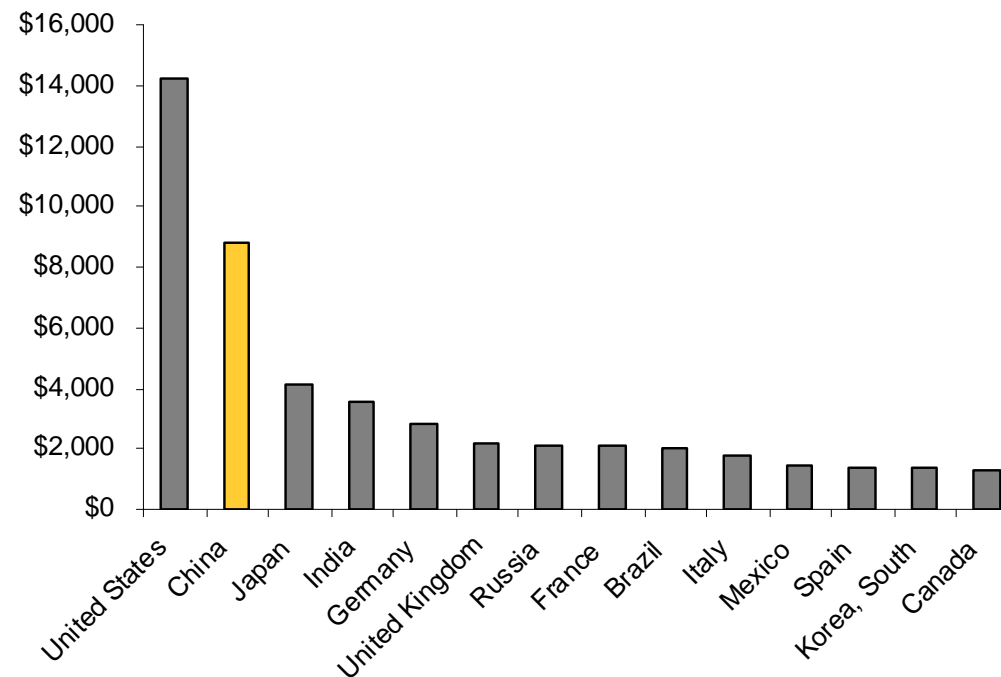
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Introduction: China – Economy Overview

China's economy during the past 30 years has changed from a centrally planned system that was largely closed to international trade to a more market-oriented economy that has a rapidly growing private sector and is a major player in the global economy.

Global Economy (GDP, Billion USD, 2009 est.)



Source: CIA The World Factbook

Introduction: China – Economy Overview

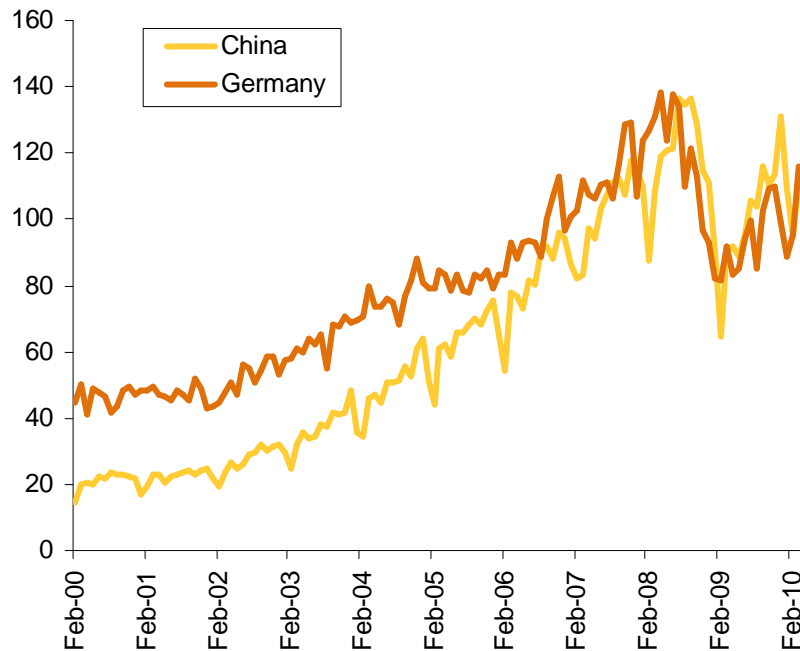
Overview of the World Economic Outlook Projections

	Year over Year				Q4 over Q4	
	Projections				Projections	
	2008	2009	2010	2011	2010	2011
World Output	3.0%	-0.6%	4.2%	4.3%	3.9%	4.5%
China	9.6%	8.7%	10.0%	9.9%	9.4%	10.1%
Advanced Economies	0.5%	-3.2%	2.3%	2.4%	2.2%	2.5%
United States	0.4%	-2.4%	3.1%	2.6%	2.8%	2.4%
Euro Area	0.6%	-4.1%	1.0%	1.5%	1.2%	1.8%
Germany	1.2%	-5.0%	1.2%	1.7%	1.2%	2.1%
France	0.3%	-2.2%	1.5%	1.8%	1.5%	1.9%
Italy	-1.3%	-5.0%	0.8%	1.2%	1.4%	1.3%
Spain	0.9%	-3.6%	-0.4%	0.9%	-0.1%	1.8%
Japan	-1.2%	-5.2%	1.9%	2.0%	1.6%	2.3%
U.K.	0.5%	-4.9%	1.3%	2.5%	2.3%	2.6%
Canada	0.4%	-2.6%	3.1%	3.2%	3.4%	3.3%

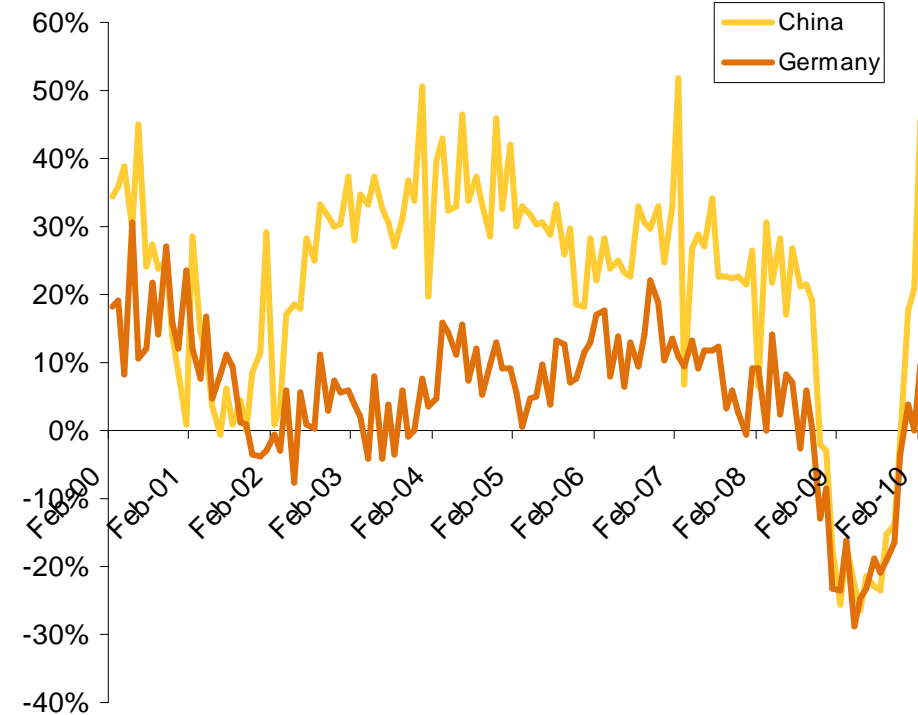
Source: International Monetary Fund

Introduction: China – International Trade

Export Trade (Billion USD)



Export Trade (YoY, %)



Source: Bloomberg

Introduction: China – International Trade

China Export Summary Jan 2010 (Thousand USD)			
Product	Jan-10	Jan-09	% Change
Data System & Accessories	11,026,838	7,220,064	52.7
Textile	9,986,485	10,501,739	-4.9
Cotton Material	5,581,403	4,722,004	18.2
Mobile Phone & Accessories	3,267,220	2,872,901	13.7
Foot Wear	2,947,169	2,905,367	1.4
Furniture	2,619,850	2,435,746	7.6
Electric Device	2,282,533	1,153,044	98
Steel	2,226,637	2,353,758	-5.4
Refined Oil	1,682,149	534,377	214.8
Plastic Product	1,341,149	1,246,964	7.6

Source: General Administration of Customs of the People's Republic of China

Introduction: China – Foreign Reserve

International Reserve Assets (Billion USD)				
	Current	% of World	1 Year Ago	1 Year % Change
China	2447.08	30.947%	1953.74	25.3%
Japan	990.51	12.527%	989.73	0.1%
Russia	456.30	5.354%	384.80	18.6%
India	255.66	3.221%	242.42	5.5%
Taiwan	355.03	4.490%	300.12	18.3%
South Korea	272.33	3.444%	206.34	32.0%
Eurozone	196.06	2.480%	186.42	5.2%
Brazil	246.57	3.085%	201.60	22.3%
Singapore	196.36	2.483%	166.25	18.1%
Hong Kong	258.80	3.273%	186.20	39.0%
World	7907.25	100.000%	6698.56	18.0%

Source: Bloomberg

Introduction: China – Some Facts About China

Some facts about China:

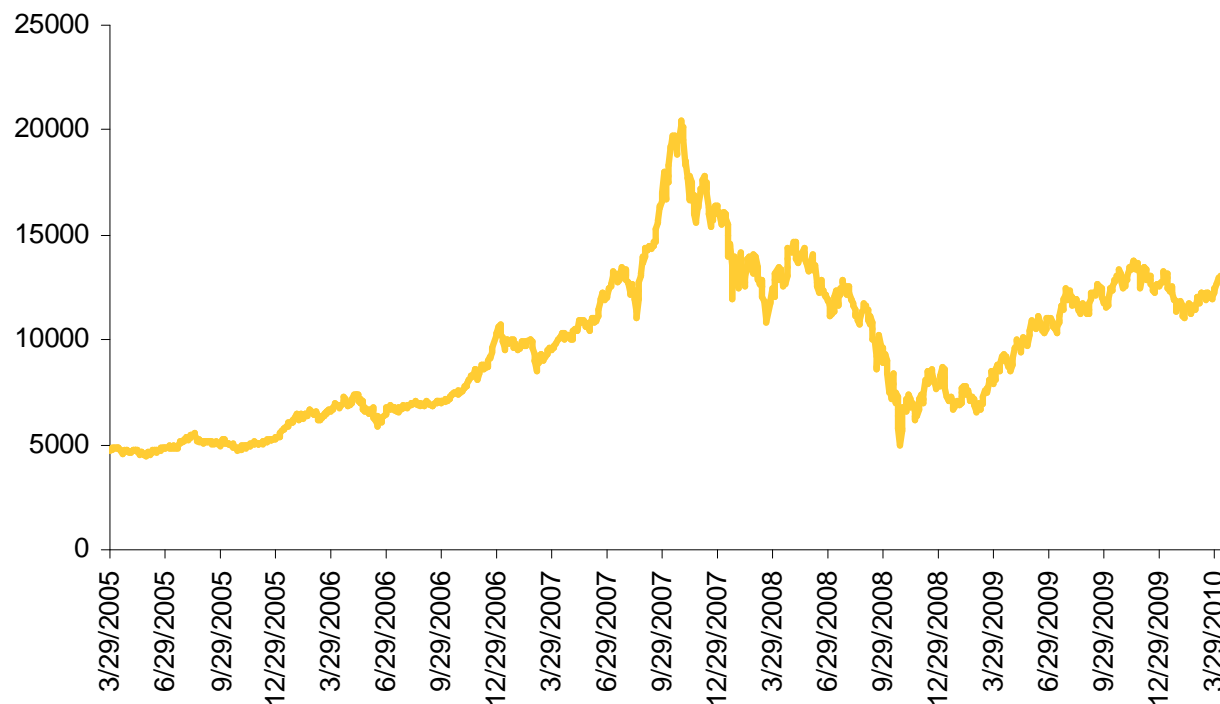
- › By 2025, China will build 10 New York sized cities
- › By 2030, China will add more new city-dwellers than the entire U.S. population
- › China already consumes twice as much steel as the U.S., Europe and Japan combined
- › If China hits U.S. oil consumption, then we need seven more Saudi Arabias
- › Chinese GDP could overtake the U.S. as soon as the early 2020s

Source: Mckinsey, Business Insider, CIA Factbook, European Commission Report, Market Watch

Introduction: Hang Seng China Enterprises Index

The Hang Seng China Enterprises Index was launched one year after the first H-share company was listed on the Stock Exchange of Hong Kong. It tracks the performance of mainland China enterprises with H-share listings in Hong Kong.

HSCEI Index



Source: Bloomberg

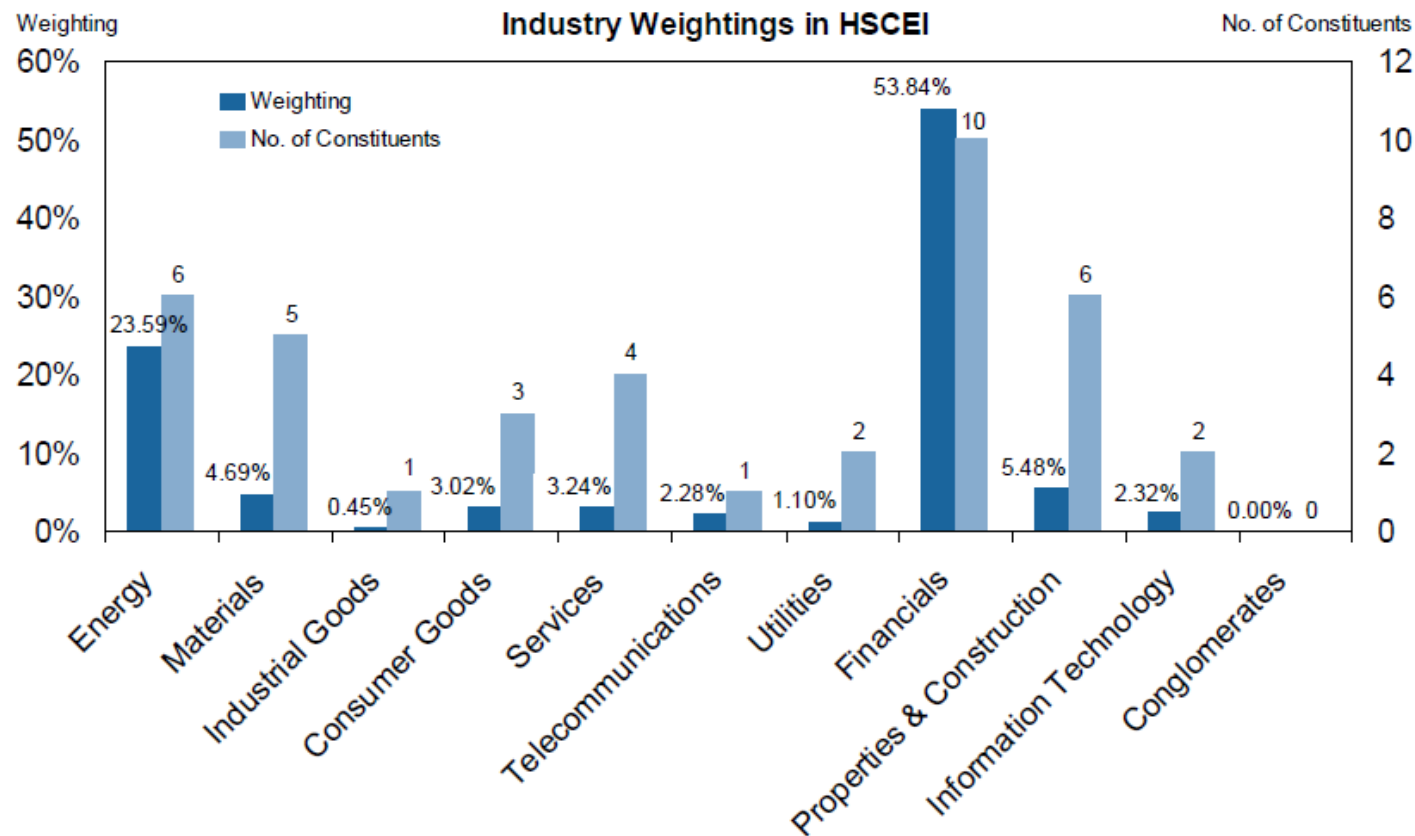
Introduction: Hang Seng China Enterprises Index - Composition

The Hang Seng China Enterprises Index consists of 40 Chinese companies across 10 different sectors varying from Energy to Information Technology.

Ticker HSCEI	Name	% Weight in the Index
939 HK Equity	China Construction Bank Corp	10.54
3988 HK Equity	Bank of China Ltd	10.19
2628 HK Equity	China Life Insurance Co Ltd	10.17
1398 HK Equity	Industrial & Commercial Bank of China	10.01
857 HK Equity	PetroChina Co Ltd	8.82
1088 HK Equity	China Shenhua Energy Co Ltd	5.08
386 HK Equity	China Petroleum & Chemical Corp	4.81
2318 HK Equity	Ping An Insurance Group Co of China Ltd	4.20
3968 HK Equity	China Merchants Bank Co Ltd	3.34
728 HK Equity	China Telecom Corp Ltd	2.36
3328 HK Equity	Bank of Communications Co Ltd	2.26
1898 HK Equity	China Coal Energy Co	2.10
1171 HK Equity	Yanzhou Coal Mining Co Ltd	1.84
1211 HK Equity	Byd Co Ltd	1.61
998 HK Equity	China Citic Bank Corp Ltd	1.49
1800 HK Equity	China Communications Construction Co Ltd	1.44
2600 HK Equity	Aluminum Corp of China Ltd	1.34
489 HK Equity	Dongfeng Motor Group Co Ltd	1.33
1988 HK Equity	China Minsheng Banking Corp Ltd	1.28
2899 HK Equity	Zijin Mining Group Co Ltd	1.19
1919 HK Equity	China COSCO Holdings Co Ltd	1.15
1099 HK Equity	Sinopharm Group Co	1.04
358 HK Equity	Jiangxi Copper Co Ltd	1.02
390 HK Equity	China Railway Group Ltd	0.96
914 HK Equity	Anhui Conch Cement Co Ltd	0.92
1186 HK Equity	China Railway Construction Corp Ltd	0.89
2328 HK Equity	PICC Property & Casualty Co Ltd	0.85
753 HK Equity	Air China Ltd	0.79
2883 HK Equity	China Oilfield Services Ltd	0.74
1138 HK Equity	China Shipping Development Co Ltd	0.69
763 HK Equity	ZTE Corp	0.69
3323 HK Equity	China National Building Material Co Ltd	0.69
902 HK Equity	Huaneng Power International Inc	0.66
168 HK Equity	Tsingtao Brewery Co Ltd	0.60
347 HK Equity	Angang Steel Co Ltd	0.57
1618 HK Equity	Metallurgical Corp of China Ltd	0.50
576 HK Equity	Zhejiang Expressway Co Ltd	0.49
2777 HK Equity	Guangzhou R&F Properties Co Ltd	0.46
991 HK Equity	Datang International Power Generation Co	0.46
2727 HK Equity	Shanghai Electric Group Co Ltd	0.44

Source: Bloomberg (as of 14 May 10)

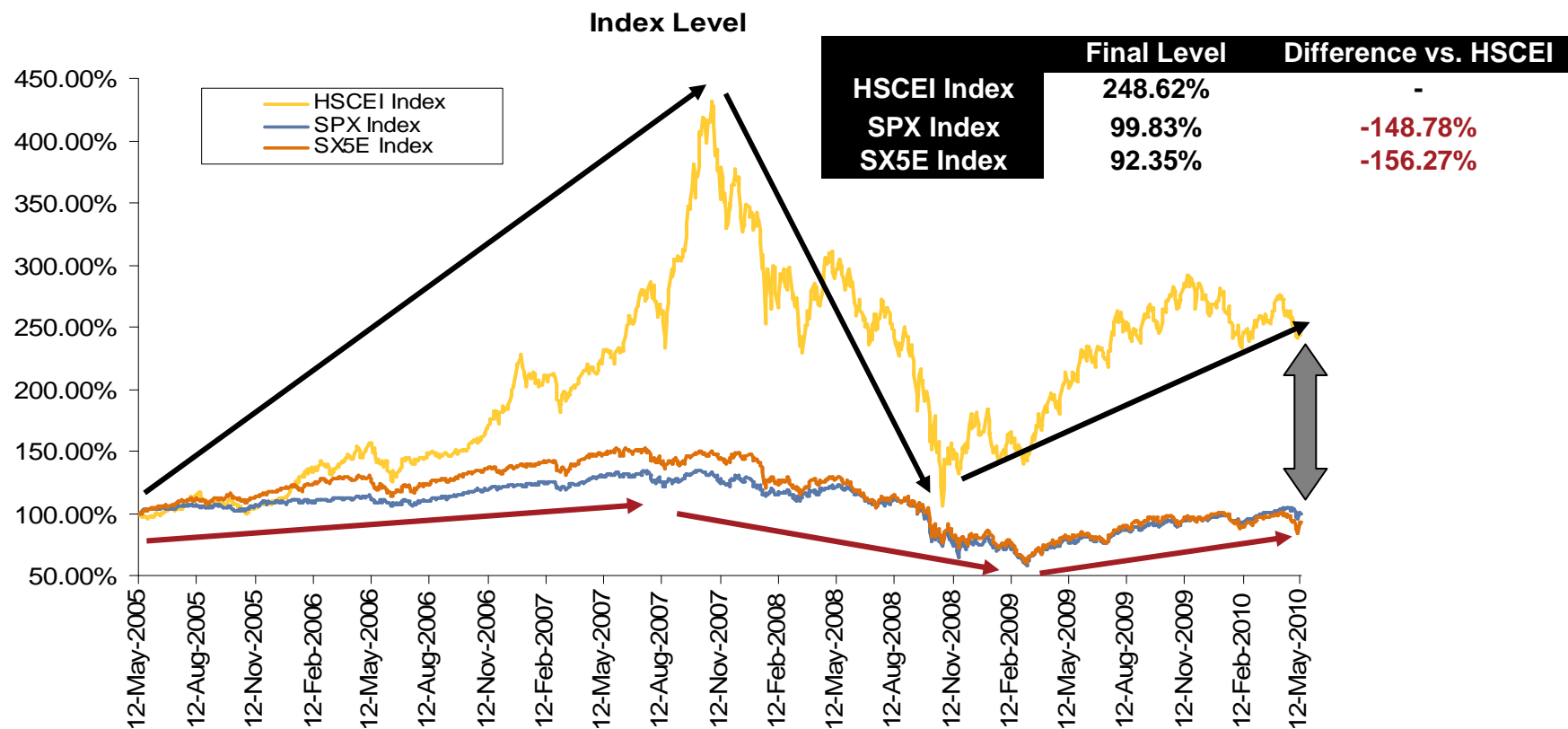
Introduction: Hang Seng China Enterprises Index - Composition



Source: Hang Seng Indexes (as of April 10)

Historical Performances of Different Markets

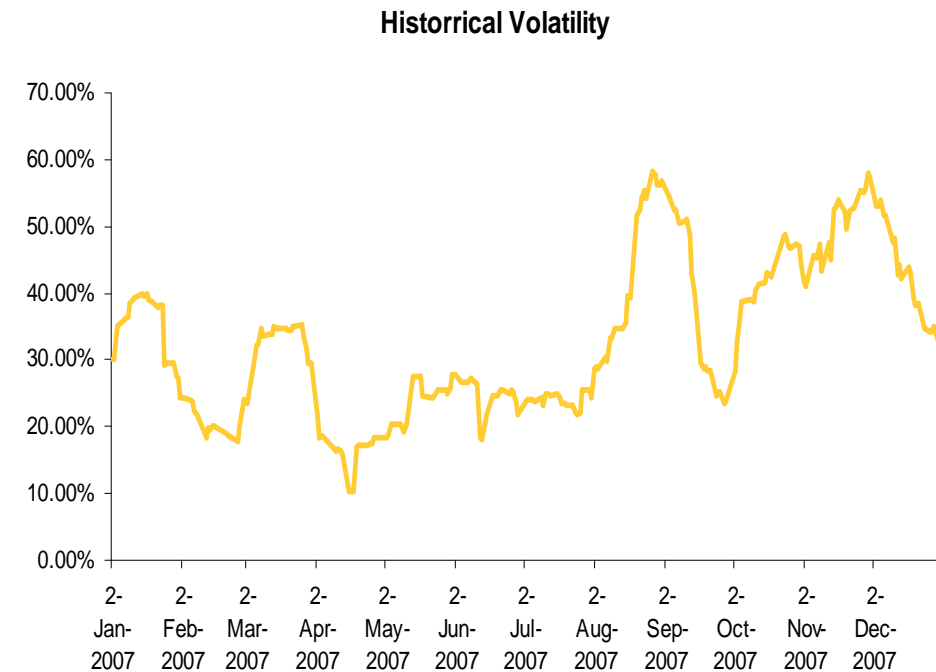
The following graph shows the historical performances of HSCEI, SPX and SX5E over the past 5 year.



Source: Bloomberg, Commerzbank

HSCEI - Bullish Period

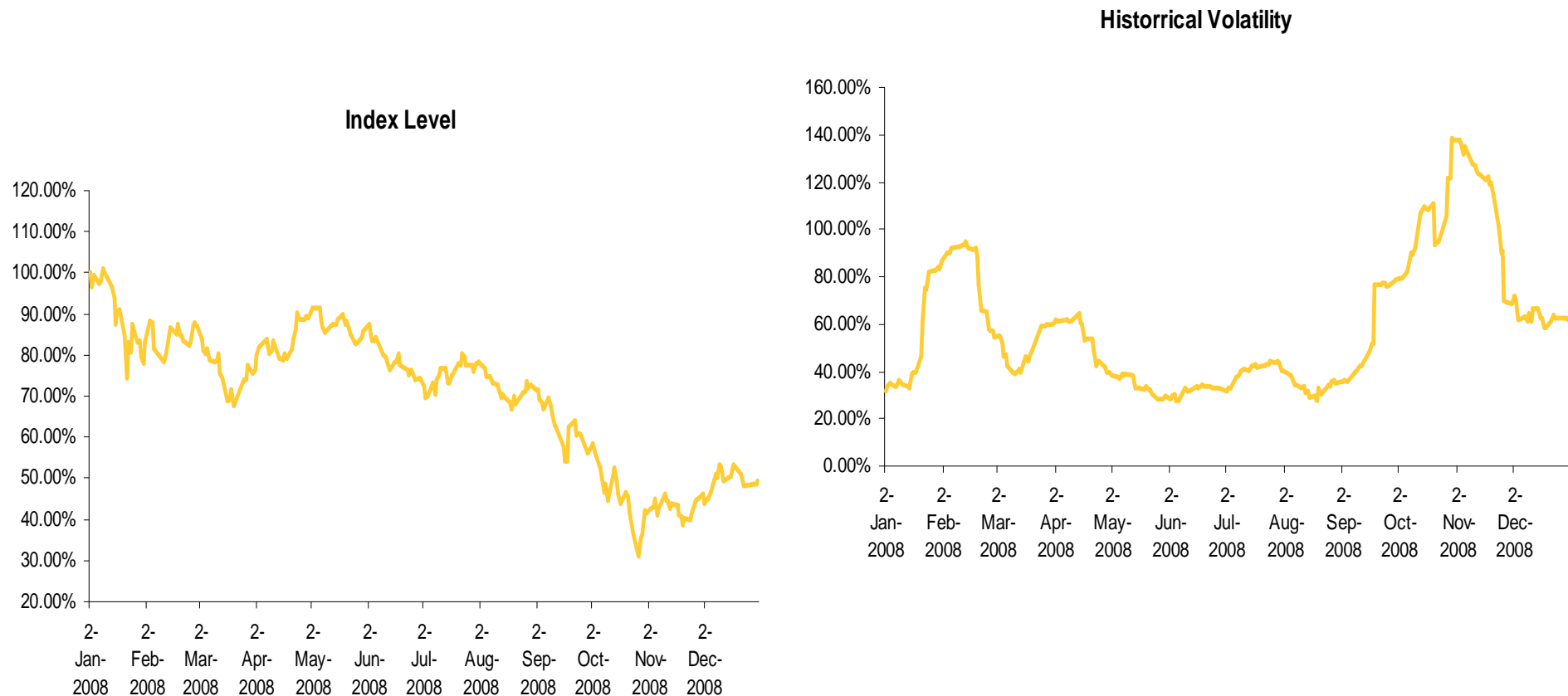
The following graphs show the historical performances of HSCEI in 2007



Source: Bloomberg, Commerzbank

HSCEI - Bearish Period

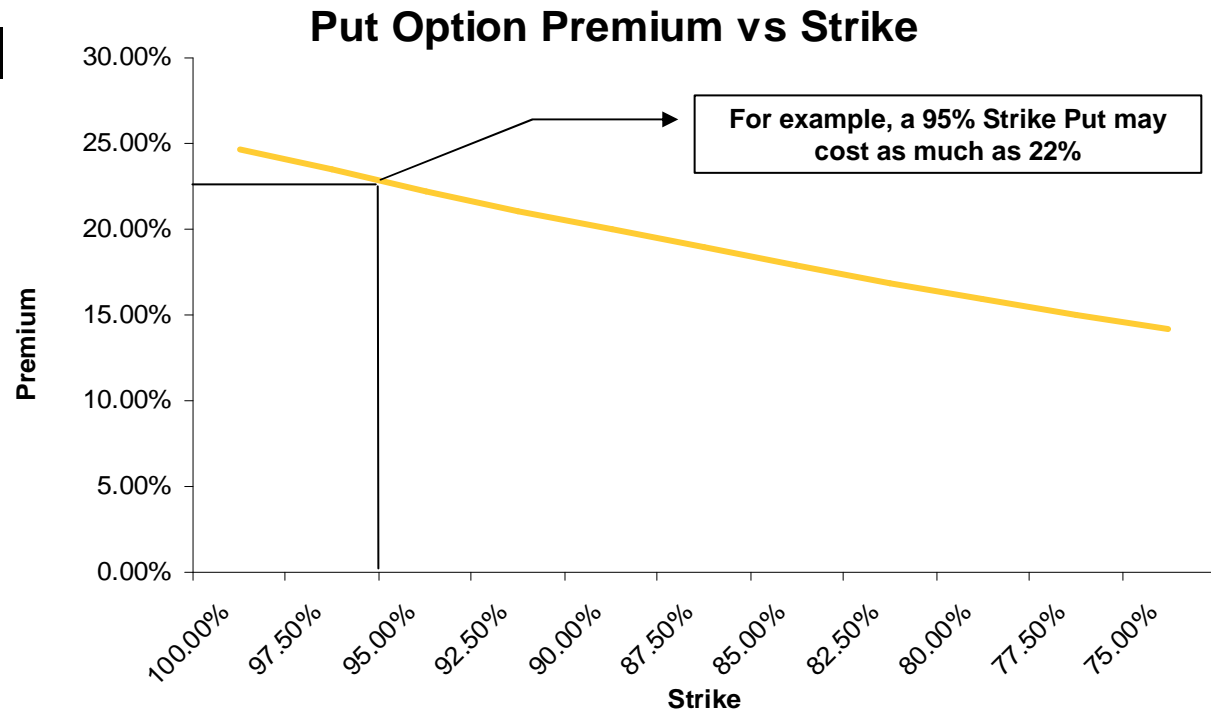
The following graphs show the historical performances of HSCEI in 2008



Source: Bloomberg, Commerzbank

Buying Protection Is Expensive Due To High Volatility

Tenor	Strike	Premium
5Y	100.00%	25%
5Y	97.50%	23%
5Y	95.00%	22%
5Y	92.50%	21%
5Y	90.00%	20%
5Y	87.50%	19%
5Y	85.00%	18%
5Y	82.50%	17%
5Y	80.00%	16%
5Y	77.50%	15%
5Y	75.00%	14%



Source: Commerzbank

Investment Rationale

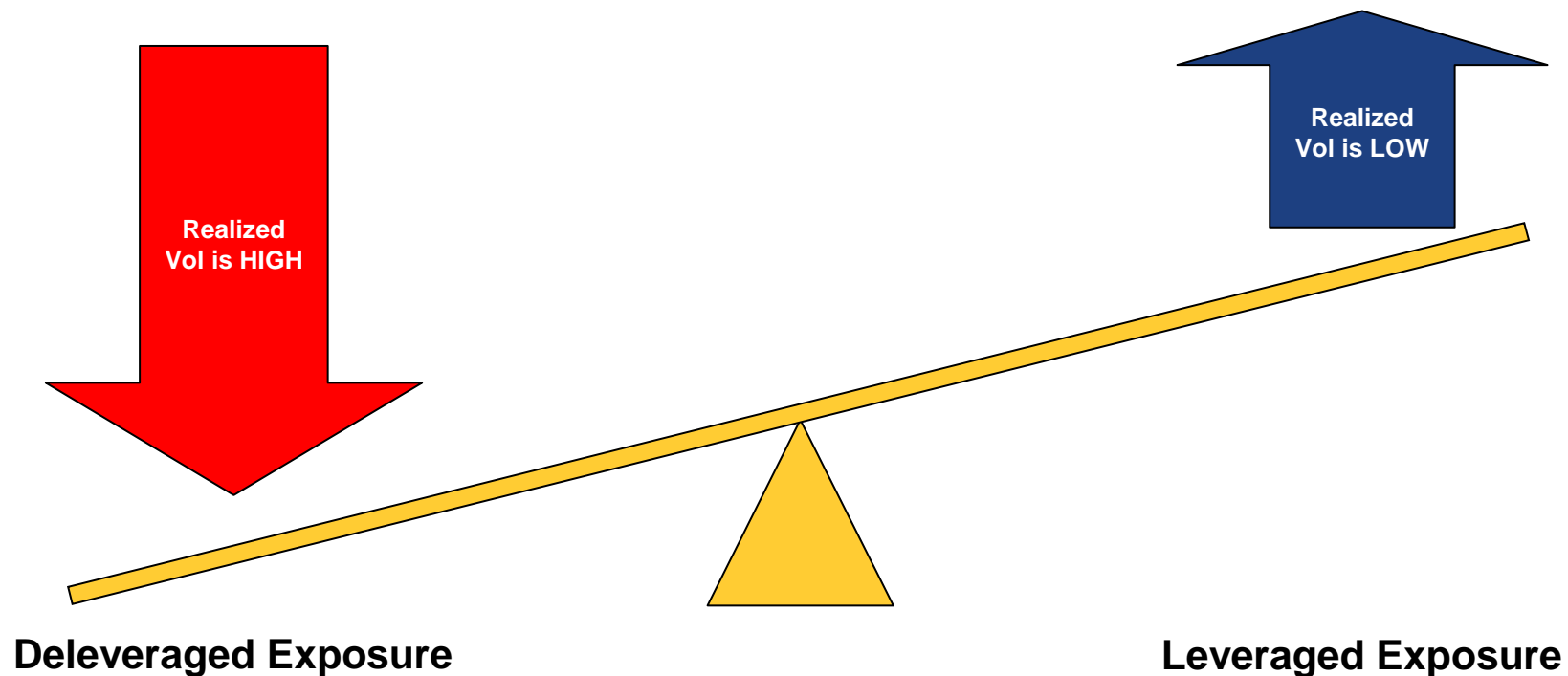
- › China is booming and playing an important role in the global economy
- › HSCEI Index is a well diversified index covering 40 Chinese corporates across 10 different sectors
- › HSCEI has significantly outperformed the developed markets (5Y, ~150% over SPX & SX5E)
- › However, HSCEI is more volatile comparing to other benchmarks
- › Buying protection on HSCEI is expensive

Q: How can we invest in China benefiting from the upside potential and at the same time be protected against downside risk without paying so much for it?

A: The Volatility Target Strategy!!

Volatility Target Strategy Mechanism

The aim of the Volatility Target Strategy is to maintain risk at a pre-set level by following a pre-defined asset allocation rule



Volatility Target Strategy Scenario (Bullish Market)

Target Vol **20%**

Day	HSCEI Index	Return on HSCEI	Volatility	Weight (Target / Historical)	Allocation Index Cash	Vol Target Index
1	100.00%		50.00%	40.00%	40.00% 60.00%	100.00%
2	105.00%	5.00%				102.00%

Target Vol **20%**

Day	HSCEI Index	Return on HSCEI	Volatility	Weight (Target / Historical)	Allocation Index Cash	Vol Target Index
1	100.00%		16.00%	125.00%	125.00% -25.00%	100.00%
2	105.00%	5.00%				106.25%

*For simplicity, no interest on cash component and no charge for leverage.

Volatility Target Strategy Scenario (Bearish Market)

Target Vol 20%

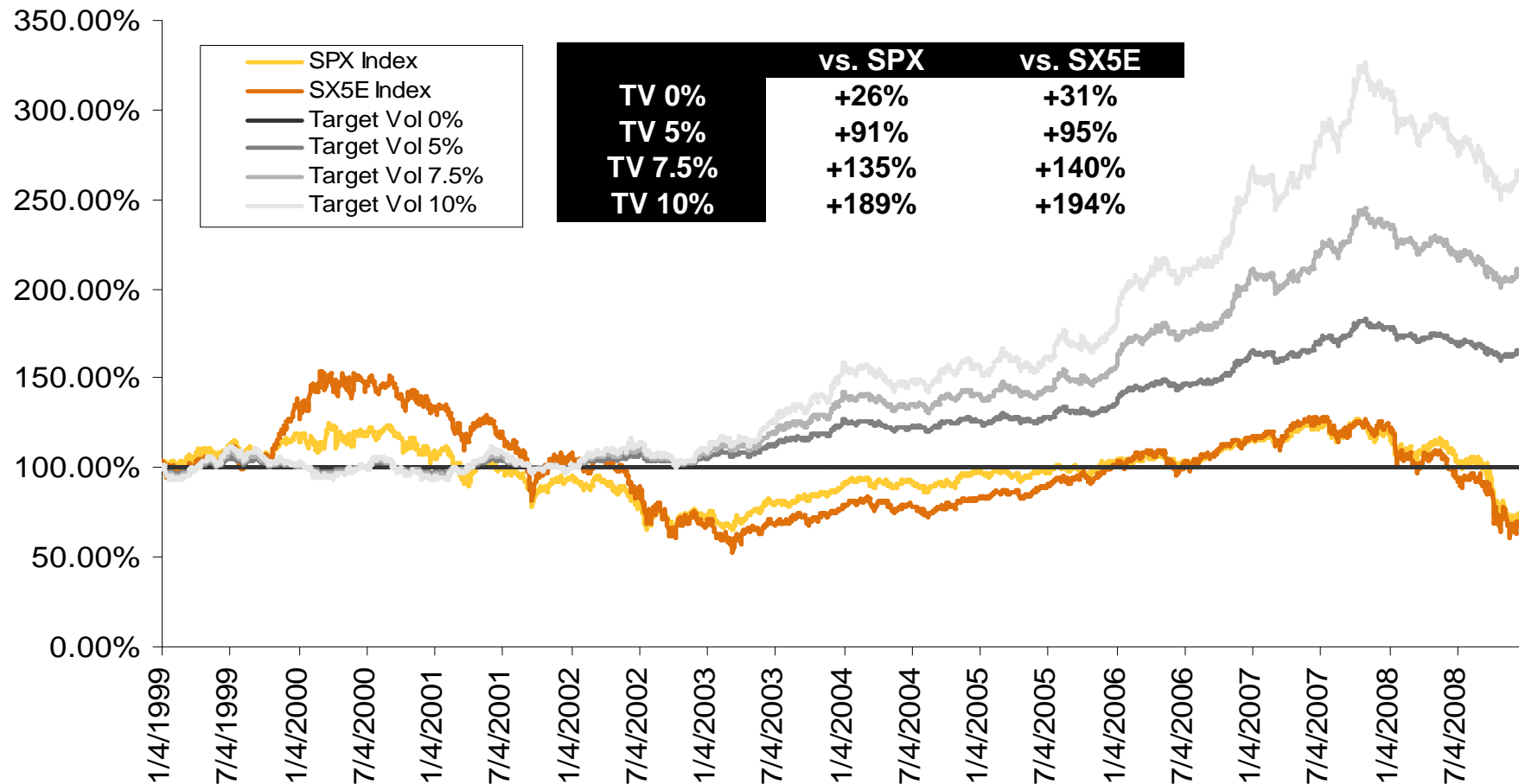
Day	HSCEI Index	Return on HSCEI	Volatility	Weight (Target / Historical)	Allocation Index	Cash	Vol Target Index
1	100.00%		50.00%	40.00%	40.00%	60.00%	100.00%
2	95.00%	-5.00%					98.00%

Target Vol 20%

Day	HSCEI Index	Return on HSCEI	Volatility	Weight (Target / Historical)	Allocation Index	Cash	Vol Target Index
1	100.00%		16.00%	125.00%	125.00%	-25.00%	100.00%
2	95.00%	-5.00%					93.75%

*For simplicity, no interest on cash component and no charge for leverage.

Historical Volatility Target Strategy With Different Target Volatility Levels



Source: Bloomberg, Commerzbank

Commerzbank Volatility Target Strategy Index Linked to HSCEI

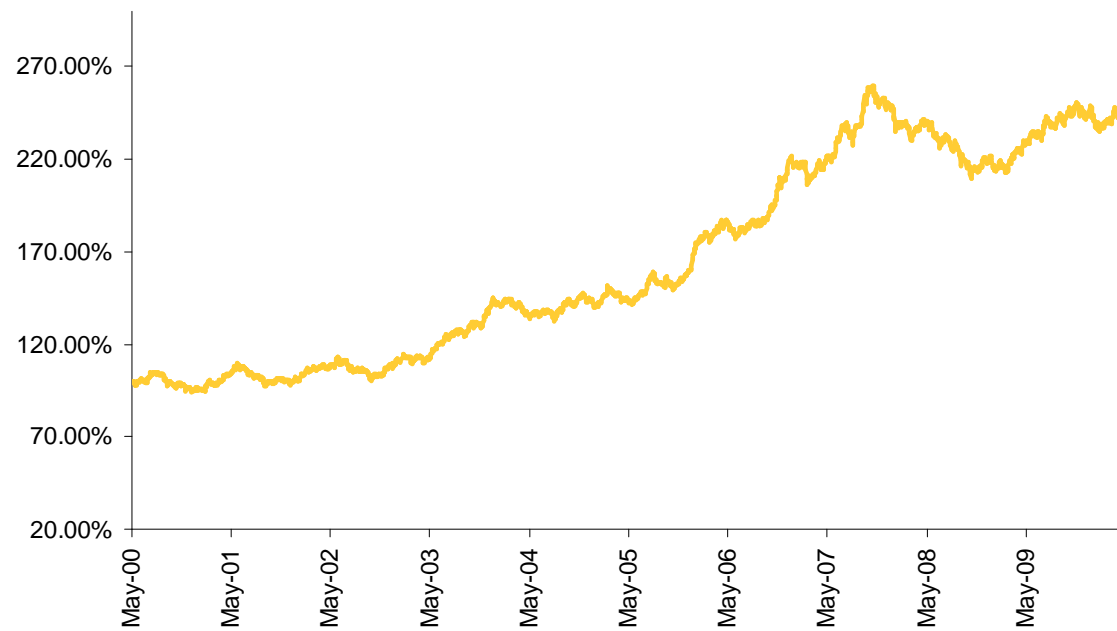
› 95% Principal Guaranteed

› Target Volatility = 8%

› Conditional Annual Coupon = 8%

› Unlimited upside paid at Maturity

Volatility Target Strategy Index Level (Target Vol @ 8%)



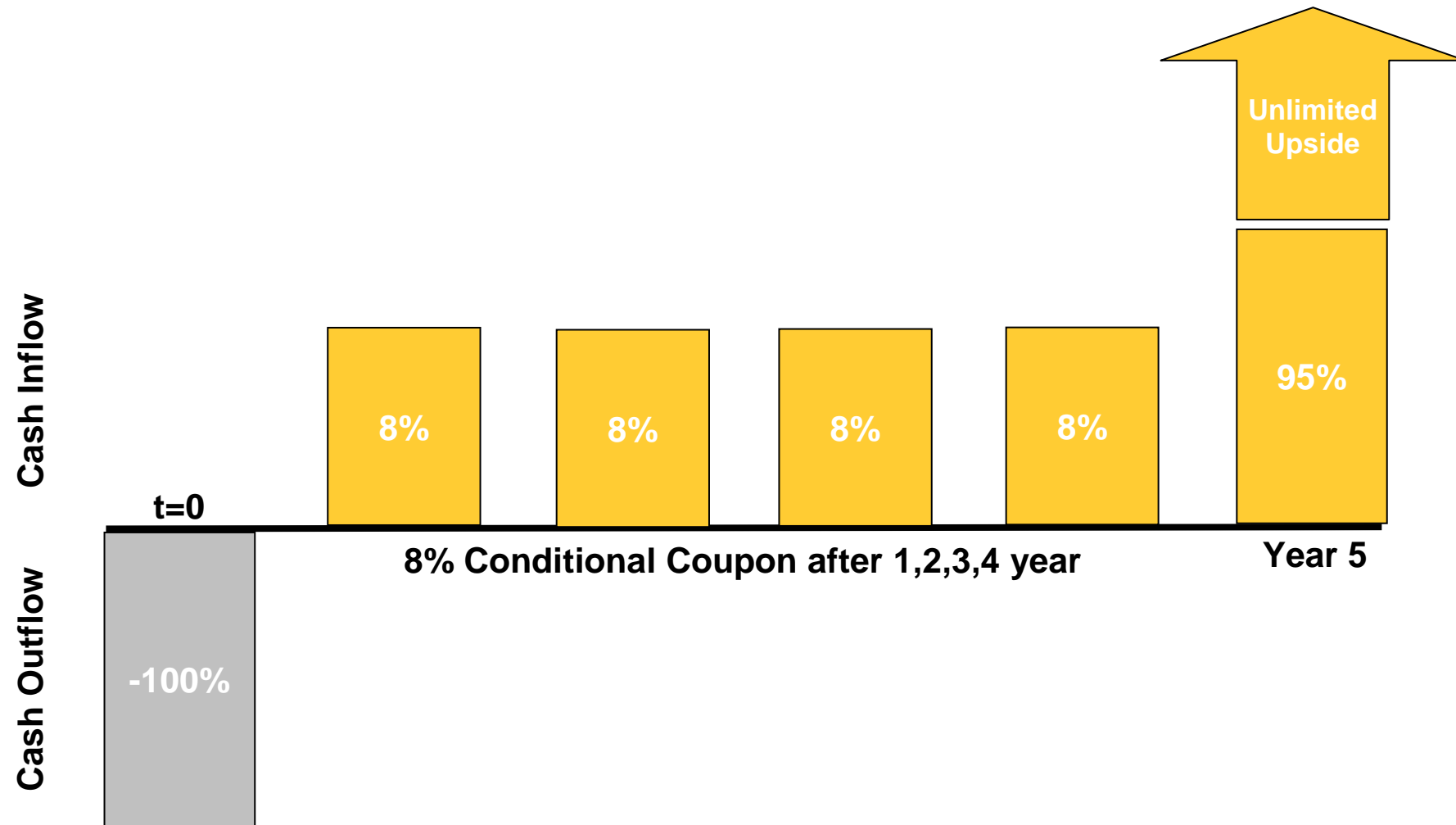
Source: Commerzbank

Commerzbank Volatility Target Strategy Index Linked to HSCEI

Cashflow:

After 1 year	IF VolTarget Index \geq 108%, then a 8% coupon is paid and the VolTarget Index drops by 8%;
After 2 year	IF VolTarget Index \geq 108%, then a 8% coupon is paid and the VolTarget Index drops by 8%;
After 3 year	IF VolTarget Index \geq 108%, then a 8% coupon is paid and the VolTarget Index drops by 8%;
After 4 year	IF VolTarget Index \geq 108%, then a 8% coupon is paid and the VolTarget Index drops by 8%;
After 5 year	Max [95% , VolTarget Index]

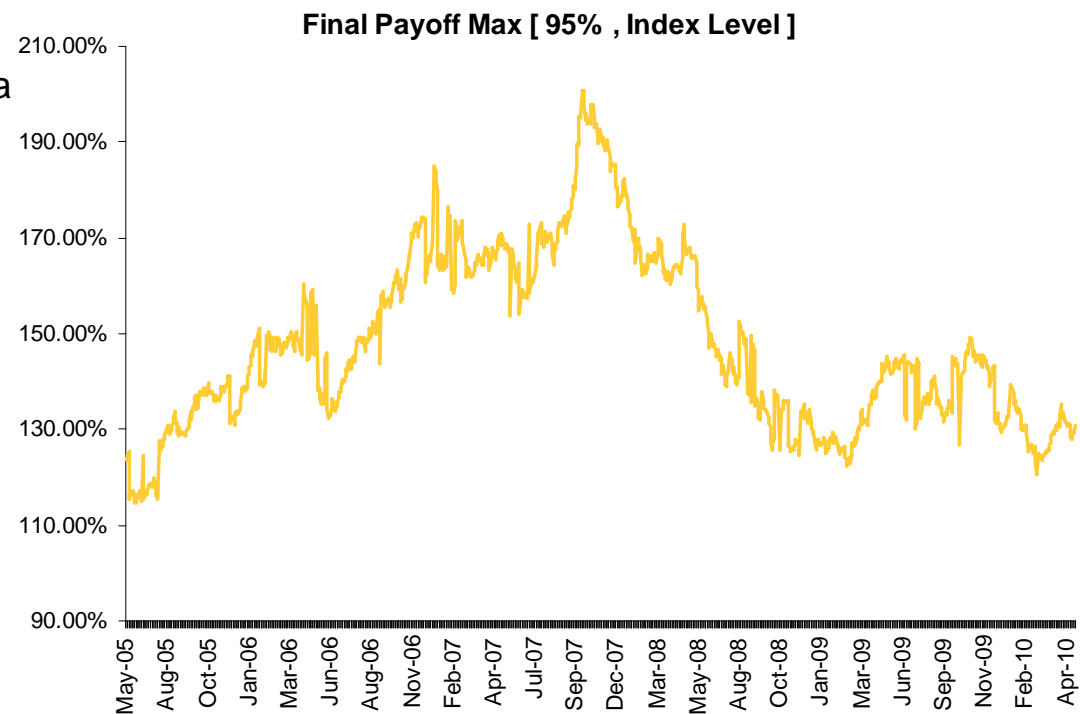
Commerzbank Volatility Target Strategy Index Linked to HSCEI



Commerzbank Volatility Target Strategy Index Linked to HSCEI

Backtesting Result (16-May-2000 – 13 May 2010)

Average Total Return	15% p.a.
Max Total Return	26.6% p.a
Min Total Return	7.8% p.a.
Average Total Coupon	27%
Max Total Coupon	32%
Min Total Coupon	16%
Average Final Payoff	148%
Max Final Payoff	201%
Min Final Payoff	115%



Source: Commerzbank

Commerzbank Volatility Target Strategy Index Linked to HSCEI

This 5 year USD denominated note is linked to Hang Seng China Enterprises Index (HSCEI) and based according to the Volatility Target Strategy asset allocation rule. The note will pay 4 conditional annual coupons if the Volatility Target Strategy Index closes at or above 100% of it's initial level and the Index level will decrease by the same amount of the coupon. At maturity, the final payoff will be the Floor amount plus the upside of the Index (In-the-money Call).

Currency	USD
Tenor	5 years
Underlying	HSCEI Index
Target Volatility	8%
Historical Volatility	Based on past 20 trading days
Frequency	Daily Rebalancing
Interest	Nil, no interest is earned on cash component; no interest is charged for leverage
Weight	Min weight 0%; Max weight 200% (Target Volatility / Historical Volatility)
Coupon Barrier	108%
Condition coupon	8%
Participation	100%
Funding	+55
Floor	95%

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San Tam

Equity Derivatives Structuring, Asia

Phone +852 3988 0857

Fax +852 3988 0899

E-mail san.tam@commerzbank.com