# survey of the commerzbank group

## World economy maintains strong growth

Despite occasional fears of recession due to the sharp rise in the price of oil, 2005 in retrospect was another very good year for the world economy. Expanding by about 4½%, it grew for the third year in succession more rapidly than the long-term average. Once again, the United States and the countries of South-East Asia proved to be the driving force. Undoubtedly, the positive surprise was Japan, whose economy has apparently overcome its more than ten-year phase of stagnation. In view of the distinct tightening of monetary policy over the past one and a half years, momentum in the USA at least will probably slacken perceptibly this year. All the same, the world economic setting can be expected to remain positive in 2006 as well.

Once again, Western Europe was the major economic area with the lowest growth rates. However, here too, there were increasing signs in the second half of the year that the economy was picking up. The same holds true for Germany, where economic activity continues to be largely dependent on buoyant foreign demand, though. While companies are stepping up their investment activity and are also prepared to borrow again for this purpose, private consumption has failed to recover so far. Consequently, real GDP growth was again unsatisfactory, reaching only 0.9%. As the world economic setting seems likely to stay positive, the economic upturn will probably continue this year, especially since the labour market is showing the first signs of becoming more stable.

In the financial markets, the main feature was the strong upswing in equity markets. Resurgent optimism about the economic outlook and sharp rises in corporate profits caused the German DAX stock index to advance by 27% in the course of the year. On balance, there were no major changes in the bond markets. Despite the tendency for central banks worldwide to steer a less expansionary monetary course, there was again no distinct increase in the yields of long-dated government bonds. In the eurozone, they even declined somewhat once again.

## 2005 – a good year for the Commerzbank Group

At the Commerzbank Group, we achieved one of our best operating profits to date at €1.72bn. We are posting an after-tax return on equity of 12.4% and a cost/income ratio of 67.1%; we have thus more than achieved our goals for 2005. One of the most important strategic moves last year was undoubtedly the decision to take over Eurohypo AG. In November, we reached agreement with Deutsche Bank and Allianz/Dresdner Bank to acquire their interests in Eurohypo in two steps. We bought 17.1% on December 15, 2005, transferring the entire investment to Commerzbank Inlandsbanken Holding AG. A further 49.1% will follow as of March 31, 2006. The average purchase price was €19.60 per share. This means that in future we will hold more than 98% of the equity of Eurohypo AG and become Germany's second-largest bank.

## Consolidated balance-sheet total reaches €445bn

In the course of 2005, the Commerzbank Group's balance-sheet total expanded by 4.7% to €444.9bn. After contracting in previous years, our risk-weighted assets also increased again, by 7.2% to €149.7bn. While our interbank lending remained virtually unchanged at €86.2bn, claims on customers were 2.3% higher at €153.7bn. This rise partly reflects the stronger US dollar, but also the modest recovery of credit demand due to the emergent economic recovery.

Our investments and securities portfolio expanded by 19.5% to €86.2bn, mainly on account of additions to our portfolio of bonds and the acquisition of Eurohypo shares in December. At the same time, we disposed of our investments in MAN, Unibanco, Heidelberger Druck and Banca Intesa in the course of the year.

## Change in structure of deposits

While our interbank borrowing grew by 12.5% to €129.9bn, our liabilities to customers declined by 2.1% to €102.8bn. Sight deposits were 12.9% higher, whereas savings and time deposits contracted by 26.4% and 4.8%, respectively. Securitized liabilities rose by 11.1% to €96.9bn, largely due to the activity of Hypothekenbank in Essen and the Parent Bank.

## Encouragingly strong rise in revenues

All told, the revenues of the Commerzbank Group rose by 15.9% to €6.4bn. Net interest income increased by 5.3% to €3.2bn, thanks to Eurohypo, Essenhyp and BRE Bank in particular.

We were able to reduce provision for possible loan losses by a third to €566m, the lowest level in six years. This proves that we are on the right course in our risk management. Our portfolio of non-performing loans was €590m lower in a year-end comparison, which meant that we had further reduced the risks. The cover ratio for such loans is a comfortable 120%.

Above all, our net commission income benefited from the encouragingly brisk stock-exchange business, climbing 7.3% to €2.4bn. In addition to commissions from securities transactions and asset management, we also registered a good result for syndicated business. Our trading profit was 31.2% stronger at €707m. Apart from the positive market environment, our new orientation in investment banking with its focus on customer-driven business was a key factor here. The net result on the investments and securities portfolio almost doubled year-on-year to reach €647m. On our equity holdings, we realized proceeds of €431m, mainly through the disposal of interests in Banca Intesa, MAN, Unibanco and Heidelberger Druck. The contribution from securities was €216m.

### Structure of provision for possible loan losses

| Commerzbank Group, in € m | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| Germany | 629 | 836 | 791 | 956 | 609 |
| Abroad | –63 | 0 | 293 | 365 | 318 |
| Total net provisioning | 566 | 836 | 1,084 | 1,321 | 927 |

## Slight increase in operating expenses

Despite our strict cost management, operating expenses – rising by 3.8% to €4.7bn – were up slightly for the first time in four years. Whereas other expenses continued to decline, personnel expenses were higher due to special charges. Among other things, we set aside roughly €50m for a new form of bonus payment; starting this year, we are introducing a profit-participation scheme for employees, the payout being determined by the return on equity which is achieved. A special effect was also registered in depreciation, since we had to make a write-down of €118m on Asian real estate acquired together with the purchase of the British firm Jupiter.

## Consolidated surplus more than tripled

The above-mentioned income and expenses taken together gave rise to an operating profit of €1.72bn, which was almost 70% higher than a year earlier. In order to make improvements to credit-processing procedures and at foreign outlets, we booked restructuring expenses of €37m. Subsequently, the pre-tax profit amounted to €1.68bn, compared with €796m a year previously, when we had to shoulder higher restructuring expenses for revamping investment banking and – under the accounting rules valid at that time – for regular amortization of goodwill.

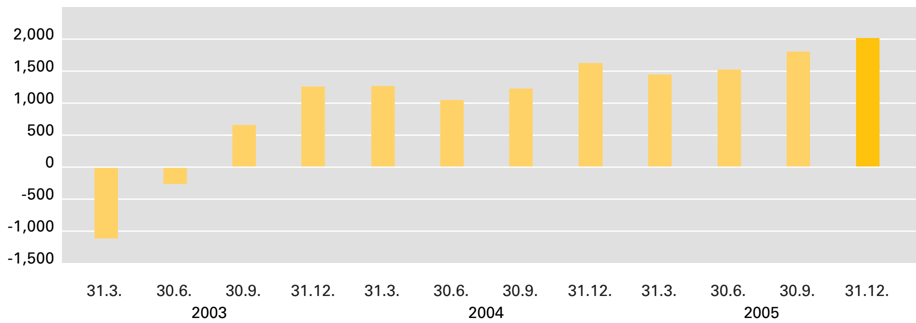
After taxes of €409m and the profits of €106m attributable to minority interests are deducted, a consolidated surplus of €1,165m remains, as against €362m a year earlier. We intend to allocate €837m of this amount to retained earnings. We will propose to the Annual General Meeting that the distributable profit of €328m be used to make a dividend payment which has been doubled to 50 cents per Commerzbank share.

## Equity increased before Eurohypo transaction

The Bank's equity rose by 23.8% to €13.7bn in the course of the year. This was mainly due to the November capital increase, effected in connection with the acquisition of Eurohypo. The new shares were allocated to institutional investors at a price of €23.50 per share, providing us with about €1.36bn of new equity. Our subscribed capital rose to €1.7bn and the capital reserve increased by practically 27% to €5.7bn. The issue of shares to our staff generated €9m.

**Revaluation reserve continues to rise**

in € m



After the allocation from the net profit for the year, our retained earnings stand at €4.2bn. Despite the disposal of equity holdings, the revaluation reserve was 24.7% higher at €2.0bn. As we have raised our interest in comdirect bank to almost 80%, minority interests contracted by 25.4% to €947m.

At year-end, the core capital ratio stood at 8.1%, compared with 7.5% a year previously. Due to the €733m decrease in subordinated funds, our own funds ratio was reduced slightly from 12.6% to 12.5%. Parallel to acquiring the remaining 49.1% of Eurohypo on March 31, 2006, we are issuing hybrid capital for the first time in the history of Commerzbank. This will ensure that our core capital ratio remains within the target range after Eurohypo has been fully consolidated.

### Changes in segment reporting

As of January 1, 2005, we adjusted our segment reporting to reflect the new organization of the Commerzbank Group. The new structure is presented in detail on page 128 of this report.

At the same time, we made additional changes in the interest of greater transparency. Parts of the Others and Consolidation segment are now assigned to operational business lines. This applies mainly to the funding costs of the equity investments controlled by the respective segments and to costs not previously allocated. In addition, we no longer show a Group Treasury segment, but instead assign the results of treasury in Germany to the relevant business lines. Last but not least, we no longer measure the equity allocated to the various segments in accordance with the German Banking Act (KWG), but rather in accordance with BIS. In order to guarantee comparability, the year-ago figures have been revised accordingly.

### Stable result in Private and Business Customers segment

Last year, we increased revenue in this segment by €21m, thanks primarily to net commission income from brisk securities trading on behalf of our customers. On the other hand, investments in our growth initiatives for private banking, business customers and at comdirect bank led to higher operating expenses. In addition, the lion's share of the newly introduced profit-sharing scheme for staff is borne by this segment. The operating profit of €282m – compared with €323m a year earlier – is in line with our expectations, therefore, and reflects much improved sales performance.

With a virtually unchanged amount of equity tied up, the operating return on equity fell from 17.1% to 14.9%. The cost/income ratio rose marginally from 75.6% to 77.9%.

### Assets under management reach €98.3bn

With €4.1bn more assets under management, we raised net commission income by €46m in Asset Management. All told, revenue was €17m stronger. There was a sizeable increase of €74m in operating expenses, mainly due to the revaluation of staff profit-participation models at our UK subsidiary Jupiter, as required by new accounting rules. The operating profit reached €120m, compared with €177m a year previously. However, the pre-tax profit of €120m was somewhat higher than in 2004, when the no longer admissible regular amortization of goodwill had imposed an extra burden, pushing the pre-tax profit down to €118m.

The operating return on equity deteriorated from 31.7% to 22.3% and the cost/income ratio from 68.9% to 79.5%.

### *Mittelstand* segment successful

Both the Parent Bank in Germany and our outlets in Central and Eastern Europe – and primarily BRE Bank – as well as CommerzLeasing und Immobilien were mainly responsible for the positive development of this segment. Revenue for *Mittelstand* overall was €308m higher. Net commission income in particular expanded strongly. Provisioning, which was reduced by a sizeable €161m, also made a major contribution to the improvement in earnings. Operating expenses were virtually unchanged. We achieved an operating profit that was a good three times higher, rising from €131m to €408m. The income statement of this segment includes €22m in restructuring expenses set aside for improving credit-processing procedures, which reduces the pre-tax profit.

Despite the larger average amount of equity tied up, the operating return on equity jumped from 4.9% to 13.5%, and the cost/income ratio improved from 59.3% to 56.2%.

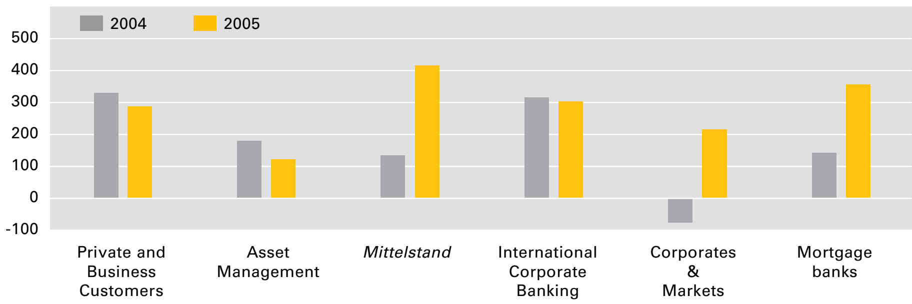
### Efficiency-boosting programme for International Corporate Banking

International Corporate Banking benefited above all from the reversal of provisions in 2005; we show a positive balance of €69m under provision for possible loan losses. Net interest income was lower on account of a weaker treasury result, while net commission income was more or less unchanged. With operating expenses slightly higher, we achieved an operating profit of €299m, as against €311m a year earlier. In this segment, we have recognized restructuring expenses of €11m in connection with our project to boost efficiency at outlets in Western Europe.

The operating return on equity receded from 23.3% to 21.5% – with a slightly larger average amount of equity tied up. The cost/income ratio rose from 43.6% to 53.1%.

**Operating profit, by segment**

in € m



### Repositioning of Corporates & Markets paying off

Revenue in this segment increased by €138m, driven by the excellent trading profit and improved net interest income after provisioning. At the same time, we managed to cut our operating expenses considerably, by €149m, by concentrating our business activities. This led to a positive swing in our operating profit, which moved from minus €75m to an encouragingly high €212m. We needed €132m to cover restructuring expenses last year. For 2006, we have earmarked only a small amount of €4m.

With a much reduced average amount of equity tied up, the operating return on equity rose from –3.7% to 11.7%. The cost/income ratio fell from 105.1% to 78.7%.

### Mortgage Banks – a solid pillar in our earnings performance

Our mortgage banks produced excellent performance in 2005. Their net interest income more than doubled, not least due to the boom in new business. Overall, revenue increased by €214m, while operating expenses remained at their low year-earlier level. The operating profit reached €350m, compared with €139m in 2004.

With an unchanged average amount of equity tied up, the operating return on equity climbed substantially from 13.9% to 34.8%, while the cost/income ratio dropped further from last year's already excellent level of 19.1% to 11.1%.

**Mortgage banks**

| | 2005 |
|---|---|
| Equity tied-up (€ m) | 1,007 |
| Operating return on equity | 34.8% |
| Cost/income ratio in operating business | 11.1% |

### Commerzbank Group back on a successful course

The 2005 returns on equity for the Commerzbank Group as a whole show that we have made good progress on the way to achieving sustained earnings performance. By 2010 at the latest, we intend to have an after-tax return on equity of 15%, and the cost/income ratio should settle at around 60%. For 2006, we have set ourselves the target of a return on equity of over 10% and a further decline in our cost/income ratio.

## Development in individual quarters

### 2005 financial year

| € m | Total | 4th quarter | 3rd quarter | 2nd quarter | 1st quarter |
|---|---|---|---|---|---|
| Net interest income | 3,172 | 833 | 771 | 847 | 721 |
| Provision for possible loan losses | –566 | –40 | –151 | –177 | –198 |
| Net interest income after provisioning | 2,606 | 793 | 620 | 670 | 523 |
| Net commission income | 2,415 | 645 | 599 | 593 | 578 |
| Net result on hedge accounting | –22 | – | –5 | –5 | –12 |
| Trading profit | 707 | 217 | 217 | 11 | 262 |
| Net result on investments and securities portfolio | 647 | 190 | 79 | 84 | 294 |
| Other result | 26 | –9 | 6 | 26 | 3 |
| Operating expenses | 4,662 | 1,370 | 1,097 | 1,088 | 1,107 |
| **Operating profit** | **1,717** | **466** | **419** | **291** | **541** |
| Regular amortization of goodwill | – | – | – | – | – |
| Restructuring expenses | 37 | 37 | – | – | – |
| **Pre-tax profit** | **1,680** | **429** | **419** | **291** | **541** |
| Taxes on income | 409 | 84 | 126 | 83 | 116 |
| **After-tax profit** | **1,271** | **345** | **293** | **208** | **425** |
| Profit/loss attributable to minority interests | –106 | –12 | –31 | –33 | –30 |
| **Consolidated surplus** | **1,165** | **333** | **262** | **175** | **395** |

### 2004 financial year

| € m | Total | 4th quarter | 3rd quarter | 2nd quarter | 1st quarter |
|---|---|---|---|---|---|
| Net interest income | 3,013 | 747 | 719 | 806 | 741 |
| Provision for possible loan losses | –836 | –185 | –199 | –214 | –238 |
| Net interest income after provisioning | 2,177 | 562 | 520 | 592 | 503 |
| Net commission income | 2,250 | 570 | 526 | 557 | 597 |
| Net result on hedge accounting | 6 | –1 | 14 | –11 | 4 |
| Trading profit | 539 | 103 | –9 | 131 | 314 |
| Net result on investments and securities portfolio | 339 | 82 | 23 | 180 | 54 |
| Other result | 193 | 9 | 35 | 82 | 67 |
| Operating expenses | 4,493 | 1,159 | 1,086 | 1,136 | 1,112 |
| **Operating profit** | **1,011** | **166** | **23** | **395** | **427** |
| Regular amortization of goodwill | 83 | 22 | 20 | 21 | 20 |
| Restructuring expenses | 132 | – | 132 | – | – |
| **Pre-tax profit** | **796** | **144** | **–129** | **374** | **407** |
| Taxes on income | 353 | 47 | 71 | 107 | 128 |
| **After-tax profit** | **443** | **97** | **–200** | **267** | **279** |
| Profit/loss attributable to minority interests | –81 | –5 | –16 | –27 | –33 |
| **Consolidated surplus** | **362** | **92** | **–216** | **240** | **246** |

# corporate governance at commerzbank

On February 26, 2002, an independent commission set up by the German government published the German Corporate Governance Code for the first time. It describes key statutory provisions for the management and supervision of German listed companies and embodies internationally and nationally recognized standards for good and responsible governance. The Code makes the German system of corporate governance transparent and intelligible. It strengthens the confidence of investors, customers, employees and the general public in the management and supervision of German listed companies.

Responsible corporate governance has always been a high priority at Commerzbank. That is why we – the Supervisory Board and the Board of Managing Directors – expressly support the Code as well as the goals and objectives which it pursues. Even at the time of publication of the German Corporate Governance Code, Commerzbank's articles of association and the rules of procedure for the Board of Managing Directors and Supervisory Board complied with its requirements for the most part. Wherever this was not yet the case, we have adjusted them to the regulations of the German Corporate Governance Code. The relevant changes to the articles of association were resolved by the Annual General Meeting of May 30, 2003. The articles of association and the rules of procedure are available on the internet.

Commerzbank's corporate governance officer is Günter Hugger, head of Legal Services. He is the person to contact for all corporate governance issues and has the function of advising the Board of Managing Directors and the Supervisory Board on the implementation of the German Corporate Governance Code and of reporting on its implementation by the Bank.

## Recommendations of the German Corporate Governance Code

The Bank declares every year whether the recommendations of the Commission regarding conduct have been and will be complied with or explains which recommendations have not been and will not be applied. This declaration of compliance by the Board of Managing Directors and the Supervisory Board is published on Commerzbank's internet site. There, the no longer current declarations of compliance, made since 2002, may also be found.

Commerzbank complies with virtually all of the recommendations of the German Corporate Governance Code in its version of June 21, 2005; it deviates from them in only two points:

Pursuant to section 4.2.2, the full Supervisory Board should discuss and regularly review the structure of the system of compensation for the Board of Managing Directors. The Supervisory Board has entrusted matters related to the compensation of the Board of Managing Directors to its Presiding Committee, which independently resolves upon and deals with them. This procedure has proved successful. The Presiding Committee discusses the structure of the system of compensation, regularly reviews it and determines the amount of compensation for members of the Board of Managing Directors. It reports to the full Supervisory Board on its deliberations and decisions.

Pursuant to section 5.3.2 of the Code, the Audit Committee shall deal not only with accounting issues and the audit of the annual financial statements, but also with issues related to the Bank's risk management. Commerzbank has entrusted risk-management issues to the Risk Committee of the Supervisory Board, which for years has dealt with the Bank's credit, market and operational risk, rather than to its Audit Committee. It is ensured that the Audit Committee is extensively informed about risk-management issues by the chairman of the Audit Committee also being a member of the Risk Committee of the Supervisory Board.

**Suggestions of the German Corporate Governance Code**

Commerzbank also complies with virtually all of the suggestions of the German Corporate Governance Code, deviating from them in only six points:

In derogation of section 2.3.3, the proxy can only be reached up to the day of the Annual General Meeting. However, shareholders present or represented at the Annual General Meeting are able to give their proxy instructions there as well.

In section 2.3.4, it is suggested that the Annual General Meeting be broadcast in its entirety via internet. We broadcast the speeches of the Chairman of the Supervisory Board and the Chairman of the Board of Managing Directors, but not the general debate. For one thing, a complete broadcast seems inappropriate given the length of annual general meetings; for another, the personal rights of the individual speaker have to be considered.

Section 3.6 of the German Corporate Governance Code suggests that separate meetings should be held regularly for the representatives of the shareholders and the employees. We arrange such preparatory meetings only if the need arises.

Section 5.3.2 suggests that the chairman of the Audit Committee should not be a former member of the Board of Managing Directors. We have not adopted this suggestion as the expertise of the person in question takes priority for us.

The suggestion contained in section 5.4.6 that the members of the Supervisory Board should be elected at different dates and for different periods of office is not compatible with the German system of co-determination. Employee representatives, namely, have to be elected together for five years. The suggestion could only be applied, therefore, in the case of shareholder representatives and would consequently lead to unequal treatment.

Last but not least, it is suggested in section 5.4.7 of the Code that the variable compensation of Supervisory Board members should also be related to the long-term performance of an enterprise. At Commerzbank, the variable compensation of Supervisory Board members is related to the dividend payment. We consider this to be a transparent and readily understandable system. What is more, the most recent judgement of the Federal Court of Justice (*Bundesgerichtshof*) makes it doubtful whether long-term compensation structures are permissible.

**ComWerte project**

Responsible corporate governance also entails the development and observance of internal rules of conduct and principles. A "corporate constitution" is to serve this purpose, which is being prepared since mid-2005. This is an extensive project, bearing the name "ComWerte". It describes the principles upon which the corporate culture is based and Commerzbank's values, and links these up with guidelines and statutory provisions. In this way, a responsible corporate culture is to be clearly and sustainably implemented and responsible conduct on the part of employees encouraged. It will be introduced in the course of the current year.

### Board of Managing Directors

The Board of Managing Directors is responsible for the independent management of the Company. In this function, it has to act in the Company's best interests and is committed to achieving a sustained increase in the value of the Company and to respecting the interests of customers and employees. It develops the Company's strategy, coordinates it with the Supervisory Board and ensures its implementation. In addition, it guarantees efficient risk management and risk control. The Board of Managing Directors conducts Commerzbank's business activities in accordance with the law, the articles of association, its rules of procedure and the relevant employment contracts. It cooperates on a basis of trust with Commerzbank's other bodies and with employee representatives.

The composition of the Board of Managing Directors and the responsibilities of its individual members are presented on pages 202-203 of this annual report.

In the 2005 financial year as well, members of the Board of Managing Directors were involved in no conflicts of interest as defined in section 4.3 of the German Corporate Governance Code.

### Principles of the compensation system for members of the Board of Managing Directors

The compensation of the members of the Board of Managing Directors is made up of a fixed remuneration and a variable bonus, based on Commerzbank's business success and the attainment of previously defined targets. In addition, there is appropriate remuneration in kind. Emoluments for board functions at subsidiaries are counted against remuneration. On page 176 of this annual report, the compensation of the members of the Board of Managing Directors can be found in individualized form, broken down according to the various components.

Since 2001, the members of the Board of Managing Directors, like other executives and selected staff of the Group, have been able to participate in so-called long-term performance plans (LTPs). These annually offered plans permit a remuneration geared to the performance of the share price or a sectoral index, which in some cases is paid in cash, and are therefore referred to as virtual stock option plans. They entail a payment commitment if the price performance of the Commerzbank share exceeds that of the Dow Jones Euro Stoxx Banks and/or the absolute performance of the Commerzbank share is at least 25%. In order to participate in the LTPs, those eligible have to invest in Commerzbank shares. Members of the Board of Managing Directors may participate with up to 2,500 shares, the spokesman of the Board of Managing Directors with up to 5,000 shares. Below Board level, employees may subscribe to between 100 and 1,200 shares for the plan, depending on the function group of the employee. The exact structure of these LTPs is explained on pages 118 and 119 of this annual report; details of the current value of these options may be found on pages 181 and 182.

## Supervisory Board

The Supervisory Board advises and supervises the Board of Managing Directors in its management of the Company. It conducts its business activities in accordance with the legal provisions, the articles of association and its rules of procedure; it cooperates closely and on a basis of trust with the Board of Managing Directors.

The composition of the Supervisory Board and its committees is presented on pages 199 and 200 of this annual report. Information on the work of this body, its structure and its control function is provided by the report of the Supervisory Board on pages 195-198.

Every two years, the Supervisory Board examines the efficiency of its activities by means of a detailed questionnaire. Such an examination took place at the start of 2004. At the start of 2005, an abridged examination was carried out and by the end of last year another detailed survey. It focused once again on the topics:

- Information flow from the Board of Managing Directors to the Supervisory Board
- Meetings (number, topics and main emphases)
- Composition of the Supervisory Board (efficiency, independence)
- Committees (number, distribution of duties)

The results of the efficiency check provide the basis for further improving the work of the Supervisory Board. Evaluation of the findings revealed that supervision continues to be professional at Commerzbank. In principle, the number of meetings per year is considered adequate and the distribution of duties between the Supervisory Board and its committees sensible. In the Supervisory Board's opinion, no further committees are necessary. The wish was frequently expressed that the full Supervisory Board should receive more detailed information on the work of the committees. The composition of the Supervisory Board in terms of competence, experience, specialist knowledge, etc. is basically thought to be appropriate. The question whether the Supervisory Board is sufficiently independent also basically received an affirmative answer. Frequently, the wish was expressed to be informed earlier. However, it was conceded that in many cases statutory provisions (so-called ad hoc publication) prevent this wish from being realized. Generally great interest exists in receiving detailed reports and discussing the Bank's strategic course.

During the Risk Committee's discussion of the acquisition of Eurohypo AG, Mr. Müller-Gebel informed the other members of the committee that he was also a member of the supervisory board of Eurohypo AG and as a precautionary measure he abstained when the resolution was subsequently adopted. Further conflicts of interest as defined in section 5.5 of the German Corporate Governance Code did not occur during the year under review.

## Compensation of the Supervisory Board

The members of our Supervisory Board will receive remuneration of €1,394 thousand for the 2005 financial year (previous year: €1,054 thousand), provided that the AGM of Commerzbank Aktiengesellschaft resolves that a dividend of

€0.50 be paid per no par-value share. The remuneration of the members of the Supervisory Board is regulated by Art. 15 of the articles of association and is divided as follows between the individual members:

| 2005<br>Supervisory Board members | Basic remuneration[1]<br>in €1,000 | Committee remuneration<br>in €1,000 | Total<br>in €1,000 |
|---|---|---|---|
| Dr. h.c. Martin Kohlhaussen | 108 | 72 | 180 |
| Uwe Tschäge | 72 | 18 | 90 |
| Hans-Hermann Altenschmidt | 36 | 18 | 54 |
| Dott. Sergio Balbinot | 36 | 18 | 54 |
| Herbert Bludau-Hoffmann | 36 | – | 36 |
| Astrid Evers | 36 | – | 36 |
| Uwe Foullong | 36 | – | 36 |
| Daniel Hampel | 36 | – | 36 |
| Dr.-Ing. Otto Happel | 36 | 18 | 54 |
| Dr. jur. Heiner Hasford | 36 | 18 | 54 |
| Sonja Kasischke | 36 | – | 36 |
| Wolfgang Kirsch | 36 | 18 | 54 |
| Werner Malkhoff | 36 | 18 | 54 |
| Klaus Müller-Gebel | 36 | 54 | 90 |
| Dr. Sabine Reiner | 36 | – | 36 |
| Dr. Erhard Schipporeit | 36 | – | 36 |
| Dr.-Ing. Ekkehard D. Schulz | 36 | – | 36 |
| Prof. Dr. Jürgen F. Strube | 36 | 18 | 54 |
| Dr. Klaus Sturany | 36 | – | 36 |
| Dr.-Ing. E.h. Heinrich Weiss | 36 | 18 | 54 |
| **Total** | **828** | **288** | **1,116**[2] |

1) This basic remuneration consists of a fixed portion (roughly 55.6%) and a variable portion dependent on the dividend payment (roughly 44.4%); 2) in addition to this amount, attendance fees of €277 thousand were paid.

### Purchase and disposal of the Company's shares

Pursuant to Art. 15a of the German Securities Trading Act (*Wertpapierhandelsgesetz* – WpHG), transactions by executives of listed companies and their families have to be disclosed and published. Accordingly, purchases and disposals of shares and also of financial instruments related to Commerzbank of €5,000 and upwards must be reported immediately and for the duration of one month. Through the resolution adopted by the Board of Managing Directors on November 16, 2004, the circle of people required to notify and publish such information was enlarged on account of the German legislation to improve investor protection so as to include Regional Board Members and Group Managers who regularly have access to insider information and are authorized to make business decisions. The resolution adopted by the Board of Managing Directors on August 16, 2005, limited this duty to notify to the Board of Managing Directors and Supervisory Board again; in this, the Bank followed the recommendations of BaFin's guide for issuers.

In 2005, Commerzbank published the following transactions on its internet site under the heading "Directors' Dealings":

| Date | Name | Function | Purchase/ Disposal | No. of shares | Price per unit in euros |
|---|---|---|---|---|---|
| 16.02.05 | Klaus-Peter Müller | Board of Managing Directors | P | 2,047 | 16.77 |
| | | | | 2,953 | 16.78 |
| 16.02.05 | Dr. Eric Strutz | Board of Managing Directors | P | 2,000 | 16.79 |
| 16.02.05 | Martin Blessing | Board of Managing Directors | P | 3,000 | 16.82 |
| 16.02.05 | Dr. Achim Kassow | Board of Managing Directors | P | 2,000 | 16.84 |
| 18.02.05 | Dr. Renate Krümmer | Group Manager | P | 2,250 | 16.86 |
| 21.02.05 | Roman Schmidt | Group Manager | P | 3,000 | 16.95 |
| 12.04.05 | Sonja Kasischke | Member of Supervisory Board | D | 300 | 17.88 |
| 03.05.05 | Martin Blessing | Board of Managing Directors | P | 3,000 | 16.34 |
| 03.05.05 | Dr. Achim Kassow | Board of Managing Directors | P | 2,000 | 16.28 |
| 04.05.05 | Dr. Sebastian Klein | Group Manager | P | 1,200 | 16.34 |
| 09.05.05 | Klaus-Peter Müller | Board of Managing Directors | P | 5,000 | 16.41 |
| 16.05.05 | Frank Annuscheit | CIO | P | 745 | 16.05 |
| 18.05.05 | Martin Zielke | Group Manager | P | 1,155 | 16.47 |
| 19.05.05 | Ulrich Leistner | Regional Board Member | P | 1,200 | 16.61 |
| 23.05.05 | Andreas de Maizière | Board of Managing Directors | P | 1,500 | 16.52 |
| 23.05.05 | Martin Blessing | Board of Managing Directors | P | 7,500 | 16.41 |
| 25.05.05 | Nicholas Teller | Board of Managing Directors | P | 2,500 | 16.35 |
| 30.05.05 | Werner Weimann | Regional Board Member | P | 1,000 | 17.25 |
| 30.05.05 | Andreas Kleffel | Regional Board Member | P | 64 | 17.68 |
| 06.06.05 | Peter Bürger | Group Manager | P | 660 | 17.85 |
| 07.06.05 | Michael Seelhof | Group Manager | P | 144 | 17.60 |
| 08.06.05 | Michael Seelhof | Group Manager | P | 150 | 17.72 |
| 08.06.05 | Dr. Peter Hennig | Group Manager | P | 455 | 17.73 |
| 22.06.05 | Frank Annuscheit | CIO | P | 210 | 18.57 |
| 05.08.05 | Roman Schmidt | Group Manager | D | 3,000 | 19.71 |
| | | | | | 19.72 |
| | | | | | 19.73 |
| 09.09.05 | Hans-Hermann Altenschmidt | Member of Supervisory Board | D | 530 | 22.50 |
| 21.10.05 | Daniel Hampel | Member of Supervisory Board | P | 250 | 20.80 |
| 17.11.05 | Dr. Achim Kassow | Board of Managing Directors | P | 2,500 | 23.66 |

All told, the Board of Managing Directors and the Supervisory Board owned no more than 1% of the issued shares and option rights of Commerzbank AG on December 31, 2005. Employees hold almost 2% of Commerzbank's capital; this is due above all to the regular share issues to staff over the past 30 years.

## Accounting

For accounting purposes, the Commerzbank Group applies the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS); the individual financial statements of Commerzbank AG are prepared according to HGB rules. The consolidated financial statements and the financial statements of the Parent Bank are prepared by the Board of Managing Directors and approved by the Supervisory Board. The audit is performed by the auditors elected by the Annual General Meeting. The annual financial statements also include a detailed risk report, providing information on the Company's responsible handling of the various types of risk. It appears on pages 56-93.

## Shareholder relations and communication

Once a year, the Annual General Meeting of shareholders takes place. Above all, it resolves upon the appropriation of the distributable profit, approves the actions of the Board of Managing Directors and the Supervisory Board as well as amendments to the articles of association and, if necessary, authorizes the Board of Managing Directors to undertake capital-raising measures. Each share entitles the holder to one vote.

The Bank's shareholders may submit recommendations or other statements by letter or e-mail or may present them in person. The Bank's head-office quality management unit is responsible for dealing with written communication. At the Annual General Meeting, the Board of Managing Directors or the Supervisory Board comment or reply directly. At the same time, shareholders may influence the course of the Annual General Meeting by means of counter-motions or motions to extend the agenda. Shareholders may also apply for an extraordinary General Meeting to be convened.

Commerzbank informs the public – and consequently shareholders as well – four times a year about the Bank's financial position and earnings performance; further corporate news items that are relevant for the share price are published in the form of so-called ad hoc releases. By means of press conferences and analysts' meetings, the Board of Managing Directors reports on the annual financial statements and the quarterly results. For reporting purposes, Commerzbank increasingly uses the possibilities offered by the internet; at www.commerzbank.com, those interested can find a wealth of information on the Commerzbank Group.

We feel committed to communicating in an open and transparent manner with our shareholders and all other stakeholders. We intend to realize this claim in the future as well.

Frankfurt am Main, February 14, 2006

Commerzbank Aktiengesellschaft
The Board of Managing Directors — The Supervisory Board


ALMADA

**| lisbon, almada forum |**

*COVERING AN AREA OF OVER 73,800M$^2$, PORTUGAL'S THIRD-LARGEST SHOPPING CENTRE WITH ITS 200 OR SO SHOPS OFFERS A DIVERSE RANGE OF SHOPPING AND RECREATION FACILITIES. ITS NUMEROUS ARCHITECTURAL HIGHLIGHTS INCLUDE THE LARGE RECREATION AREA WITH RESTAURANTS IN THE FORM OF AN IMITATION FISHING VILLAGE AND SEVERAL CINEMAS. ITS INNOVATIVE CONCEPTION EARNED IT THE MIPIM AWARD FOR THE BEST SHOPPING CENTRE DEVELOPMENT IN 2003. THE CENTRE IS ONE OF THE ASSETS IN THE PORTFOLIO OF OUR HAUSINVEST EUROPA FUND.*

**| ideas ahead |**

# retail banking and asset management

The Retail Banking and Asset Management division consists of the segments Private and Business Customers and Asset Management. Through our nationwide branch network, we offer retail customers a broad range of products. In the meantime, we serve our sophisticated private-banking clients at 37 locations in Germany and at selected outlets abroad. In Asset Management, we have a presence in Germany and in selected international locations.

## Private and Business Customers segment

**Private and Business Customers**

| | 2005 |
|---|---|
| Equity tied-up (€ m) | 1,891 |
| Operating return on equity | 14.9% |
| Cost/income ratio in operating business | 77.9% |

The Private and Business Customers segment is made up of the Private and Business Customers and Private Banking departments as well as comdirect bank AG. In view of the various special charges which had to be borne, we are very satisfied with the operating profit of €282m. The operating return on equity was 14.9% and the cost/income ratio 77.9%.

### Private and Business Customers department

Our activities involving private and business customers have made good progress. The basis for this success was strong sales performance; we had 35% more contacts with customers, using them to conclude 20% more deals than in the previous year. Our success on the distribution front was fuelled by broad product sales and efficiency-raising measures under the *grow to win* programme for excellence and growth.

### Leading position in providing securities advice

In order to achieve a better match between Commerzbank's securities expertise and customers' needs, new technical solutions were introduced in 2005 to support advisers and customers in their investment decisions. As a result, we are setting standards in German banking. Central to our project – Wertpapier 100+ – is the idea that an investment strategy for specific customers must duly take into consideration their investment mentality and actively relate their individual financial and asset situation to current capital-market information. Subsequently, constant comparisons have to be made between the two. We achieve this by means of our "Infobroker" securities information system, which is directly linked up with the Bank's customer information system. In addition, every market-induced structural change becomes evident by comparing the customer's custody account with model custody accounts, so that the custody account can be adjusted at short notice at a meeting with the customer.

For a broader range of investment products, Commerzbank has developed its pioneering role in the distribution of third-party funds. This has been confirmed by the German standards control association TÜV Süd, which once again awarded Commerzbank the "tested fund selection" certificate – the only bank to receive such confirmation. At Commerzbank, funds are subjected to a firmly defined, transparent and objective selection process. Only funds with the best results are given a buy recommendation. They can be either in-house funds or third-party products.

The decision to follow the recommendations of the selection process pays off for customers: in 2005, the “best of” recommendations performed far better than comparable funds. On average, they outperformed the index by almost 9%. All told, we managed to expand the volume of securities under custody by as much as €3.5bn to €38bn; revenue was 22% higher.

### Market position in home loans expanded further

For the first time in three years, our portfolio of home loans expanded. New business was 48% stronger than in 2004. We achieved this through a combination of our high-quality advice and attractive market conditions. In order to help customers take better advantage of the favourable interest-rate situation, we launched an innovative product – BaufiFlex – which responds flexibly to market conditions. The public’s attention was caught by a year-long market offensive, positioning Commerzbank as a leading provider of home loans.

The specialist on the spot derives support for the individual advice he or she provides from a programme developed exclusively for this purpose. It offers solutions extending far beyond a simple financing and is optimally tailored to personal needs. These include various possibilities for obtaining public funds, special redemption rights, and flexible availability of the loan.

The integration of Eurohypo into the Commerzbank Group has considerably strengthened our position in the home loan area.

### New business model for bancassurance and provision

Banks are playing an ever more important role as providers of special services in private provision for old age. We have responded to this challenge with an efficient and individual strategy for making such provision.

We have great competence in this field thanks to our cooperation with our insurance partner, the AMB Generali group. With the excellent insurance products of Volksfürsorge and our traditional banking and investment products, the optimal solution can be found for every kind of provision need. In order to handle the growing demand for services related to provision even better, Commerzbank has overhauled its business model for advising customers in the bancassurance and provision areas. Every account manager at every branch is now able to give customers direct and individual advice on this topic. They are supported in their efforts by the new ComVor software, a streamlined product palette and an extensive coaching programme. For complex issues, they can turn to the specialists of our Commerz Partner subsidiary. After the new business model had been introduced, the number of deals concluded tripled.

### Strong growth in basic products

Consumer loans benefited in particular from the more intensive sales efforts. Year-on-year, the volume of new business expanded by 22% to €643m. The successful introduction of FlexiCard, a reasonably-priced financial reserve, available at all times, was a major driving force. The number of new accounts was similar to the previous year’s; sales of cards rose by 30%.

### More consulting for business customers

Professional people, the self-employed and businessmen expect their bank to provide them with convincing solutions for their business and private financial affairs. In response to these needs, Commerzbank has considerably enhanced its model for business customers.

The product range that is entirely geared to the needs of this group is a combination of convincing solutions in business-related financial issues and all-inclusive individual advice for private financial matters. In this way, we managed to gain more than 20,000 new business customers last year. Thanks to the all-inclusive support provided, we also boosted new business in investment loans by a solid 40%.

Currently, Commerzbank is looking after over 440,000 business customers at more than 600 locations in Germany. Customers benefit, therefore, from the expertise and efficiency of a major international bank combined with regional market knowledge and an on-the-spot presence.

### SchmidtBank successfully integrated

The technical migration in early March 2005 put the final touches to the successful takeover of SchmidtBank. All the accounts and custody accounts as well as the investment products and loans of former SchmidtBank customers were transferred to Commerzbank's systems – all in all, over eight million data records. Only ten months after the takeover, therefore, Commerzbank had completely integrated the branch business of the long-established regional bank into its own network, thereby notably increasing its market presence in Bavaria, Thuringia and Saxony. We now have 791 outlets throughout Germany. We have attracted altogether just under 350,000 new retail customers with our products and services.

### 88 branches of the future

We are continuing to strengthen our branch network with the "branch of the future" project. Branches of this type are customer-oriented and focus on consulting and distribution. We achieve this, for one thing, through the standardization, streamlining and centralization of administrative functions; for another, through modern and efficient self-service terminals. Here we also make it possible to effect other cash transactions such as in-payments of banknotes and coins 24 hours a day. We will continue to introduce more automation, in terms of both functionalities and locations.

Up to now, small branches in particular have benefited from the new format. It enables us to have an on-the-spot presence and to respond to the customer's wish for a local source of services and continuity in the advice provided. As there is a growing need for advice and products are becoming ever more complex, our customers' response is positive. In future, we will incorporate elements of the new branch type at medium-sized and large branch offices.

### 2006: consolidation and growth

In 2006 as well, our efforts will focus on establishing new business models – both for looking after business customers and for private provision. We will continue to invest in preparing our sales network to meet the challenges of the future and will continue to develop and enhance our *grow to win* programme for excellence and growth. Last but not least, by integrating Eurohypo we intend to improve our product range further and strengthen our position with private and business customers.

### Private Banking department

In Private Banking, we more than attained the ambitious goals set for last year. Assets under management expanded by 12% in 2005 to over €22bn and consequently well above the market average. As a result, we have further strengthened our position as one of the top three in Germany in looking after private clients.

Just under 600 staff worldwide provide support for roughly 22,000 clients in all wealth-related issues. Our all-inclusive service ranges from individual portfolio management and active securities management via financial investment and real-estate management to the management of foundations, estates and private wealth. With its 37 locations – including those opened in Saarbrücken, Regensburg and Bayreuth in 2005 – Commerzbank offers the greatest density of private-banking outlets in Germany.

Internationally, four centres of competence in Zurich, Geneva, Luxembourg and Singapore complement the services provided for wealthy private clients on the spot in important financial centres and offshore markets. Our clients are also able to benefit directly from the investment opportunities in the international financial markets thanks to Commerzbank's worldwide network.

### Innovation leader for investment ideas...

Through the close links with Commerzbank's Asset Management, our private-banking relationship managers can directly tap the expertise of over 100 analysts and capital-market experts. This approach pays off: our portfolio management regularly claimed top positions in the relevant league tables in 2005. Apart from such traditional forms of investment as equities and bonds, investment funds and certificates, a major focus last year was on promoting alternative investments such as hedge funds, guarantee products and asset-backed securities. Here, we are guided by our clients' underlying goals: to preserve value after inflation and tax.

The asset structure of our clients can also be improved by granting credits or by other investment instruments – such as equity participations or real estate. Our main other advisory activities relate to helping clients to organize their estates and to the management of foundations. Thanks to this extensive range of services, we can offer all our clients specially tailored investment solutions.

### ...and quality leader for advice and support

Apart from the very close contact and the trust that exists between client and relationship manager, it is the holistic view of the client's wealth situation and his individual goals that is decisive. Consequently, the models for providing advice and support need to be ideal fits. Last year, therefore, the

*Unternehmerbankiers* (entrepreneur's bankers) advisory concept was launched for very wealthy private individuals with an entrepreneurial background. These experts possess extensive experience in national and international corporate and private investment banking. In addition, they are able at any time to draw upon expertise from inside the Group and, if necessary, from outside it as well.

By strategically combining the efficiency and creativity of a major international bank with the exclusive and personal style of a local private bank, Commerzbank Private Banking will substantially expand its market position in the future as well. For this purpose, we plan further locations in Germany and more activities abroad. A second strategic focus in 2006 is on raising the new volume in portfolio management, which is one of the main factors contributing to success in Private Banking.

### comdirect bank

In the past financial year, we acquired T-Online International AG's 21.32% interest in comdirect bank AG. Commerzbank now holds 79.9% of the company's share capital. We took this step because we are convinced that direct banking still possesses substantial scope for expansion in Germany.

comdirect bank easily exceeded its targets in the 2005 financial year. Although the comvalue programme for growth entailed additional investments, our subsidiary managed again to improve upon its record result in the previous year. At the AGM on May 4, 2006, its management board and supervisory board will propose an unchanged dividend of €0.24 per share.

The product and market offensive launched in connection with comvalue in 2005 led to strong growth in all three fields of competence: brokerage, banking and financial advisory. At year-end, comdirect bank was looking after over 656,000 customers, almost 6% more than a year earlier. The number of current accounts, where acquisition efforts had been particularly intensive, rose by 75% to 155,958, while the number of securities saving plans virtually doubled. Thanks to inflows of funds and price gains, the total assets under custody increased by 30% to €12.9bn; funds and deposits reached their highest level to date. comdirect private finance, comdirect bank's advisory subsidiary, was looking after altogether 8,240 customers in 13 locations at year-end, thereby clearly exceeding its set target for 2005 of 5,000 new customers.

### Stage set for further expansion

With the expansion of banking and financial advisory, and also through the closer meshing of the products offered, comdirect represents the bank format of the future. On this basis, it is seeking above-average growth for those of its revenue components that are largely independent of the stock exchange. The comvalue programme for growth, which is scheduled to run for three years, is being continued according to plan.

In addition to growing organically, comdirect bank made a successful acquisition last year. In October, it reached agreement with American Express Bank to take over a portfolio with roughly 44,000 customers on January 1, 2006, at a price of about €13m. Thanks to this transaction, comdirect bank enters the 2006 financial year with around 700,000 customers.

## Asset Management segment

At end-2005, our Asset Management had altogether €98bn of assets under management, for the most part concentrated at our companies in Frankfurt, London and Paris. Within an overall multi-boutique approach, these serve as centres of competence for individual markets. With effect from November 1, 2005, we adapted the organizational structure of Asset Management even more strongly to the strategic challenges of the individual markets: German Asset Management, comprising the COMINVEST group, COMSELECT and private portfolio management; International Asset Management, comprising the major participations Jupiter International and Caisse Centrale de Réescompte, and also Asset Management Real Estate with the Commerz Grundbesitz group.

In Asset Management, we achieved an operating profit of €120m in 2005, compared with €177m a year earlier. The decline is mainly due to the reassessment of staff profit-sharing models at Jupiter; otherwise, earnings performance was stable. The operating return on equity was 22.3% and the cost/income ratio 79.5%.

### Asset Management

| | 2005 |
|---|---|
| Equity tied-up (€ m) | 537 |
| Operating return on equity | 22.3% |
| Cost/income ratio in operating business | 79.5% |

### German Asset Management department

The COMINVEST group concentrates on actively managed securities-based funds for private and institutional customers mainly in Germany, and together with the ebase subsidiary, on servicing and managing custody accounts. Through a stronger sales orientation and by adjusting funds' cost structure to the market level, COMINVEST made a notable contribution to the overall result of Asset Management.

### Retail customers

After several difficult years, the investment industry in Germany registered marked expansion in 2005. There was strong demand for bond-based funds in particular; total return concepts met with especially great interest on the part of investors looking for security.

An uneven picture emerged for the third-party, direct and Group distribution channels. On account of our systematically pursued open architecture approach, we had to accept notable outflows for our own fund products. Nonetheless, our customers found innovative product conceptions convincing. Apart from tax-optimized retail funds, modern products with dynamic capital protection are increasingly regarded as a core competence of the ADIG brand. Stable performance was registered by the direct and third-party segments.

COMINVEST's marketing activities were concentrated on the ADIG Fondak fund. Against this background, its volume more than doubled from €0.9bn to €1.9bn last year. With performance of 33%, it once again did justice to its reputation for being the best German equity-based fund. Numerous awards provide objective confirmation for the quality of this retail fund.

### Institutional clients

In institutional business, we raised the assets under management to €29.5bn in 2005. As in the previous year, shifts occurred between the various classes of mandate. Redistribution was mainly prompted by tighter legal accounting requirements as well as the possibilities opened up by investment legislation.

We were actively involved in this development, responding to the changes in clients' needs by introducing seven institutional classes for retail funds. Whereas there was a slight decline in the volume of assets managed in the 273 special or non-publicly-offered funds and the 21 mandates by free portfolio managers for institutional investors, we were able to expand the assets under management in other forms of investment substantially in some cases.

For 2006, we are again aiming for profitable growth. This is to be realized not only through new business but above all by marketing value-added services requiring intensive advisory and by selectively adding to our product range geared to the needs of institutional investors. In this connection, we are quite consciously using third-party products under a multi-manager approach. Cooperation with SEI is one of several successful examples here.

### Professional custody service

European Bank for Fund Services GmbH (ebase) is a securities trading bank, offering a platform for servicing and managing custody accounts. It has successfully positioned itself as one of the market leaders among fund platforms.

In 2005, too, we introduced new products and gained new customers. Their number rose sharply to over 940,000 and that of the custody accounts managed to 1.7m. The assets under control expanded from €7.4bn at end-2004 to €11.5bn at the end of last year.

## International Asset Management department

### Jupiter International achieves impressive growth

Thanks to rising equity prices and the good performance of its funds, our UK subsidiary, the Jupiter Group, substantially improved its operating result once again. With their stock-picking approach, the experts at Jupiter managed to beat both the benchmark and peer groups. Their fine performance earned Jupiter's portfolio managers eighteen awards. These included such prominent prizes as the Global Group of the Year 2005 award from *Investment Week*, which Jupiter received for the second time in succession.

Above all in retail fund management, Jupiter was able to raise its assets under management to a disproportionately strong extent. The inflows were spread between a large number of funds, including the flagships Jupiter Income Trust, Jupiter Emerging European Opportunities and Jupiter Financial Opportunities funds. At the same time, some products were repositioned and enhanced.

### CCR strong in value-oriented equity funds

Our French subsidiary, Caisse Centrale de Réescompte (CCR), also raised its assets under management considerably, by practically a fifth. This encouraging expansion was largely based on CCR's core competence, money-market funds and equity funds managed according to the value approach. For these products, the company boasts outstanding long-term performance and has also won important prizes, such as France's most famous Corbeille Award for the most successful capital investment company in 2005.

### Real Estate department

Under the umbrella of Commerz Grundbesitzgesellschaft mbH, the two operational companies Commerz Grundbesitz-Investmentgesellschaft (CGI) and Commerz Grundbesitz-Spezialfondsgesellschaft (CGS) manage Commerzbank's open-ended property funds. CGI concentrates on retail funds and CGS on special funds for institutional investors.

CGI's flagship product is hausInvest europa, launched in 1972. With a market share of 12%, the fund continues to be one of the market leaders among German open-ended property funds. As 80% of its real estate is held abroad, its investors have a below-average exposure to market developments in Germany, compared with the rest of the industry. All the same, the fund experienced sizeable net outflows due to market developments. Liquidity was ensured at all times, though.

CGI was able to acquire further attractive real estate for hausInvest global, which invests worldwide. It is the first German investor to commit itself to Canada and Turkey, two markets of the future. Only two years after sales were launched, hausInvest global has already registered inflows of over €1.3bn, making it one of the most successful new funds in the past few decades. The fund invests entirely outside Germany.

At end-2005, we launched another real-estate special fund, ShoppingCenterD. All told, the company now manages six funds for institutional investors. Currently, the CGS funds portfolio consists of over 50 properties in nine European countries, representing assets worth roughly €1.3bn.

## Group companies and equity participations in the Retail Banking and Asset Management division

### Private and Business Customers department

| | | |
|---|---|---|
| **comdirect bank AG** | Quickborn | 79.9%[2] |
| **Commerz Service Gesellschaft für Kundenbetreuung mbH** | Quickborn | 100.0% |
| **COMMERZ PARTNER Beratungsgesellschaft für Vorsorge- und Finanzprodukte mbH** | Frankfurt am Main | 50.0% |
| **Commerzbank International S.A.** | Luxembourg | 100.0%[2] |
| **Commerzbank International Trust (Singapore) Ltd.** | Singapore | 100.0%[1] |
| **Commerzbank (Switzerland) Ltd** | Zurich | 100.0%[2] |

### Asset Management department

| | | |
|---|---|---|
| **Commerz Grundbesitzgesellschaft mbH** | Wiesbaden | 100.0% |
| **COMINVEST Asset Management GmbH** | Frankfurt am Main | 100.0%[2] |
| **European Bank for Fund Services GmbH (ebase)** | Haar near Munich | 100.0%[2] |
| **Caisse Centrale de Réescompte, S.A.** | Paris | 99.4%[2] |
| **Capital Investment Trust Corporation** | Taipei | 24.0%[1] |
| **COMINVEST Asset Management Ltd.** | Dublin | 100.0%[2] |
| **COMINVEST Asset Management S.A.** | Luxembourg | 100.0%[2] |
| **Commerz Advisory Management Co. Ltd.** | Taipei | 100.0%[2] |
| **Commerzbank Asset Management Asia Ltd.** | Singapore | 100.0%[2] |
| **Commerzbank Europe (Ireland)** | Dublin | 61.0%[1] |
| **Commerz International Capital Management (Japan) Ltd.** | Tokyo | 100.0%[2] |
| **Jupiter International Group plc** | London | 100.0%[2] |

1) The Parent Bank holds some of the interest indirectly; 2) the Parent Bank holds the interest indirectly.

**| lloyd's building |**

*IN 2005, COMMERZLEASING UND IMMO-BILIENGRUPPE ACQUIRED THE LLOYD'S BUILDING IN LONDON AND WITH ITS CFB-FONDS 154 PLACED ITS FIRST CLOSED-END PROPERTY FUND WITH REAL ESTATE IN THE UK. IT IS LET TO THE INSURER LLOYD'S, WHICH IS ONE OF THE WORLD'S LEADING ADDRESSES IN INSURANCE. THE BUILDING IN THE CITY OF LONDON, WHICH HAS WON SEVERAL AWARDS, WAS DESIGNED BY LORD RICHARD ROGERS AND COMPLETED IN 1986.*

**| ideas ahead |**

# corporate and investment banking

In its three segments *Mittelstand*, Corporates & Markets and International Corporate Banking, the Corporate and Investment Banking division looks after our business relations with small, medium-sized and large corporate customers worldwide, also assuming responsibility for our customer-based market activities. In the *Mittelstand* segment, just over 50,000 small to medium-sized enterprises are taken care of at our roughly 150 larger branches as well as around 650 larger corporates at five specialized larger corporates centres. The Corporates & Markets department is subdivided into Markets, Sales, Corporate Finance and Corporate Relationship Management, which maintains intensive contact with our multinational clients. International Corporate Banking is responsible for coordinating the contacts of our outlets abroad with their corporate clients and other financial institutions.

## *Mittelstand* on a successful course

***Mittelstand***

| | 2005 |
|---|---|
| Equity tied-up (€ m) | 3,028 |
| Operating return on equity | 13.5% |
| Cost/income ratio in operating business | 56.2% |

Commerzbank is the only major bank in Germany to have an operational segment of its own devoted to small to medium-sized enterprises (SMEs or *Mittelstand*). This is intended to make both clients and the public aware of the outstanding strategic importance for the Bank of the target group of companies with annual turnover of €2.5m and higher. The unit is also designed to document internally and externally our self-set goal of being the best bank for SMEs in qualitative terms. This segment includes not only German corporate business but also the Central and Eastern European region, the activities of our Polish subsidiary BRE Bank, as well as the business operations of our Düsseldorf subsidiary CommerzLeasing und Immobilien.

The *Mittelstand* section enjoyed a very successful first year. All units made solid contributions towards a stronger result, so that the RoE target was easily exceeded. The 13.5% operating return on equity was almost three times its year-earlier level. Key factors here were the marked increase in revenues and the renewed decline in provisioning, due not only to falling insolvency figures but above all to our conservative risk management. The encouraging result shows that, even in the face of tough competition, profitable SME business is possible in Germany.

### More consulting – less administration

With our "Move to the top" programme, launched in 2003, we want to concentrate our efforts above all on improving the support we offer SMEs and larger corporates. In particular, optimized procedures are to ensure a high level of reliability in credit processing as well as more time for consulting. Pursuing our goal of "More consulting – less administration", therefore, we have been able to avoid staff reductions and other cost-cutting measures in sales up to now – despite difficult economic conditions – and instead we are "investing" more time in our clients and in further improving the level of staff qualifications.

At the same time, we have systematically adapted our range of products and services to the needs of our *Mittelstand* clients. This includes, for instance, an internet-based rating application, which we will offer to existing and potential customers in the first half of 2006. As a result, we will become one of the first banks to offer an indicative rating of annual financial statements based on the rating scale of the Initiative Finanzstandort Deutschland and our own rating scheme. This makes the subject of rating much more transparent for our customers and gives them greater security in dealing with it.

## Nearly 10,000 new *Mittelstand* clients in two years

The overall conditions for *Mittelstand* business remained difficult in 2005. New lending continued to suffer as a result of companies' weak investment activity. As market liquidity remained high, pressure on interest margins persisted. Only in the final quarter were there more signs that investment was gradually picking up and with it credit demand.

Even so, our ongoing initiative to gain new customers is a great success. With practically 5,000 new customers last year, we easily exceeded our overall target of 9,000, set for end-2006. Despite achieving our goal a year earlier than planned, we will not relax our efforts to attract more *Mittelstand* firms to Commerzbank.

Prominent among our successfully launched products geared to *Mittelstand* needs and dimensions are borrower's note loans or *Schuldscheindarlehen*. Whereas the traditional borrower's note loan was restricted to major companies and came in lot sizes of €20m and more, our new portfolio-based and unsecured variant can be used for financings of between €0.5m and €5m. With this instrument, we are seeking to provide existing and new clients alike with direct, attractive access to the capital market.

With our "Mezzanine for the *Mittelstand*" programme, we made €350m of subordinated capital available to roughly 50 firms last year. At the same time, we added the product CB MezzCAP to the range of mezzanine finance. This involves bundling the profit-sharing rights held by a group of corporate clients to form a portfolio, which is then placed in the capital market in securitized form by a special-purpose entity. Demand for CB MezzCAP was also very brisk, showing us that we are on the right course with our equity surrogates; we intend to proceed further in this direction.

## Trade finance an anchor product

Traditional heavyweights in our product range are payments and cash-management applications, in which we are one of Europe's leading transaction banks. Drawing upon our international sales network, we provide customers in over 50 countries with an electronic platform. Last year, we developed new internet applications for L/C, collection and guarantee transactions, creating an interface between our clients active in external trade and their contractual partners and banks in the target countries.

As part of our multi-channel strategy, we offer extensive and standardized internet services. With a new internet site, we are now merging the functions of the previously separate portals companydirect and companyworld, both of which are being maintained in their existing scope, while further functions have been added. The portal is available to our clients in nine languages and in fourteen countries. More than 31,000 clients are now registered at www.commerzbank.de/firmenkunden.

The market launch of our corporate credit card was a great success. More than 5,000 individual contracts for the Commerzbank Corporate World Master Card underline the attractiveness of this card.

### Hedging interest-rate and currency risk

In line with our strategy of reducing existing large commercial solutions to a size suitable for *Mittelstand* firms, we have lowered the threshold amounts for the major interest-rate and currency hedging instruments considerably. Our clients can now make safe calculations starting from amounts of only €100,000 for interest-rate derivatives and €200,000 for currency derivatives. In this way, we have responded to our customers' desire to hedge smaller risks as well.

### New manager-of-managers funds

On the investment side, we have extended our range of manager-of-managers funds. In the form of individual portfolio structuring, our two multi-manager funds permit any combination of equities and bonds, catering to both different risk appetites and different expectations with regard to returns. Here, too, the minimum investment of €100,000 is geared to *Mittelstand* companies.

### Public sector ever more important

Municipalities with their variety of functions are rapidly gaining in importance as a customer group. We provide sales support through target-group specialists at head office and experienced communal relationship managers at our main branches. Potential clients are both the public-sector bodies themselves and separate enterprises such as local utilities and waste-disposal units. We also provide support for public-sector clients in connection with public-private projects.

### New activities in Central and Eastern Europe

We have stepped up our SME activities in Central and Eastern Europe as well. Since the start of last year, for instance, our Hungarian subsidiary has been creating its own branch network in order to provide targeted support for small and medium-sized firms. The results after a year are really encouraging, raising our hopes for the future. We see this as a pilot project for a systematic expansion of our corporate activities in the region.

We are also made confident by the success of our Polish subsidiary, BRE Bank, through which we serve many German *Mittelstand* firms active in Poland. By disposing of non-core activities, our subsidiary has continued to recast itself successfully as a universal bank with strong retail operations, which is in the black after only five years in the market.

### "Best bank" for larger corporates as well

In order to meet the special requirements of larger companies better, we set up larger corporates centres in Hamburg, Düsseldorf, Frankfurt, Stuttgart and Munich in 2004. This concentration of resources guarantees that the relevant customer group receives intensive support from our *Mittelstand* unit. Our declared goal is to be the best bank for larger companies as well.

Institutional clients – such as insurance companies, utilities and foundations – are another interesting group. As a rule, they have a very individual demand profile, frequently determined by regulatory provisions. We try to cover these special demands as well by means of specialized relationship managers.

### CommerzLeasing und ImmobilienGruppe outpaces the market

Our leasing and real-estate subsidiary, CommerzLeasing und ImmobilienGruppe, stayed on an expansion course in 2005 as well, achieving a new record of €3.2bn in its new business. While capital spending in the economy as a whole advanced only marginally last year, the leasing market expanded by almost 9%. Growing by practically 15%, the CLI group again easily exceeded the industry average. Most of the business was generated in Germany, not least by the joint leasing initiative with Corporate Banking. In what was a very successful year for this group, its pre-tax profit topped the €60m mark for the first time. The portfolio of contracts expanded to roughly €27bn. All of CLI's business lines contributed to the good overall result:

- In Structured Investments, business activity focused on further developing financing structures for both commercial and public-sector investments. The most prominent transaction was the acquisition from the state of Hesse in November of real estate for about €1bn. It is a good example of the growing significance of public-private partnerships. The CLI group also made other sizeable investments in research premises, new administrative buildings as well as production and logistics facilities for major German and international companies.

- For CFB-Fonds, the launch of One Riverside Drive in Windsor/Canada and Lloyd's Building in London marked its first real-estate funds for projects in Canada and the UK. In shipping, CFB has been pursuing the tonnage tax fund approach for several years. In 2005, three container ships were placed. At the same time, CLI has become the first initiator in Germany to launch four so-called LNG ship-based funds with an overall volume of €800m. Last but not least, in a joint project with Shell Solar in Bavaria, it realized the largest solar power station complex connected to the power grid, representing an aggregate investment of about €40m, in the form of a private placement. All told, funds worth roughly €1.5bn were placed with investors in 2005, tying up equity of €454m. Accordingly, investors' capital held in 156 funds increased to €4.1bn, representing altogether more than 100,000 individual investments. Up to now, 96% of all funds have made the forecast distribution or exceeded it, giving the CLI group a first-rate record.

- New business in Moveable Goods Leasing expanded by 13%, a key factor behind this strong growth being the leasing initiative. For *Mittelstand* firms in particular, leasing is frequently a flexible and attractive alternative to the traditional bank loan. The range of products and services covers all the major areas of capital goods for commercial clients, especially machinery and vehicles as well as IT and intangible economic goods.

The CLI group is confident that it will be able to strengthen its position further as one of the leading and most profitable leasing and fund companies in the German market.

## International Corporate Banking even more effective in future

**International Corporate Banking**

| | 2005 |
|---|---|
| Equity tied-up (€ m) | 1,388 |
| Operating return on equity | 21.5% |
| Cost/income ratio in operating business | 53.1% |

Complementing our *Mittelstand* activities in Germany, our International Corporate Banking concentrates on the regions Western Europe, North America and Asia, where we offer German SMEs primarily credit, payments and external-trade finance. Local clients, mostly internationally active, are mainly interested in structured special finance as well as complex interest-rate and currency hedging instruments.

In Western Europe, we have been active for decades in the main countries and financial centres and have a broad local and international customer base there. Recently, our branches in Milan and Madrid have made good progress. In order to operate more efficiently in other centres as well, we are currently improving the structures of our operations and distribution. The locations Amsterdam – which in February 2006 was transformed from a subsidiary into a branch –, Brussels and Paris in particular have already launched measures to cut costs in non-distribution areas. This will also mean that credit processing and other back-office functions in the Benelux countries will be concentrated more strongly on Luxembourg in future.

### Excellent performance in North American business

Our four North American operational units in New York, Atlanta, Chicago and Los Angeles continue to give us great pleasure. Their results were more than half as high again as in 2004, which was in itself a good year, thanks to both active credit management and continuing tight control over costs. We believe that further potential synergies can be tapped by combining the activities of our – now considerably slimmed down – investment-banking subsidiary Commerzbank Capital Markets Corporation with those of the New York branch.

In view of the strong momentum of expansion, we also see good opportunities in Asia. We realized substantial growth in trade finance and structured financings. We are satisfied, therefore, with the results achieved by our operational units in Tokyo, Singapore, Shanghai and Hong Kong. Nevertheless, we are currently investigating various scenarios there as well so that we can offer our clients even better service and further improve the profitability of these units.

### Financial Institutions department: our gateway to the world

Within the International Corporate Banking segment, Financial Institutions is responsible for all client relationships with German and foreign banks as well as central banks and governments. In another very successful year, we managed to raise the good year-earlier result by a quarter. The pre-tax return on equity was an excellent 105%.

This performance rested on a global approach to providing services, with central relationship management and a worldwide distribution network of 28 representative offices and delegated personnel, complementing our operational outlets abroad. For 2006, new representative offices are planned in Vietnam and Africa.

### Professional service in global trade finance

Our position as a leading foreign-trade bank is primarily based on a closely-knit network of relationships with over 6,000 banks throughout the world. For our customers involved in external trade or companies investing in foreign markets, these local connections form a bridge to their foreign partners. Our range of products primarily includes

- high-quality advice on delivery transactions and investment plans,
- cover for claims under letters of credit or guarantees,
- foreign guarantees, reflecting local regulations,
- hedging for exotic currencies as well, and also
- external trade financing, from forfaiting to structured products.

We easily maintained our large market share of 16% in handling the financial side of German exports and imports. In particular, we are well positioned in emerging markets, which are important for many of our customers.

For our active role in Eastern European markets, we were again awarded first prize in the Trade Facilitation Programme of the European Bank for Reconstruction and Development (EBRD). We also won a commendation for being responsible from 1999 to 2005 for the largest number of transactions involving beneficiaries in Africa under the TFP programme. In order to extend the Trade Facilitation Programme to new target markets, we also took part in the respective programmes of the Asian Development Bank and the International Finance Corporation in 2005.

### A leader in precious metals…

Commerzbank is also one of the leading banks worldwide in precious metals. Our activities cover both dealing in gold, silver, platinum and palladium and the refining of these precious metals. Through the close meshing with our world distribution network, we intend to tap new sources of revenue in emerging markets in particular. We offer our clients the entire range of products for physical and non-physical precious metals alike. This includes individual investment solutions for precious metals, but also borrowing and the hedging of complex risk structures.

### ...and as a European transaction bank

In 2005, we strengthened our position as a leading European transaction bank and as an institution offering a broad spectrum of payments services in euros and other currencies. Commerzbank is well-prepared to meet the challenges of the ever more rapidly changing market. We have made intensive preparations for the emerging single European payment area so that we will be in a position to offer competitive services in the future as well.

### Priority for compliance

Given the global character of Financial Institutions' duties, it bears special responsibility for aspects relevant to compliance. In order to identify and prevent money laundering and the financing of terrorism, for example, a money laundering prevention office has been set up that is linked up with the Bank's distribution units. Drawing upon our knowledge of the cultural, economic and legal conditions, we practise not only an extended customer due diligence but also a special assessment and identification of the risks.

### Growing importance of ProCredit banks

The ProCredit banks in Serbia-Montenegro, Kosovo, Bosnia-Hercegovina, Albania, Bulgaria, Romania and Georgia form a special focal point in the promotion of small and medium-sized businesses in South-Eastern Europe. Commerzbank is involved in these ProCredit banks as part of a unique public-private partnership including international development banks and ProCredit Holding. Above all in Serbia and Bulgaria, ProCredit banks have become important financial institutions.

## Corporates & Markets: repositioning bears fruit

**Corporates & Markets**

| | 2005 |
|---|---|
| Equity tied-up (€ m) | 1,818 |
| Operating return on equity | 11.7% |
| Cost/income ratio in operating business | 78.7% |

Last year, Corporates & Markets initially underwent extensive strategic repositioning. After incurring a loss in the third quarter of 2004, unprofitable businesses were cast off and the Bank announced plans to cut roughly 900 front- and back-office jobs. Since then, much has changed. The process of merging our multinational corporate activities with the London branch and investment banking under a new roof is largely completed and the unit is now producing good and steady earnings performance.

The strong year-on-year swing of €287m in the operating profit confirms that we took the right decision. This really encouraging result was achieved despite a 30% smaller workforce, risk reduced by half and 10% less capital tied up, showing that our clear concentration on customer service and on our core markets in Germany and throughout the rest of Europe is bearing fruit. We are confident that we can make further progress pursuing this approach and achieve even better results – without returning to the higher volatility of previous years.

### Markets: strong demand for innovative products

All four sections of this business line were successful in 2005. This was especially true of equity derivatives. Enhanced by the Bank's proficient distribution channels, innovative products were repeatedly brought to market, making us one of the top issuers of equity derivatives products in Europe.

Our high levels of client service and our strong product range also led to brisk trading in interest-rate products. Thanks to the successful integration of corporate-banking activities and investment banking, we were above all able to boost sales of hedging products to *Mittelstand* companies.

For credit, 2005 was a mixed year, but despite this difficult environment we revamped this section and the first signs of recovery have emerged. Increasingly, we will now focus on the active management of parts of our loan book and on making better use of the Bank's emerging markets' expertise.

The overhaul of our investment-banking activities had an especially strong impact on our foreign-exchange operations, which we have concentrated on Frankfurt again, enabling us not only to cut costs considerably, but also to offer enhanced service quality for our clients. The new organization introduced in options business will help maintain this positive trend.

Alternative Investments proved to be a solid platform over the year. Corporates & Markets also benefited from a round of cost-cutting in Securities Finance. The good performance in this area was due primarily to repo loan trading, bond repos and a number of deals in the structured securitization lending business. In 2006, the Bank plans to develop a stronger institutional franchise.

## Higher investment in distribution pays off

The streamlined and clearly focused sales effort as well as further investment in the branch distribution channels paid off last year. Consequently, the distribution of multi-asset products to retail and flow clients registered outstanding performance, and we were voted "Best in Germany" for structured products by *Structured Products Magazine*. According to the magazine, "Commerzbank has lived up to its title as a specialist in exotics by capitalising on the German market's appetite for early redemption notes with the issue of some blockbuster products this year. Its effort to increase market share through the structured fund space – a markedly more challenging product space for German issuers – has helped it stand out from the competition. Commerzbank illustrated how quantity is not a substitute for quality." At the same time, we have cemented our position as one of the leading players in the German market for listed certificates and warrants. In 2005, Commerzbank was the largest German issuer on the European Warrants Exchange (EUWAX).

Distribution of investment-banking products to corporate clients has benefited from Corporates & Markets assuming responsibility for looking after several of the largest corporate groups. By systematically promoting the distribution of commercial and investment-banking products, the segment has established itself as a competent and reliable partner for this group of clients.

Due to our efforts to create the necessary framework for stronger growth, there was less progress in distribution to institutional clients than in other areas. However, Corporates & Markets was able to increase its visibility further in Bank Notes business with institutional clients.

## Many transactions in Corporate Finance

Corporate Finance proved to be one of the cornerstones of our investment banking in 2005 as well. Within this group, the Leveraged Finance team stood out once again. With ten mandated lead arranger roles, we secured our top position in the German market for leveraged corporate acquisitions. We also completed a record number of transactions across Europe. Our clients included, for example, KKR, Carlyle, Advent, Permira, Triton, Alpinvest and Nordwind.

In 2005, the market for syndicated loans was dominated by high-volume transactions for multinational corporate borrowers, who took advantage of the low funding costs and high liquidity in the market. Many small and medium-sized companies and institutions from Western and Eastern Europe followed this trend. We arranged and syndicated credit facilities for such companies as Volkswagen, France Télécom and Degussa.

Despite significantly lower issuance of corporate bonds, we were the bookrunner again for a variety of issuers. The familiar names included ThyssenKrupp, Sixt, Rheinmetall, Bertelsmann and DaimlerChrysler. In this area, too, it is our declared strategy to concentrate exclusively on clients' requirements rather than buying into league tables.

We have significantly increased our standing in covered bonds and public-sector bonds. We were a bookrunner for issues for the states of Lower Saxony and North Rhine-Westphalia, as well as for Hypothekenbank in Essen, Eurohypo, Berlin-Hannoversche Hypothekenbank and Württembergische Hypothekenbank.

In line with Commerzbank's commitment to German *Mittelstand* companies, our securitization team joined forces with experts from the *Mittelstand* unit to launch some innovative financing instruments for this target group. One prominent example is our new *Schuldschein* initiative, giving investors an attractive opportunity to become involved in securitized credits for *Mittelstand* firms.

Spurred by the favourable state of the stock market, the number of IPOs has risen sharply in Germany. One of the most successful was Conergy AG, for which we were joint bookrunner. This transaction earned us the *Financial News* European Small/Mid Cap Deal of the Year Award. We were also involved last year in the IPOs of the Polish Grupa Lotos as lead manager for the international offering and as co-lead manager for MTU and also as co-manager for Praktiker.

Among the rights issues for which we served as bookrunner that for Heidelberger Zement attracted much attention. Another important transaction was SAP AG's tender offer for SAP Systems Integration. Corporates & Markets also successfully contributed to several of Commerzbank's own transactions, such as the capital-raising in November to partially finance the acquisition of Eurohypo and the placements of holdings in Banca Intesa, Heidelberger Druckmaschinen and MAN.

Last but not least, the M&A group was involved in altogether eight transactions. We were active as a financial adviser, for example, in Hassia Mineralquellen's acquisition of Brau und Brunnen Mineralquellen.

### Corporate Relationship Management making good progress

With the reorganization of investment banking, multinational companies are now looked after by Corporates & Markets. This not only guarantees more intensive relationship management for this sophisticated group of clients, but also gives us great potential for selling complex financing solutions. We also have better opportunities for active cross-selling. We plan further expansion in this area and will make the necessary investment for this.

## Group companies and equity participations in the Corporate and Investment Banking division

### *Mittelstand*

| | | | |
|---|---|---|---|
| **CommerzLeasing und Immobilien AG** | **BRE Bank SA** | **Commerzbank (Eurasija) SAO** | **Commerzbank Zrt.** |
| Düsseldorf 100.0%[1] | Warsaw 71.5%[2] | Moscow 100.0% | Budapest 100.0% |

### International Corporate Banking

| | | |
|---|---|---|
| **Commerzbank (South East Asia) Ltd.** | **Commerz (East Asia) Ltd.** | **P.T. Bank Finconesia** |
| Singapore 100.0% | Hong Kong 100.0% | Jakarta 51.0% |

### Corporates & Markets

| | |
|---|---|
| **CBG Commerz Beteiligungs-gesellschaft Holding mbH** | **Commerzbank Capital Markets Corporation** |
| Bad Homburg v.d.H. 100.0% | New York 100.0% |

1) The Parent Bank holds some of the interest indirectly.
2) The Parent Bank holds the interest indirectly.


Lakeside

## | lakeside shopping centre |

*THE FLAGSHIP OF LIBERTY INTERNATIONAL PLC. LAKESIDE IS SITUATED IN THURROCK, EAST OF LONDON, AND OFFERS CUSTOMERS A SALES AREA OF 120,000M$^2$. THIS SHOPPING CENTRE WAS FINANCED BY THE LONDON OUTLET OF EUROHYPO IN TWO TRANCHES. THE FIRST TRANCHE OF 550M POUNDS WAS SECURITIZED, ENABLING THE CUSTOMER TO BENEFIT FROM ATTRACTIVE PRICING IN THE CAPITAL MARKET. THE SECOND TRANCHE OF 100M POUNDS TOOK THE FORM OF A SYNDICATED FINANCING.*

**| ideas ahead |**

# staff and welfare report

## On an expansion course

By making far-reaching decisions and introducing selective changes we ushered in the transition from the consolidation of costs to the sustained strengthening of the Bank's earnings performance in the 2005 financial year. With the adjustments to our staff numbers completed in 2004, the Group's workforce expanded again slightly in the year under review, from 32,820 to 33,056.

## Staff survey – an authentic picture after challenging years

The necessary consolidation of costs presented Commerzbank's staff with great challenges and also imposed personal burdens on them. This phase of the adjustments to personnel and performance was successfully completed in 2004. For us, it was then important to gain an immediate impression of the mood of our employees. In May and June of last year, therefore, a detailed survey of Commerzbank staff was carried out with the support of a prominent market research institution. The objective was to obtain a more differentiated picture of the Bank's strengths and weaknesses and to use this as a basis for introducing concrete measures for change and improvement. The extraordinarily high participation of more than 16,000 employees in the questionnaire – translating into a participation rate of around 72% – shows the great interest of our staff in the fate of "their" Commerzbank.

The findings of the survey reveal both strengths and weaknesses. Generally, the well-functioning cooperation in people's own area of work and the support given by superiors are judged positively. On the other hand, deficits are seen as far as the transparency of the Bank's strategy, market and customer orientation, and also the possibilities for further qualification and development within the Bank are concerned.

Based on the extensive findings of the staff survey, we developed numerous measures and initiatives that are relevant throughout the Bank in three key fields of action – "market and customer orientation", "communication of strategic orientation" and "personnel development and management". To supplement these, local suggestions for improvement were worked out in all branches and departments in the various regions in order to overcome the weak spots which had been identified. Implementation of these measures began in the final quarter of last year and will stretch until well into 2006. In view of the many positive experiences gained through the staff survey, we intend to repeat it in future at regular three-year intervals in order to test the success of the measures in bringing about improvements.

## New conception for practical training of younger staff

One central function of personnel management for achieving lasting success in a fiercely competitive situation is to ensure that younger staff systematically and consistently gain qualifications. For this purpose, we have improved our development programmes once again, strengthening the practical element. Our staff will now undergo further training alongside their normal job. In other words,

### Data on Commerzbank's personnel*)

| | 2005 | 2004 | Change in % |
|---|---|---|---|
| **Total staff Group[1)]** | **33,056** | **32,820** | **0.7** |
| **Permanent staff Group[2)]** | **30,177** | **29,887** | **1.0** |
| **Total staff Parent Bank[1)]** | **24,649** | **24,860** | **–0.8** |
| including: based abroad | 1,934 | 2,102 | –8.0 |
| including: trainees | 1,332 | 1,282 | 3.9 |
| **Permanent staff Parent Bank** | **22,399** | **22,681** | **–1.2** |
| Length of service | 14.4 | 14.7 | |
| Average age | 40.4 | 40 | |
| Staff turnover ratio Parent Bank in Germany | 3.1% | 5.3% | |
| Percentage of sick | 3.3% | 3.3% | |
| Percentage of part-time staff | 20.8% | 20.5% | |
| Total pensioners and surviving dependents | 12,022 | 11,855 | 1.4 |

*) Actual number employed; 1) including local staff in representative offices and cleaning and kitchen personnel, excluding staff on maternity leave and long-term sick; 2) employees, excluding trainees, junior executive staff, temporary staff, volunteers, cleaning and kitchen personnel, staff on maternity leave and long-term sick.

during their training they will initially perform their existing function. Through a so-called skill-management system, employees' present skills will be compared with the job and skill profiles defined for the position to which they aspire. This leads to an individual qualification and development plan. Subsequently, they proceed through this plan, step by step, parallel to the function they continue to perform. In this way, we will be able to train our personnel far more individually in future and even more in line with actual needs. And Commerzbank can also considerably broaden its range of internal training opportunities for younger staff.

#### Another sharp rise in the number of trainees

Our stronger commitment to the career development of younger staff can be seen in the Bank's vocational training. While we concluded roughly 400 new training contracts in 2003 and took on 518 new trainees in 2004, we raised the number again in 2005 to almost 600. All told, over 1,300 young people were training for their future careers at Commerzbank AG by the end of the year under review. To an even greater degree, therefore, we are assuming our social responsibility for the younger generation, to which we have been committed for many years now. At the same time, we are establishing a sound stock of qualified young people to secure the Bank's future.

#### Management a success factor in a customer-based approach

With competition consistently keen in the banking market, products alone do not determine a bank's success with customers, as frequently innovative products are soon copied by others. Rather, a bank's staff are crucial for its success. The central functions of management are to achieve an optimal combination of their

***| special awards 2005 |***

**Top-100 Employers Award 2005**
Commerzbank was voted one of Germany's top employers in 2005 by the trendence Institut für Personalmarketing GmbH and *Wirtschaftswoche* magazine.

**"Erfolgsfaktor Familie 2005" competition for companies**
Together with the "Frauen in der Wirtschaft" forum, Commerzbank won a special prize in the competition for companies initiated by the German government in conjunction with Germany's leading business associations and trade unions to promote a better combination of family and career.

**Advertisement of the year – 2004/2005 trainee campaign**
Readers of *Unikum Abi*, a magazine with a circulation of over 300,000 and 2.2 million readers, and one of the most important periodicals for young people still at school or finishing school, voted the Commerzbank motif ***| jungs, ich geh zur bank |*** ad of 2004.

skills and a systematic focus on customers' needs. More than ever today, management is a key factor in a company's long-term success. That is why we are continuing to invest intensively in selecting, promoting and developing managerial personnel at Commerzbank. We further refined our long-established management circle approach last year, adapting it more closely to the requirements of the various business lines. Many other companies have taken up this approach in the meantime – confirmation that we are on the right course.

### Performance-based remuneration – results count

The management process at Commerzbank is supported by an all-inclusive and flexible remuneration policy. It is intended to increase the efficiency and productivity of our staff, promote entrepreneurial thinking and action, encourage people to assume responsibility and strengthen the loyalty to the Bank of key personnel. In order to attain these goals, we will replace certain components of remuneration which in the past were paid indiscriminately to all staff with result- and performance-based components in future. The overall amount of this profit-sharing plan will reflect the respective business results of the Bank and, depending on how these turn out, may even be larger than the former November special bonus. The overall amount will be distributed to individual employees strictly in line with their performance. We believe that this new system of remuneration will make an important contribution towards strengthening the performance culture at our Bank, thereby providing sustained support for our commercial success.

### Diversity – living with variety

Diversity enriches our lives and also day-to-day working alongside others at Commerzbank. For us, this means regarding the different qualities of all our staff as a special asset, appreciating it and using it.

Successful examples of Commerzbank's many diversity measures are:

- Flexible working conditions
- A number of childcare facilities
  In particular, our staff can have their children – up to and including kindergarten age – looked after by qualified personnel at the new crèche, Kids & Co., in Frankfurt am Main, with its highly flexible opening times.
- Mentoring programmes
  Female staff can benefit from the experience of selected managers at other companies, obtaining support for their career development.
- Support for employee networks
  Active support is given to "Courage", the network for women, to the "arco" network for gays and lesbians, and to the "Fokus Väter" network for fathers.

By considering the individual life-styles of our employees and by offering them support, we are able to improve their job satisfaction and motivation perceptibly. For younger people in particular, an attractive employer is always one who treats them in a partner-like way.

### Company healthcare management – benefits all round

Nationwide cooperation with the company doctors, industrial psychologists and social workers of our external service provider Deutsche Bahn Gesundheitsservice GmbH forms the core of our healthcare management scheme. The combination of these three different professions ideally complements the range of services provided by our internal personnel work and has frequently proved its worth. As a result, we have been able to raise substantially our value added in human resources management and consequently in economic terms as well.

In the 2005 financial year as well, Commerzbank expanded its company healthcare management. For some time, we have been pursuing, among other things, the declared goal of tackling such problems as victimization, sexual harassment and discrimination professionally and of doing all in our power to ensure that such situations do not arise. In connection with this initiative, we gave intensive coaching to numerous personnel advisers and staff-council members last year. These members of staff are now available to advise potentially affected employees and mediate on their behalf.

In addition, we have launched a pilot project in a large processing centre of the Bank for developing structured management for periods of absence and the reintegration of staff. First, the reasons for abnormally long periods of absence are investigated and measures are devised to reduce them and, if necessary, to reintegrate people. Commerzbank wants to provide even more intensive support to help employees quickly regain their capacity to work. It is planned to use this programme as a standard, extending it later to other organizational units of the Bank.

### We thank our staff for their cooperation

Within a short time, Commerzbank has achieved a turnaround in growth and earnings. We can be proud of this and thank all our staff quite emphatically. In a difficult environment, it is they who have made this success possible through their performance and their commitment.

We are also especially grateful to the staff councils, the representatives of the Bank's senior staff, and to the representatives of both the physically disabled and younger staff. Through their constructive and responsible cooperation, they too have contributed to the Bank's success.

Further detailed information on Commerzbank's commitment to the welfare of its employees, complementing this staff and welfare report, can be found in our "Corporate Responsibility Report 2005".

### *| kölnturm |*

*THIS TOWER WAS DESIGNED BY JEAN NOUVEL AND KOHL. SINCE 2001, THE 165M-HIGH KÖLNTURM HAS BEEN A DISTINCTIVE FEATURE OF THE MEDIA PARK AND COLOGNE'S CITYSCAPE. THE UNIQUE OFFICE BUILDING WITH ITS 43 STOREYS AND A GROSS USABLE SURFACE AREA OF 33,000M$^2$ IS ONE OF THE CITY'S PRIME ADDRESSES. IT OFFERS MODERN, WELL-EQUIPPED OFFICES WITH INDIVIDUAL LAYOUTS AS WELL AS EXTENSIVE MEETING AND CONFERENCE INSTALLATIONS.*

*ITS OWNER IS A COMPANY HELD BY HYPOTHEKENBANK IN ESSEN.*

***| ideas ahead |***

# our share, strategy and outlook

**Data and facts on the Commerzbank share**

| | |
|---|---|
| Bearer shares | 803 200 |
| Reuters | CBKG.DE |
| Bloomberg | CBK GR |
| ISIN | DE0008032004 |

## Outstanding performance of the Commerzbank share

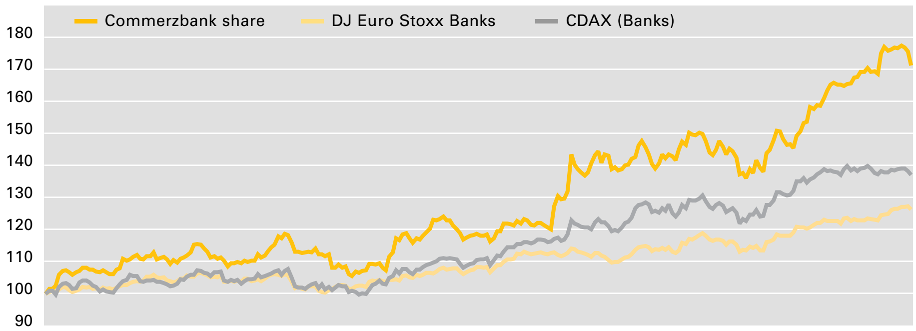
Despite rising interest rates, high oil prices and persistently weak economic activity, the DAX registered a plus of 27.1% in 2005. Soaring by 71.6%, the Commerzbank share was the second-strongest stock in Germany's leading index. Its performance also far exceeded that achieved by its national and international competitors.

In the course of the year, the share price steadily climbed within a range of €15.17 to €27.06, finishing the year at €26.02 – a level last seen in summer 2001. Trading volume expanded with the increase in the share price. On average, 4.3m Commerzbank shares changed hands daily, a rise of more than 20% on the previous year.

Within a year, Commerzbank's market value practically doubled. With a market capitalization of €17.1bn at end-2005 (previous year: €9.1bn), Commerzbank was 12th in the list of DAX companies with a weighting of 2.7%.

**Performance of the Commerzbank share 2005**

Daily figures, 30.12.2004=100




## Communication an important factor behind success

Communication with investors and analysts was given priority in 2005 as well. Apart from the regular conferences for presenting the quarterly reports, we held 25 roadshows in Germany and abroad and took part in 12 international conferences. We also presented Commerzbank at more than 200 one-on-one meetings. The Board of Managing Directors were involved even more than in the past in our communication with the financial community.

Roughly 40 brokerage houses produced and published regular reports on Commerzbank. Virtually all of them gave the Commerzbank share either a buy or a hold recommendation – a good indication of the very positive response to the achievements of the Bank and its staff.

In September, we held our fourth Investors' Day. Once again, the members of the Bank's management board explained the strategy of the business lines for which they are responsible, after which they were available for extensive discussions. For the first time, the event was rounded off by two in-depth workshops – an idea that met with a positive reception and will be repeated. In 2006, our Investors' Day will be held on September 21.

Among other things, we provide our private investors with current and extensive information on the Investor Relations pages of our internet site. Using our e-mail services, we are able to pass on important information immediately and simultaneously.

**Eurohypo acquisition – a milestone**

The successful conclusion to the negotiations with Deutsche Bank and Allianz/Dresdner Bank to acquire the interests they held in Eurohypo marked a milestone in Commerzbank's history. The €4.56bn takeover of Eurohypo was financed among other things by a capital increase. Through an accelerated book-building offering, Commerzbank sold 57.7m of new shares from an authorized capital increase to institutional investors. Within a few hours, the available volume had been more than three times oversubscribed. The price of the new shares was above the previous day's closing price. The overwhelming demand confirmed the view of analysts, investors and rating agencies that the acquisition of Eurohypo is an important step for Commerzbank.

At present, 13 teams are working to complete the acquisition of Eurohypo and successfully integrate it into the Commerzbank Group. The integration process is running according to plan. Further details will be released together with the first-quarter results of 2006.

The integration will definitely create added value for our shareholders. Despite the restructuring expenses, we expect a stronger net profit and a higher return on equity even as from 2006. Our shareholders should benefit from this positive development in the form of correspondingly higher dividends.

**Operational units achieve their goals**

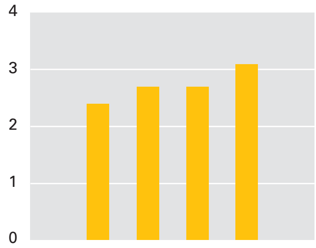
A glance at the performance of the individual segments reveals that all units achieved or exceeded their set goals. *Mittelstand*, Corporates & Markets and the Mortgage Banks segment were especially encouraging.

**Private and Business Customers segment**

In 2006 as well, we will invest in expansion in the Private and Business Customers segment. Concrete investments are planned in our online banking and in branch business. In Private Banking, we are opening new offices in order to increase our presence nationwide. We also intend to build upon our successful position in foreign markets – in Switzerland, for example. As investment in

**Turnover in Commerzbank shares 2005**

in € bn, quarterly figures




**Daily turnover**

in million units

| | |
|---|---|
| High | 31.45 |
| Low | 0.91 |
| Average | 4.26 |

**Stock-exchange listings of the Commerzbank share**

| | |
|---|---|
| **Germany** | |
| • Berlin-Bremen | • Hanover |
| • Düsseldorf | • Munich |
| • Frankfurt | • Stuttgart |
| • Hamburg | • Xetra |
| **Europe** | **North America** |
| • London | • Sponsored ADR (CRZBY) |
| • Switzerland | CUSIP: 202597308 |

expansion will be higher once again, we currently expect a stable operating profit from Private and Business Customers in 2006. In retail business, we will continue to pay close attention to provisioning. Given the continuing strains on the labour market, we have to reckon on a slight increase.

**Asset Management segment**

Our individual Asset Management units registered good performance, living up to our expectations in 2005. In the final quarter in particular, there was an increase in revenue. Investment in 2006 will focus on selective marketing measures for our core products, the development of new products and further expansion of the distribution of third-party products. We expect a higher operating profit in 2006. As the problems of several competitors have led to sizeable outflows of funds since last December, we are closely watching how open-ended property funds develop. However, we are confident that, thanks to our professional management and also to the new guidelines, the situation in the industry will definitely return to normal again.

***Mittelstand* segment**

In this segment, we will strengthen our position as the leading German bank in 2006, continuing our successful strategy of offering *Mittelstand* clients innovative products and larger corporates value-added services. As things stand today, we will be able to reduce our provisioning in Germany further. In Central and Eastern Europe – a region which belongs to the *Mittelstand* segment – we will continue to examine opportunities to expand through acquisitions. In these locations, we also intend to streamline procedures and back-office functions. Our successful subsidiary BRE Bank achieved its earnings turnaround in 2005, strengthening its position in both retail and corporate business. For 2006, our Polish subsidiary is aiming for a pre-tax return on equity of over 18% and one of no less than 20% in 2007. In view of the positive development, we expect this segment to produce an operating return on equity of over 15% in 2006, which we want to raise to 17% by 2007.

**International Corporate Banking segment**

Here we concentrate on Western Europe, North America and Asia. The restructuring, already introduced in 2005, will be continued in the current year. We have begun to centralize our foreign units and to concentrate back-office activities. The good result in 2005 was mainly due to the reversal of loan-loss provisions. As a repeat of this seems unlikely at the present time, we assume a lower return on equity for 2006.

**Corporates & Markets segment**

In this area, the clear concentration on customer-based trading and on our core regions, combined with cost-cutting, has been highly successful. In future, we will focus on boosting sales of structured products and taking over more mandates as lead managers for European corporate bonds. Successful cooperation with Commerzbank's corporate clients will be further enhanced. Benefiting from the systematic reduction of the equity tied up in this segment, the operating return on equity is intended to reach 15% in the current year and even 20% in 2007.

**Mortgage Banks segment**

2005 was a really successful year for our mortgage banks. The positive performance of Eurohypo and Hypothekenbank in Essen led to an operating profit of €350m (previous year: €139m).

## Strategic orientation and outlook

- Commerzbank will strengthen and build upon its position as Germany's leading commercial bank.
- We will continue to play an active part in the ongoing consolidation of the German banking market.
- In the future as well, we will concentrate on our core competencies and ensure dynamic earnings performance in our *Mittelstand*, Corporates & Markets and Mortgage Banks segments.
- Given favourable overall conditions, we will dispose of further non-strategic investments.
- Our target in 2006 is an after-tax return on equity of more than 10%. Taking the economic situation and the development of the capital markets into consideration, we continue to aim for an after-tax return on equity of 15% in the long term.

Commerzbank more than achieved its goals in 2005. And the acquisition of Eurohypo will considerably extend our scope for action and our Bank's strategic perspectives. We will continue to pursue a course of stability and focused growth in the future as well in order to become Germany's leading major bank for retail and corporate customers.

### Commerzbank's 2006 financial calendar

| | |
|---|---|
| May 4, 2006 | Interim report as of March 31, 2006 |
| May 17, 2006 | AGM, Jahrhunderthalle Frankfurt |
| August 9, 2006 | Interim report as of June 30, 2006 |
| September 21, 2006 | Commerzbank Investors' Day |
| Early November 2006 | Interim report as of September 30, 2006 |
| February 2007 | Annual results press conference 2007 |

All the major Commerzbank corporate news items are also available from "Investor Relations" on our homepage: www.commerzbank.com.

**| vienna, galaxy 21 |**

*GALAXY 21 IS THE ONLY AVAILABLE LARGE OFFICE BUILDING IN CENTRAL VIENNA. AFTER EXTENSIVE RECONSTRUCTION AND ADDITIONS, THE MODERN BUILDING WITH ITS EFFECTIVE AREA OF ROUGHLY 17,800M$^2$ IS ONE OF THE ARCHITECTURAL HIGHLIGHTS OF THE AUSTRIAN CAPITAL. AMONG THE OFFICE TOWER'S CONTENTED TENANTS ARE SEVERAL FEDERAL AGENCIES AND SAMSUNG. THE BUILDING IS ONE OF THE ASSETS OF OUR HAUSINVEST EUROPA FUND.*

**| ideas ahead |**

# risk report

## Contents

## Main highlights in 2005

- For the third year in a row, the Bank was able to lower its **loan-loss provisions** by much more than €200m to €566m; accordingly, the net provisioning ratio was reduced to 0.34% of total lending (previous year: 0.52%).

- **Economic capital** (ECap) was reduced as planned during the year by removing bulk risks in lending (ECap lowered from €5.5bn to €4.7bn) and through the sale of non-strategic equity holdings (ECap lowered from €1.7bn to €1.2bn).

- The Group-wide introduction of the **Commerzbank Master Scale** at the start of the year as well as new **incisive rating and scoring procedures** – combined with improved risk-adjusted pricing – led to better risk selection and, in future, to the need for less economic capital.

- The results produced by statistical methods of estimating the security furnished and recovery rates, implemented in connection with the Basel II project, were integrated into **the credit risk model**, as part of **current efforts to enhance it**.

- The main goals set for the Basel II project in 2005 were achieved according to plan and the **application for certification of the IRB Advanced Approach was submitted to BaFin by July 2005**.

- The methods required by the supervisory authorities for identifying, measuring, monitoring and steering **operational risk** are either already in use throughout the Group or at the pilot stage. It is planned to submit an application for approval of the Advanced Measurement Approach for operational risk in accordance with Basel II in the second quarter of 2006.

- The implementation of the Minimum requirements for the risk management of credit institutions **(MaRisk)**, which is supposed to take place by January 1, 2007, is proceeding according to plan at the Bank. Many of the requirements have already been implemented and we assume that the points still to be covered will be dealt with on time.

- In 2005, the Bundesbank conducted an **examination of trading activities pursuant to Art. 44, (1), KWG** (German Banking Act) on the instructions of BaFin. As a result, BaFin confirmed that, in the areas examined, our Bank is complying with MaH and that its internal control system is appropriate in terms of the scope, complexity and risk character of the trading activities it conducts.

- The German banks' auditing association conducted an **examination** of Commerzbank's **system of deposit protection** in 2005. The examination confirmed that, in the areas examined, Commerzbank pursues a cautious credit policy and evaluates security properly.

## I. Risk-based overall Bank management

### 1) Risk-policy principles

The Commerzbank Group's value-based overall Bank management involves taking on identified risks and managing them professionally. Risk-management activities focus on making efficient use of equity from the risk and return standpoints:

- The Bank's Board of Managing Directors defines risk-policy guidelines as part of the annually reviewed **overall risk strategy**, which it has established. Previously consisting of various sub-strategies, this overall strategy will be examined in future for its compatibility with the Group's business strategy in accordance with the new MaRisk.
- The Board of Managing Directors and the Supervisory Board are informed promptly in the form of comprehensive, objective reports of the Bank's risk situation.
- At Board level, the **Chief Risk Officer** (CRO) is responsible for controlling all of the quantifiable risks (especially credit, market, liquidity and operational risk) of the Commerzbank Group and also for working out and implementing its overall risk strategy.
- As part of his **responsibility at Group level for the operative credit function**, the CRO assumes the management function for all credit risks.
- All quantifiable risks are monitored under the **economic capital approach** according to Group-wide standards and geared to the Commerzbank Group's risk-taking capability. This makes possible an efficient use of capital.
- The CEO bears responsibility for risks related to the Bank's business strategy and **reputational risks**.
- The CFO assumes responsibility for **compliance risk** (investor protection, insider guidelines, money laundering, etc.).
- The risk-policy guidelines and structures are presented in a **Risk Manual**, available to all staff via intranet. It is the basis for processing and communicating all the major types of risk in a uniform manner throughout the Group and consequently provides support for the management of identified risks within the Commerzbank Group.
- The **early-warning and monitoring systems for risk** are designed to achieve qualified and prompt identification of all the major risks.
- We make sure that the **risk functions**, whose efficiency we constantly examine using modern steering systems, are **well-equipped with personnel** in qualitative and quantitative terms.
- In view of the contribution made by efficient risk management to corporate success, especially in the case of a financing bank like Commerzbank, we always want to be **state-of-the-art** here.
- Applying appropriate **stress and scenario analyses**, we keep a watchful eye on the downside risk for all the relevant portfolios and, if necessary in terms of risk management, we launch counter-measures in good time.

As a result, the risk-management system makes a major contribution towards optimizing the structure of the Bank's risk and returns, and towards a value-based management of the Bank.

## 2) Risk categories

Commerzbank defines risk as the danger of possible losses or lost profits which may be caused by internal or external factors. For risk-management purposes, Commerzbank distinguishes between **quantifiable and non-quantifiable types of risk**.

All quantifiable risks are part of Commerzbank's overall risk strategy in accordance with MaRisk requirements and the economic capital approach (the refinancing risk not being included here). The individual risks are:

- **Credit risk:** the risk of losses or lost profits due to defaults (default or deterioration in creditworthiness) of counterparties and also the change in this risk. Apart from this traditional risk, credit risk also covers country risk and issuer risk as well as counterparty risk and settlement risk arising from trading activities.
- **Market risk:** the potential negative change in value of the Bank's positions as a result of changes in market prices (interest rates, spreads, currency and equity prices), their derivatives or parameters which influence prices (volatilities, correlations). In Commerzbank's definition, risks from equity holdings in the banking book and equity event risk (modelling of equity risk extending beyond VaR, such as the insolvency of the issuer) also represent market risks and are monitored like these.
- **Interest-rate risk in the banking book:** the risk of adverse effects of changes in market interest rates on the capital or current income. Different fixed-interest periods for claims and liabilities in balance-sheet transactions and derivatives represent the most important source of such risks.
- **Operational risk:** the risk of losses through inadequate or defective systems and processes, human or technical failures, or external events (such as system breakdowns or fire damage). By analogy with the Basel Committee's definition, operational risk also includes legal risk, i.e. risks stemming from inadequate contractual agreements or changes in the legal framework.
- **Liquidity risk:** the risk of the Bank not being able to meet its current and future payment commitments, or of not being able to do so on time (refinancing risk).
- **Market-liquidity risk:** the risk that inadequate market liquidity will prevent the Bank from selling trading positions at short notice or hedging them to the desired extent.
- **Business risk:** the risk of losses due to negative deviations in revenue (especially commissions) and costs from the budgeted figures. Business risk is influenced both by business strategy and by the Bank's internal planning process, as well as by changed overall conditions such as the market environment, customers' behaviour or technological developments.
- **Overall risk:** the proper recognition and representation of all relevant quantifiable risks in a model (economic capital approach) at the Commerzbank Group level, and the gearing and limiting of the economic capital calculated in this way (= unexpected loss, UL) to the Group's risk-taking capability. The expected loss (EL), similarly calculated within this model, is crucial for managing business (risk-adjusted pricing/determining what business is sought).

The non-quantifiable risks are subjected to qualitative monitoring in connection with pillar II of the Basel Accord and MaRisk. They include:

- **Strategic risk:** the risk of negative results on account of previous or future fundamental business-policy decisions, produced by investment decisions in various business lines/regions (internal/external growth or divestments).
- **Compliance risk:** legal, regulatory sanctions or financial losses due to failure to comply with laws, regulations, guidelines or organizational standards and codes of conduct which have a bearing on Commerzbank business activities and which, for example, relate to the prevention of money laundering, the protection of data and business secrets, investor protection or observing the rules of the German legislation on securities trading.
- **Personnel risk:** based on the consideration of all the major risks that is required by MaRisk, personnel risk will also be integrated in future into Commerzbank's qualitative reporting. MaRisk requires the quantitative and qualitative staffing of a bank to reflect *inter alia* its business activities, strategy and risk situation.
- **Reputational risk:** the risk of losses, falling revenue or a reduction in the Bank's market value on account of business events which erode the confidence in the Bank of the public, rating agencies, investors or business associates. As a rule, reputational risks result from one of the above-mentioned sources and reinforce them.

### 3) Overall Bank management and economic capital

As part of overall Bank management, risk management and profitability management are consistently combined to yield an integrated value-based steering approach. Commerzbank's overall management has two main objectives:

- to ensure a capital base that is adequate for its risk profile,
- to achieve the most efficient allocation of the scarce resource equity, taking into consideration medium- and long-term strategic goals.

**Expected loss (EL)**

- Based on the structure of the Bank (aggregate portfolio, systems, staff), the EL represents the expected loss calculated in connection with the economic capital approach which has to be considered as a cost factor in budget planning.
- Its high discrimination in modelling parameters is essential for steering business, as only then is it possible to achieve risk-adjusted pricing and to avoid alpha and beta errors (alpha error: positive lending decision subsequently leading to loan losses; beta error: credit refused to borrowers/business that in retrospect prove to be stable during the requested lifetime of the credit).
- Each set of results for individual portfolios is compared with the actual risk outcome as part of the validation process.

- Unlike loan losses and losses arising from operational risks, changes in market prices and business risks in principle have the same effect in both directions. *Ex ante*, therefore, no expected gain or expected loss can be assumed. The gains or losses produced by uncertain future changes in market prices – such as changes in commission-earning business – are defined as entirely unexpected, therefore.

The following table shows the expected loss for the various types of risk, by division of the Commerzbank Group.

| EL | Retail Banking and Asset Management | | Corporate and Investment Banking | | Mortgage Banks | | Others and Consolidation | | **Group** | |
|---|---|---|---|---|---|---|---|---|---|---|
| in € m | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Credit risk | 230 | 234 | 605 | 839 | 65 | 67 | 5 | 7 | **906** | **1,147** |
| Market risk | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** | **0** |
| Operational risk | 18 | 25 | 28 | 49 | 1 | 1 | 1 | 3 | **47** | **77** |
| Business risk | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** | **0** |
| **Group** | **248** | **259** | **633** | **888** | **66** | **68** | **6** | **10** | **953** | **1,224** |

The decline in expected loss – above all in the Corporate and Investment Banking division – can be traced back to improvements to the model in connection with the Basel II project and the resulting probabilities of default, loss-given-default parameters and charges for unutilized credit lines, all of which reflect risk more accurately.

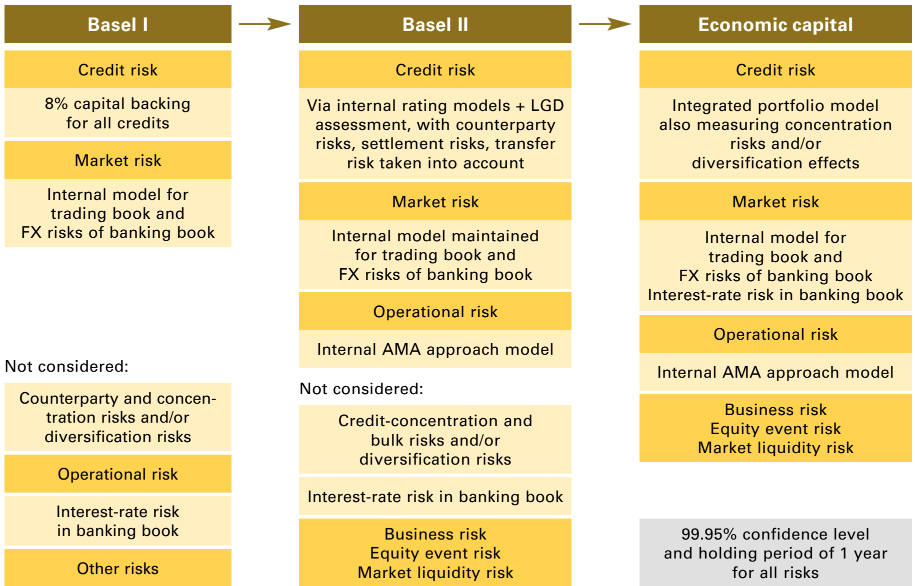
**Unexpected loss (UL = economic capital)**

The use of economic capital is a measure for the unexpected loss (= volatility of EL), which is consequently not included in the profit/loss calculation in the course of budgetary planning. It can be traced back, for example, to economic ups and downs, problems in given industries and also bulk risks. Commerzbank's integrated risk/return-based management is built around the concept of economic capital, developed over a number of years, which forms the basis for a system of risk-adjusted key parameters. It makes possible the early risk recognition of negative developments in the form of transparent reports and the establishment of a suitable escalation procedure.

- Economic capital represents an internal measure reflecting the Bank's risk appetite.
- It is defined as the amount of capital which should be held available with a given probability in the course of one year to cover unexpected losses arising from risk positions. It represents the aggregate of all quantifiable risks which have to be backed by equity.
- The confidence level of 99.95% which is used as a basis here is derived from the probability of default for Commerzbank's A1 (Moody's) target rating.
- The approach adopted has been validated in national and international benchmark studies and counts as best practice. It is constantly being enhanced.
- In 2006, the risks arising from real-estate business (own investments) will be integrated into monitoring at Group level.

Economic capital reflects the Bank's specific risk profile and consequently includes risk categories which previously had not been considered under regulatory capital. The differences between regulatory and economic measures of capital have been reduced by Basel II, but the currently significant discrepancies will not disappear altogether even with the new Basel capital rules. Among other things, this is due to the diversification effects and bulk risks which Basel II does not take into consideration. In the past financial year, further differentiation was introduced into the measurement of credit risk, which improved the steering of risk concentrations and bulk risks in lending.

**Differences between regulatory and economic capital**




Economic capital is now an integral part of overall Bank management; as from 2006, the economic capital approach will also be used in the capital management of the individual business lines. In the relevant calculations, the Bank's business lines and the units of which they are comprised are assigned not only costs and revenues but also economic capital and risk-adjusted performance benchmarks. This makes it possible to compare the respective divisions with regard to their revenue and risk components, to recognize value-destroyers/drivers, and to allocate capital efficiently within the Group on that basis.

As of December 31, 2005, the following values were registered for the economic capital of Commerzbank's various divisions:

| UL | Retail Banking and Asset Management | | Corporate and Investment Banking | | Mortgage Banks | | Others and Consolidation | | **Group** | |
|---|---|---|---|---|---|---|---|---|---|---|
| in € m | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Credit risk | 1,074 | 918 | 3,225 | 3,913 | 409 | 517 | 26 | 115 | 4,734 | 5,463 |
| Market risk | 106 | 116 | 314 | 349 | 849 | 468 | 1,425 | 1,726 | 2,694 | 2,659 |
| Operational risk | 303 | 429 | 638 | 698 | 31 | 37 | 24 | 132 | 996 | 1,296 |
| Business risk | 141 | 175 | 198 | 224 | 12 | 12 | 131 | 149 | 482 | 560 |
| **Group** | **1,624** | **1,638** | **4,375** | **5,184** | **1,301** | **1,034** | **1,606** | **2,123** | **8,906** | **9,979** |
| **Group including diversification effects** | | | | | | | | | **6,915** | **7,675** |

The decline in the Group's economic capital for **credit risks** mainly stems from Corporate and Investment Banking. Whereas the reduction in the *Mittelstand* segment was primarily achieved through improved portfolio quality (better ratings, higher collateral), the decline at Corporates & Markets is principally attributable to the reduction of bulk risks.

In the past financial year, the Basel parameters (PD and LGD), worked out or validated in the course of the Basel II project, were successfully integrated into the calculation of the internal risk capital for credit risks. We expect the EL and UL arising from credit risk to be further reduced in 2006 as a result.

Thanks to further disposals of non-strategic equity holdings (in particular MAN, Banca Intesa and Heidelberger Druck), there was a marked reduction in the economic capital to cover the **market risk** from equity holdings at Others and Consolidation. By contrast, the economic capital for market risk not related to equity holdings increased during the year, primarily due to the strategic build-up of interest-rate risks in the banking book; it was not reflected, therefore, in a higher regulatory capital requirement (under both Principle I and Basel II, interest-rate risks in the banking book do not need to be backed by equity).

Recognition of diversification effects between event categories in modelling led to a marked reduction in the capital needed to cover **operational risk**. This takes account of the fact that different serious events do not occur simultaneously.

The economic capital for **business risk** was slightly lower than a year earlier.

**Risk-taking capability**

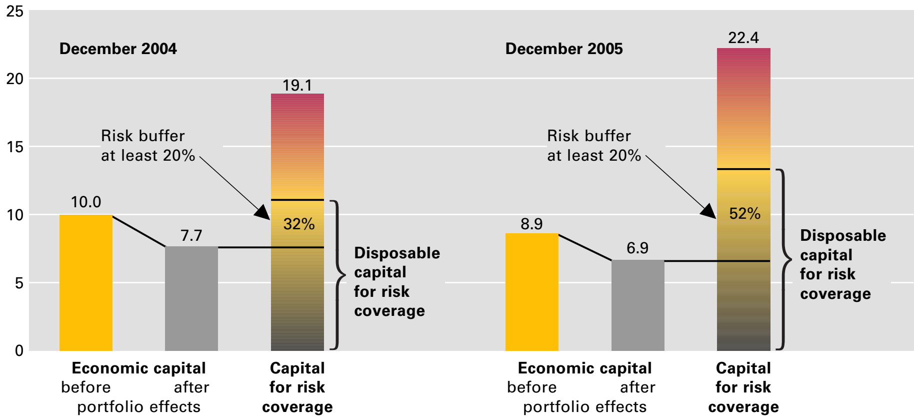
Calculation of the risk-taking capability is the second important pillar of overall Bank management after integrated risk/return-oriented steering based on economic capital.

- Here, the overall risk figure worked out for the Group – measured as economic capital – is set off against the total capital available for covering risk in the form of a "traffic-lights" system.
- The capital components corresponding to the various traffic-light scenarios correspond to the Group's ability to anticipate potential losses in terms of absolute figures and priority.
- The objective of this comparison is to establish whether the Bank is in a position to anticipate potential unexpected losses without serious negative effects on its business activity and to cover them from its own funds.
- For this purpose, a risk buffer of at least 20% was defined between the Group's overall risk – adjusted for portfolio effects – and the disposable parts of the capital available for risk coverage.
- At the individual borrower level, a limit of €20m CVaR has been set for steering bulk risks. If this is exceeded on more than a short-term basis (e.g. in the course of underwriting), the appropriate measures must be taken in order to reduce the risk (e.g. purchase of security via credit derivatives).

Within the Bank's overall risk strategy, the risk buffer requirement has been translated into specific targets for individual portfolios. During the year under review, the capital available for risk coverage was always greater than the 20% risk buffer which has been defined.

**Risk-taking capability**

December 2004 vs. December 2005, in € bn




## II. Risk-management/risk-control organization

Responsibility for implementing the risk-policy guidelines laid down by the Board of Managing Directors throughout the Group lies with the Chief Risk Officer (CRO). The CRO regularly reports to the **Risk Committee of the Supervisory Board** and to the Board of Managing Directors on the Group's overall risk situation. In addition to being responsible for Risk Control (ZRC), the CRO is also in charge of the operative credit units throughout the Group; the operative credit function is shared by Global Credit Operations (ZCO), responsible for corporate clients, financial institutions/sovereigns and private clients outside Germany, and Credit Operations Private Customers (ZCP), responsible for private customers in Germany.

From the risk-control perspective, the integration of Eurohypo is already well advanced. Consensus has been reached on the common use of the Master Scale and the rating/scoring systems. The Group-wide application of Commerzbank's internal credit-risk model will be extended as from 2006 to Eurohypo as well; the same holds true for the rules for credit approval powers, the use of the committee approach and the harmonization of credit-risk strategy. Further synergy potential will be tapped through the standardization of technical and organizational areas (such as the already achieved agreement on uniform booking procedures and the creation of a credit factory for private and business customers).

For the operational implementation of risk management, the Board of Managing Directors have delegated functions to specific committees, which support them in making decisions on all risk-relevant issues:

- The **Risk Committee**, headed by the CRO, is responsible for issues related to monitoring all the major types of risk, as well as their aggregation as part of the economic-capital approach and the Group's overall risk situation. At fortnightly intervals, the Risk Committee discusses market-risk issues and general risk topics.

- The **Credit Committee** meets every week, chaired by the CRO. It is made up of equal numbers of front-office (Parent Bank's Board and Regional Board Members) and risk-management personnel (CRO and CCO = Chief Credit Officer) and is responsible for all credit risk at the individual and portfolio levels. The committee issues a recommendation on all the lending decisions to be taken by the Board of Managing Directors. Its work is supported by three credit sub-committees for corporates, financial institutions and private customers. With the integration of Eurohypo, it is planned to set up a further sub-committee for commercial real estate. MaRisk requires that the CRO or the risk-management side are not outvoted in lending decisions – the exception being decisions adopted by the Board of Managing Directors. Where there is disagreement, we have a well-functioning escalation process.
- The **Operational Risk Committee** is responsible for all the broader issues relating to operational risk within the Group. It provides support for the Risk Committee in decisions relating to the management and monitoring of operational risk.
- As a sub-committee of the Risk Committee, the **New Product Committee**, which is chaired by the head of ZRC, decides whether to launch activities in new products or new markets in the form of trading or loan products. In accordance with MaRisk, it will also focus on the investment side in future.
- The **Asset & Liability Committee** (ALCO) is headed by the Board member in charge of Treasury. It is responsible for fundamental issues in asset/liability management, the Bank's liquidity, and also its borrowing and equity.

**1) Risk control**

After the Board of Managing Directors, Risk Control (ZRC), which with its global organization reports directly to the CRO, bears overall responsibility for Group-wide control for all types of quantifiable risk. The core functions of ZRC within the risk-control process include:

- the ongoing identification, recognition, evaluation and monitoring of all quantifiable risks and their proactive control;
- the working-out of internal guidelines to ensure a uniform risk standard throughout the Group;
- the conception and enhancement of models and methods for quantifying risk (e.g. rating methods);
- the implementation of risk-related supervisory requirements within the Commerzbank Group (e.g. Basel II and MaRisk);
- internal and external risk reporting;
- performing an advisory function within the Bank on all risk-relevant issues and with regard to the conception of its risk strategy.

A central role here is played by the Group-wide aggregation of all types of quantifiable risk to form an overall risk position, its integration into a calculation of the Bank's risk-taking capability and also the development of a risk/return-based overall Bank management as part of the economic-capital approach.

**2) Risk management: the operative credit function**

As required by MaRisk, it has been ensured for all units of the Commerzbank Group that lending decisions are independent of the front office by systematically separating the market side from risk assessment/risk decision-making in every phase of the credit process and up to management board level.

- The operative credit function (back office) for corporate customers, sovereigns, institutions and banks worldwide, as well as for private customers abroad, has been concentrated at Global Credit Operations (ZCO).
- For retail business in Germany, the operative credit function is performed by Credit Operations Private Customers (ZCP).
- ZCO and ZCP monitor risk closely, an activity for which regional credit officers (RCO) are responsible, who report either to the CCO (head of ZCO) or to the head of ZCP.
- ZCO has global credit officers for industries (bulk risks), financial institutions (including non-bank financial institutions) and intensive treatment.
- It is planned to establish a separate global credit office for specialized finance (LBOs, ABS, CDO, special and project financing) in Frankfurt in order to meet the steadily increasing demand for special expertise.
- Special expertise is bundled in centres of competence for renewable energies and global shipping. In 2006, two further centres of competence will be set up for communal financing and the financing of small *Mittelstand* companies (loans of up to €750,000).
- All the subsidiaries are integrated into this credit-line function. The two large units BRE Bank and Hypothekenbank in Essen have their own risk committees, chaired by the operative credit side.
- Specialized intensive treatment know-how exists for handling problem loans, making it possible to deal with them intensively at an early stage. The principal goal is to improve the customer's ability to survive by adopting timely measures and to return the intensive-treatment loans, wherever possible, to better credit ratings.
- All customer mezzanine financing transactions are treated as credits at Commerzbank.

In addition to the functions of the back-office departments (ZCP, ZCO) which relate to individual customers, such as rating, loan approval, documentation and monitoring/early recognition, the targeted and proactive risk management of individual portfolios is becoming ever more important. Achieving a more dynamic portfolio and ensuring a high portfolio quality are increasingly developing into a core function in the forward-oriented steering of asset quality. Transactions to optimize the portfolio are closely coordinated between the front- and back-office teams, using modern trading-based instruments provided by Corporates & Markets (ZCM). For multinationals, hedging instruments are employed to a growing extent in order to obtain the best return on the capital invested.

### 3) Risk management: operative risk-steering of market units

Within the scope of their business activities, the individual divisions and subsidiaries of the Bank bear immediate responsibility for risk and earnings. Unlike the centralized responsibilities of risk control (steering, planning, control), operative risk management is handled – with the exception of credit risk (back-office departments ZCO/ZCP) – by the Bank's respective front-office units.

### 4) Internal risk reporting

- The Risk Committee of the Supervisory Board, the Board of Managing Directors and the Risk Committee are regularly informed about all of the major risks and the Group's overall risk situation in the form of structured risk reports.
- Reporting on the individual risk categories is complemented by a calculation of the Bank's risk-taking capability, which sets off all the quantifiable risks against the regulatory and economic capital for risk coverage and aggregates them to form an overall risk position.
- Events of major significance for the Bank's risk situation are reported to decision-makers on an *ad hoc* basis.
- The central information and steering instrument at Group level for the Board of Managing Directors and the Risk Committee of the Supervisory Board is the Quarterly Risk Report (QRR) produced by ZRC.
- This also presents the target/performance comparison with the formulated portfolio targets and limits. Countermeasures are adopted at short notice.

### 5) Compliance and security

For Commerzbank, it is especially important that its employees are people of integrity, who observe the relevant laws precisely because they have to deal every day with highly sensitive customer data and information. The crucial point, therefore, is to prevent conflicts of interest from arising and to make sure that market manipulation and insider trading do not occur. The declared goals of compliance are to protect customers and investors, but also employees and the Bank's reputation.

Supervisory and capital-market regulations as well as the Bank's internal rules are monitored centrally by Compliance and Security (ZCS) with the aid of a highly-developed monitoring system which covers both the Bank's proprietary trading and transactions on the part of employees.

### 6) Internal auditing

Internal Auditing works on behalf of the Board of Managing Directors, free from directives and external influence, as a unit independent of business processes. In reporting and in evaluating the results of its audits, Internal Auditing also operates free from directives.

The instrument employed by Internal Auditing is risk-oriented audit planning. It assesses the systems for risk management, control and also for general management and monitoring, thus helping to improve them.

In accordance with the Minimum requirements for the risk management of credit institutions (MaRisk), it audits all the sections of the Group. In addition to processes and systems, preventive individual audits are conducted and special audits are performed at less than annual intervals if the need arises.

**7) Implementation of supervisory requirements: Basel II and MaRisk**

Implementation of the supervisory requirements throughout the Commerzbank Group is coordinated by ZRC project teams, in close cooperation with the banking departments, staff departments and subsidiaries.

- Steering committees monitor the progress of the project.
- Commerzbank was selected by the German financial supervisory authority, BaFin, as a case study for the Basel II home-host monitoring process.

Further key aspects in the implementation of Basel II at Commerzbank last year were:

- the methodological refinement of internal rating methods in credit business;
- the collation of the necessary loss histories;
- the refinement of methods for estimating the main Basel parameters;
- the elaboration of methods for quantifying operational risk.

This fulfilled important requirements for the use of the IRB Advanced Approach and the Advanced Measurement Method (AMA), thereby creating the basis for a sophisticated risk-adjusted capital allocation. The procedure for examining ("certifying") the IRB approaches to credit risk were initiated by the German authorities early in 2005. Further steps to follow in the near future are:

- In close cooperation with the banking supervisory authority, the Bank expects the examination to begin sometime in 2006. Commerzbank submitted its Group application for certification of the IRB Advanced Approach in the third quarter of 2005.
- A similar regulatory certification process for operational risk (Advanced Measurement Approach) is being introduced in Germany at present.

As things stand today, the advanced Basel II approaches can be implemented and certified according to plan within the deadline that has been set – on the current planning of the supervisory authority: January 1, 2008.

Alongside the internal progress made with the project, the question of the ultimate calibration is decisive as regards the comparative advantages of the various approaches. The supervisory authority will make this calibration on the basis of the findings of QIS 5, which are to be presented in 2006. At the moment, the originally promised incentives to be generated by the advanced approaches have not yet emerged. It is also not compatible with a level playing field that the US supervisory authorities have extended the timetable for introducing Basel II. We are concerned that the Bank's large investments over the years in the implementation of the Advanced Approach of Basel II will not lead to a lower regulatory capital requirement. Depending upon the ultimate calibration, therefore, we reserve the right temporarily to select less advanced approaches leading to a better capital allocation as far as our shareholders are concerned.

On December 20, 2005, BaFin published the definitive version of the so-called **Minimum requirements for the risk management of credit institutions (MaRisk)**. The new requirements contained in MaRisk have to be implemented in general by January 1, 2007.

- MaRisk will represent the main qualitative requirements of the second pillar of Basel II and will form the basis for an integrated approach to risk.
- MaRisk formulates requirements for the organization of risk management which replace the minimum standards for credit business (MaK), trading activities (MaH) and internal auditing (MaIR), which have applied up to now.
- They will be complemented by further Basel II elements (e.g. interest-rate risk in the banking book and liquidity risk), for which no overall provisions have existed up to now in Germany. MaRisk, therefore, provides the organizational framework for the Basel II requirements regarding the supervisory process and the internal process for assessing capital adequacy (ICAAP), which has to be formally approved by banks before the Basel framework is introduced.
- MaRisk was already implemented to a large extent within the Commerzbank Group in 2005.

On BaFin's instructions, the Bundesbank examined the trading activities of Commerzbank AG last year in Frankfurt and London pursuant to Art. 44, (1), German Banking Act – KWG. BaFin confirmed that, in the areas examined, Commerzbank is complying with MaH and that its internal system of control is appropriate with regard to the scope, complexity and risk attached to the trading activities conducted.

## III. Risk-control/risk-management process

### 1) Credit risk

**Credit-risk strategy**

Building upon the overall Bank strategy, the Commerzbank Group's credit-risk strategy establishes the framework for the medium-term management of the loan portfolio, based on an analysis of the business-policy situation and an assessment of the risks and returns related to lending. The credit-risk strategy provides the basis for the planned lending activities. The overriding goals are:

- identifying value drivers and reflecting them in the Bank's business policy, and also reducing value destroyers;
- supporting the goals of overall Bank management: maximizing the return on the equity tied up, taking into account Commerzbank's risk-taking capability, and defining the framework for optimizing the current portfolio;
- and selecting new and follow-up business from a risk/return aspect.

With the Bank's general risk appetite taken into consideration, the starting point for the credit-risk strategy is a critical analysis of the strengths and weaknesses of the current credit portfolio. Complemented by a forward-looking evaluation of the opportunities and risks in the target markets, this provides the framework for the definition of a risk/return-optimized target portfolio together with the related planning of measures. In the realization of the targeted risk/return profile, this "benchmark portfolio" forms the target and the basis of comparison for the Group-wide steering of new business and for portfolio-management activities.

A major priority of the credit-risk strategy is the growth of business with *Mittelstand* companies (including major corporates) in Germany as well as in Central and Eastern Europe, and also with private and business customers in Germany. By contrast, the focus in limiting risk continues to fall on bulk risks and equity holdings. Insofar as individual industries and countries are considered critical, the operative management has been performed for years with the aid of the Bank's well-established traffic-lights system.

As part of a comprehensive controlling process, observance of the credit-risk strategy is subjected to constant independent monitoring by Risk Control. In connection with its quarterly risk report (QRR), ZRC decides whether the structure and development of the Group's loan portfolio are compatible with its credit-risk strategy. On this basis, the Board of Managing Directors review significant deviations from the credit-risk strategy and any countermeasures to be adopted as a result. At its meetings, the Risk Committee of the Supervisory Board is regularly informed about the resolutions and assessments of the Board of Managing Directors on the basis of the QRR.

In order to ensure that the risk-strategy rules are implemented and to restrict concentrations of risk, the economic capital that is tied up is used as a measure of, and a risk cap for, sub-portfolios and concentration risks (business lines, sectors, products and regions). The traditional target/performance comparison is complemented by a regular review of the underlying assumptions – such as GNP growth and industry forecasts.

**Rating procedures**

Rating methods form an integral part of the risk-control/risk-management system and at the same time represent a core competence and competitive factor for our Bank. Apart from their function as a traditional instrument for judging creditworthiness, rating procedures provide the basis for working out margins which reflect risk and thus differentiate between degrees of risk. They are also the basis for calculating economic capital and for portfolio management. The high discriminatory power of our rating procedures leads to improved risk selection and consequently to lower capital requirements. The processing costs in lending business can be reduced significantly through the use of rating procedures in connection with a (partially) automated lending procedure.

The predominant feature of the year under review was the introduction of the Commerzbank Master Scale on a Group-wide basis at the start of the year, the launch of the new and refined rating procedures for corporates and of the rating procedures for the banks, specialized finance and commercial real estate segments. The procedures were also revised for credit-card portfolios and for deciding on alternative payments packages for retail customers; in addition, a rating procedure was developed for the Polish smaller business segment at the Commerzbank subsidiary BRE Bank; it was introduced in January 2006.

**Rating and scoring procedures in retail business**

In its retail lending, Commerzbank successfully employs application scoring procedures and rating methods for assessing the creditworthiness of both dependently employed borrowers and business customers. All of the methods used are computer-based and draw upon for the most part mathematical-statistical methods for the early recognition of risk and the assessment of the risk of default.

From January 2006 onwards, behavioural scoring is also being extended to business customers who are not obliged to prepare a balance sheet; it is being fully integrated into rating-based process management.

**Rating procedures in corporate business**

In the corporate-customer segment, three different models are applied, distinguished by the criteria size of turnover and region of origin of the company. The structural procedure for arriving at a rating is identical in each case: six sub-analyses are processed in a fixed order, yielding a probability of default for the corporate customer (so-called PD rating). The back-office unit is responsible for establishing the definitive PD rating.

**Rating for specialized finance**

Commerzbank subsumes cash-flow-based financings – such as LBO financing, project finance, structured trade finance – under the heading specialized finance (SF). For this segment, a simulation-based rating procedure was employed in 2005. With the aid of the new SF procedure, the expected loss of a transaction is worked out directly. For this purpose, the risk parameters probability of default, loss given default and the expected exposure at default are calculated for tranches representing the same level of risk and for each year of the respective tranche's lifetime. The SF rating procedure is expert-based and effectively examines the debt-servicing and restructuring capability of a transaction, using scenario analyses.

**Rating procedures for banks**

Commerzbank's procedure for rating banks is based on a mathematical-statistical model with expert-based extensions. Overall, the bank rating procedure breaks down into five different regionally-specific models. Alongside the developed-markets model, four different models exist for banks in emerging markets (Asia, Middle East and Africa, South America, Eastern Europe). Under this procedure, six sub-analyses have to be processed in a fixed order, yielding a probability of default for the bank in question.

**Commitment rating and Master Scale**

Apart from the PD rating, Commerzbank establishes for all rating-relevant segments a commitment rating, which takes into account such transaction-specific features as collateral, credit types, the lifetimes of loans and other qualitative criteria. In order to calculate the rating for a commitment, the expected loss (EL) is worked out as a percentage of the exposure at default (EAD). This presents the ratio of the expected loss to the overall exposure of a customer, taking into account all the credit lines. Like the PD rating, the rating for the commitment is geared to the Master Scale recently introduced throughout the Bank. This makes the PD and the commitment rating directly compatible.

All credit commitments are assigned by the Bank to one of three areas in accordance with their commitment rating. The so-called white area comprises the unremarkable credits (R 1.0-3.2) and the so-called monitoring risks (R 3.4-4.4). The grey area covers all substandard risks (R 4.6-5.8), while in the black area all the problem loans are bundled (R 6.1-6.5). With the exception of small commitments, those in the grey and black areas are not only analysed and decided by the back-office unit but are also managed directly by risk managers from this department.

From a minimum credit level upwards, every Commerzbank business and corporate customer has the right to be informed by his relationship manager in a personal interview about his probability of default. Written statements and more detailed analyses (Rating Coach, for instance) are made available at an appropriate fee.

## Commerzbank Master Scale and PD/EL values

| Commerzbank AG rating | PD and EL mid-point as percentage | PD and EL range as percentage | S&P | | IFD scale* | |
|---|---|---|---|---|---|---|
| 1.0 | 0 | 0 | AAA | AAA | I | Investment grade |
| 1.2 | 0.01 | 0 - 0.02 | | | | |
| 1.4 | 0.02 | 0.02 - 0.03 | AA+ | | | |
| 1.6 | 0.04 | 0.03 - 0.05 | AA, AA- | AA | | |
| 1.8 | 0.07 | 0.05 - 0.08 | A+, A, | A | | |
| 2.0 | 0.11 | 0.08 - 0.13 | A- | | | |
| 2.2 | 0.17 | 0.13 - 0.21 | BBB+ | | | |
| 2.4 | 0.26 | 0.21 - 0.31 | BBB | BBB | | |
| 2.6 | 0.39 | 0.31 - 0.47 | | | II | |
| 2.8 | 0.57 | 0.47 - 0.68 | BBB- | | | |
| 3.0 | 0.81 | 0.68 - 0.96 | BB+ | | | |
| 3.2 | 1.14 | 0.96 - 1.34 | BB | BB | III | |
| 3.4 | 1.56 | 1.34 - 1.81 | | | | |
| 3.6 | 2.10 | 1.81 - 2.40 | BB- | | | |
| 3.8 | 2.74 | 2.40 - 3.10 | | | IV | |
| 4.0 | 3.50 | 3.10 - 3.90 | B+ | | | |
| 4.2 | 4.35 | 3.90 - 4.86 | | | | |
| 4.4 | 5.42 | 4.86 - 6.04 | B | B | V | Non-investment grade |
| 4.6 | 6.74 | 6.04 - 7.52 | | | | |
| 4.8 | 8.39 | 7.52 - 9.35 | B- | | | |
| 5.0 | 10.43 | 9.35 - 11.64 | | | | |
| 5.2 | 12.98 | 11.64 - 14.48 | CCC+ | | | |
| 5.4 | 16.15 | 14.48 - 18.01 | | CCC | VI | |
| 5.6 | 20.09 | 18.01 - 22.41 | CCC to CC- | | | |
| 5.8 | 25.00 | 22.41 - 30.00 | | | | |
| 6.1 | | Imminent insolvency | | | | |
| 6.2 | | Restructuring | | | | |
| 6.3 | 100 | Restructuring with recapitalization/partial waiving of claims | C, D-I, D-II | | | Default |
| 6.4 | | Cancellation without insolvency | | | | |
| 6.5 | | Insolvency | | | | |

* IFD = *Initiative Finanzstandort Deutschland*; Source: Commerzbank

**Assessing creditworthiness in international business: country rating**
The assessment of country risk draws upon an internal rating model reflecting a country's economic performance and political stability. The country rating evaluates the ability and readiness of a country to pay in foreign currency. The rating figures serve to assess the transfer risk (risk of the state restricting cross-border payment flows), the sovereign risk (creditworthiness of the state as a borrower) and the systemic risk.

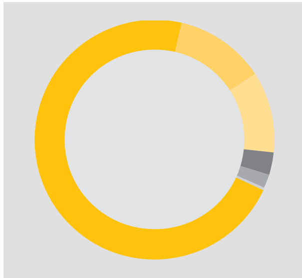
**Credit-approval powers**
The basis for managing credit risk throughout the Commerzbank Group is a structure of rating-related credit approval powers, which now also extends to all subsidiaries, i.e. including Hypothekenbank in Essen, Erste Europäische Pfandbrief- und Kommunalkreditbank (EEPK) and BRE Bank.

In both corporate and retail business, credit-approval powers are based on the principle of committee decision-making. On all committees, the front office and the back office are equally represented, with the operative credit side also taking the chair; it cannot be outvoted on risk-related issues. The central body in such matters is the Credit Committee, which is chaired by the CRO. Drawing upon predefined entry levels, this committee is responsible for all the Commerzbank Group's major and large lending decisions (based on Group-wide limits for borrowers) or for passing the matter on for the Board of Managing Directors to decide. Smaller commitments may be approved by two loan officers; in the so-called "non-relevant" area pursuant to MaRisk, we make use of the possibility to delegate credit-approval powers to a single officer.

Credit decisions for individual borrowers or groups of borrowers are made on the basis of either the aggregated exposure that has been applied for, pursuant to Art. 19, (2), German Banking Act – KWG (borrower unit), or a larger economically defined risk entity. In 2006, a project for improving the efficiency of corporate loan processing and decisions (end-to-end credit, "etec") will be implemented. In addition, loan-approval powers will be revised in view of the dimensions involved in integrating Eurohypo; this will mean that far fewer individual credit applications will have to be decided by the Board of Managing Directors and the Risk Committee of the Supervisory Board. In future, both bodies will concentrate more strongly on portfolio-based applications, stress analyses and also on resolving any countermeasures that may become necessary.

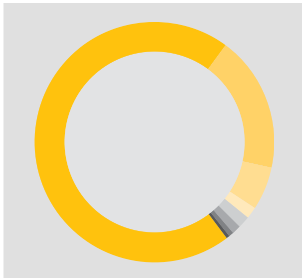
We see even more efficient credit processing as a way of increasing value in order to provide our customers with credit at favourable prices – particularly since risk-adjusted pricing will lead to greater risk-oriented differences in terms and conditions. Wherever possible, we are going over to bundling standardized credit procedures and moving them to the front-office side. The remaining operational risks can be well monitored via key performance indicators at such credit-processing units. By contrast, for complex and individual credit decisions, a major component of the individual default risk is to be found in the loan documentation – liability and duty to supply information, security arrangements, covenants, etc. – together with the establishment and monitoring of the disbursement and repayment conditions as well as the possible courses of action in the event of default. For this reason, we set great store by the credits of all units of the Commerzbank Group being processed by back-office personnel.

**Country risk, by rating group as of 31.12.2005**



71.6% R 1
12.2% R 2
10.9% R 3
3.0% R 4
1.8% R 5
0.4% R 6

**Regions of foreign exposure as of 31.12.2005**



70.4% Europe and Turkey
18.4% North America
5.8% Asia/Pacific
1.6% International Caribbean financial centres
1.6% Middle East and North Africa
1.2% Africa (excl. North Africa)
0.7% Central/South America
0.4% International organizations

**Modelling and quantifying credit risk**

All credit risks are aggregated at the portfolio level with the aid of the internal credit-risk model. By providing key figures, this model is one of the bases for risk monitoring, portfolio management and credit-risk strategy. Within the context of an overall Bank management geared to the use of economic capital, it also makes a major contribution towards steering business.

The main result produced by the portfolio model is a loss distribution, permitting probability statements on possible losses arising from credit business. From this function are derived both the expected loss (EL) and the unexpected loss (UL).

The expected loss (EL) is the product of the expected exposure at default (EAD), the probability of default (PD) and the percentage loss given default (LGD):

$$EL = PD \times EaD \times LGD$$

The expected loss plays a central role both in risk-based pricing and – especially with regard to Basel II – as a benchmark for forming provisions.

Credit value-at-risk (Credit VaR) serves as the measure for unexpected loss; for a given confidence level, it represents an estimate of the maximum amount by which losses could exceed the expected loss. For the Group portfolio, the Credit VaR is calculated using a time frame of one year and a confidence level of 99.95%; at the same time, it represents the credit-risk portion of the Bank's economic capital.

The portfolio and diversification effects occurring at Group level are redistributed in the credit-risk model down to the individual client level in risk-adjusted form. In this way, the relative share of individual units in the overall credit risk can be determined at various aggregation levels.

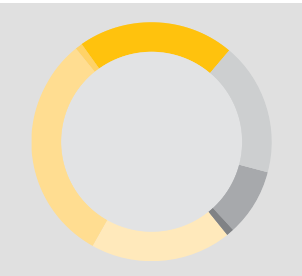
In the traditional *Mittelstand* segment (Corporate Banking), where the Bank's main credit risks arise, and in the Retail Banking segment, the ratio of unexpected to expected loss is roughly 9:2. In the Corporates & Markets section, however, where the structure of customers' creditworthiness is generally good and bulk risks with their own specific volatility represent the main loss potential, the ratio is roughly 8:1 – in other words, the risk is significantly determined by the unexpected loss.

A variety of risk factors and parameters are included in the credit-risk model. In addition to estimates of the exposure to be expected in the case of default and the conservative recognition of collateral, guarantees and netting agreements, these also take into account such statistical quantities as default rates, recovery rates und sectoral correlations. As part of the ongoing modification of the model, the input parameters for calculating risk were altered in 2005. In particular, further results produced by the statistical methods for estimating collateral and recovery factors were integrated into the model.

The credit-risk model plays a key role both in portfolio and business-line analysis and also for risk/return-based overall Bank management. In connection with the value-based steering of corporate business, standard risk costs and the economic capital costs are used in working out an economic contribution margin. Through risk-adjusted pricing, the Bank is increasingly creating steering

**Unexpected loss for Group's segments**

in per cent



21% Private and Business Customers
1% Asset Management
31% *Mittelstand*
19% International Corporate Banking
18% Corporates & Markets
9% Mortgage Banks
1% Others and Consolidation

impulses on the loan origination side by making the risk/return ratio central to lending in the acquisition of new and follow-up business as well. In this way, it is ensured that the portfolio targets defined by the Bank as part of its credit-risk strategy are considered even when the loan is being made available.

**Monitoring of credit portfolio**

The goal and measure in the Group's targeted monitoring of credit risk is the risk/return-based target portfolio defined as part of the credit-risk strategy, with the relevant sub-portfolios formed on the basis of target groups and markets.

Concentrations of risk in clusters, countries, target groups and products are restricted by means of a traffic-lights system.

New business (origination) is steered by means of selective instructions with regard to lending, which in themselves lay the basis for ZCP and ZCO to practice active portfolio management. One key feature in this respect is the creation of more dynamic parts of portfolios through recourse to credit derivatives, securitization and asset trading. Apart from secondary-market transactions involving written-down claims (single names), a portfolio of called-in non-performing loans (NPLs) was disposed of in the year under review.

The steering impulses for bulk risks and also for products and target groups take the features specific to a segment into consideration. As a central element of risk management, the **monitoring of bulk risks** is based on the economic capital approach. In order to reflect the risk structure characteristic of the Bank's commitments, the main factors in working out economic capital are volume, maturity and an analysis of creditworthiness, which takes into account among other things sectoral and country-specific factors. The appetite for each current bulk risk is indicated by means of a traffic-light colour.

Bulk risks are defined as borrower units accounting for at least €5m of economic capital; a graduated process is used to monitor them. Borrower units accounting for more than €20m of economic capital are not wanted in a long-term perspective and are systematically reduced, also with recourse to modern capital-market instruments such as CDS. For problem commitments (6.1-6.5 rating), all credits over €50m count as bulk risks.

The essential core of **country-risk monitoring** is a well-established limits/traffic-lights system pointing the direction for future business activities and lending. The degree to which the internally established and regularly adjusted country limits have been exhausted determines the colour of the traffic lights, which steers sales efforts, using resources economically, and indicates where the Bank seeks new business and where its commitment is deemed to be large enough.

Country-risk monitoring entails all the decisions, measures and processes which – drawing upon the information provided by risk quantification – are intended to influence portfolio structure in order to attain management goals.

Under the traffic-lights system, groups of countries with a certain rating and minimum exposure are covered. For risk optimization purposes, the Bank has extended its controlling for a number of countries to so-called total exposure. This takes account not only of the net country exposure but also of the claims in a non-risk country on the foreign outlets and subsidiaries of a parent company based in a risk country. Monthly country-risk reporting ensures that in the case of unexpected portfolio developments countermeasures can be taken promptly.

Country-risk reports appear at periodic intervals, describing the development of individual country exposures and the breakdown by rating category and region. In this way, the Bank achieves both risk-based control and geographical diversification in its exposure abroad. In 2006, the credit-risk model will be adopted for country monitoring, as it is in the monitoring of individual bulk risks.

Like country-risk monitoring, **sectoral monitoring** also operates with a system of limits and traffic lights. The colours for the various sectors are worked out using both internal and external key sector data taking into account the historical performance of the sector in question, the quality of the current loan portfolio and a sector overview.

**Monitoring credit risk for trading activities**

The management of credit risk resulting from trading activities is based on MaRisk. It takes account not only of counterparty and issuer risk but also of all the settlement risks resulting from trading activities. Primarily, a forward-looking presentation based on dynamic add-ons and simulation methods is used to quantify the risk for trading activities. Here, the risk-mitigating effects of netting agreements are taken into consideration, as is the effect of collateral agreements.

A system of limits is used to monitor whether daily utilization remains within the set framework. The system of limits directly intervenes in trading systems and ensures that credit exposure arising from trading activities is monitored right around the clock. The trading units establish whether free trading lines are available by means of a so-called pre-deal limit check and may only conclude new deals to the extent that limits are free. Limit breaches are reported daily to the management. In addition to this daily reporting, the management is informed monthly about the largest off-balance-sheet transactions. Risk reporting, which also includes regular portfolio reports devoted to certain groups of counterparties, is complemented by an evaluation of limits and exposures by type of business, maturity, counterparty category and class of risk. A graduated procedure ensures that overdrafts are brought back within set limits.

**Development of risk and risk provisioning**

Good performance in 2005 was mainly attributable to large-scale reversals of provisions for bulk risks in particular both in Germany and elsewhere. At the same time, provisioning in German corporate business, where the focus is on *Mittelstand* firms, has eased considerably. In addition, a notable part of overall provision for possible loan losses in 2005 related to a final clean-up of the commercial real-estate portfolio and here, with a view to legislative changes, to the fund-financing area which is bundled at CORECD. Net provisioning in retail business stayed at a high level as the market environment remained difficult.

Integration of Eurohypo into the Commerzbank Group will cause a substantial increase in total lending; in the German market, we will become easily the largest financing bank as a result. We will make sure that our conservative measurement principles are universally applied to the greatly expanded portfolio as well and expect this to lead to a moderate rise in our provisioning in 2006 compared with last year's consolidated figures. This statement is subject to some reservations, as we have not yet completed our credit check of Eurohypo's portfolio.

We see considerable potential negative factors on the retail side as the environment remains difficult (rising consumer insolvency figures, persistently high unemployment). Against this background, we expect no scope in 2006 for reducing provisioning in this segment; on the contrary, we believe it may tend to increase.

Reflecting a change in the credit culture, the main focus of the Commerzbank Group is not on minimizing provisioning. On the contrary, pursuing an opportunity-oriented approach, we want to assume selective risks provided that the returns are adequate. For small and medium-sized enterprises, for instance, we intend to gradually increase our risk appetite over the next few years, accepting higher provisioning in this sub-segment provided that this makes economic sense. The same holds true for consumer and credit-card business. Changes in the absolute level of the provisioning ratio cannot, therefore, be used as a basis for judging the success and quality of risk management. This is only possible if changes in net interest income from lending are also taken into consideration. International comparison reveals that apparently those banks are very successful which are able to increase their risk appetite in the sub-investment-grade area thanks to efficient steering systems and systematically implemented risk-adjusted pricing.

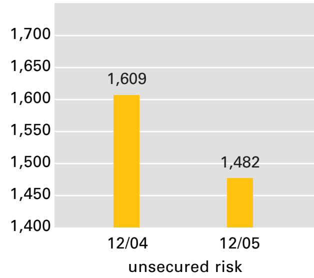
All identifiable credit risks are taken account of by forming the appropriate provisions. Doubtful credit exposures are kept in a special IT system, making it possible to process individual transactions effectively and to monitor risks. Under the Commerzbank Master Scale, problem loans in corporate business are assigned to five different default classes, differentiated by the reason for default. This ensures that the specific risk situation of individual cases is optimally recognized, which in turn finds expression in the amount of provisioning needed. In addition, an assessment of the individual borrower's future ability to pay will be used in calculating the amount of provisioning that is required.

In corporate business in particular, considerable excess cover exists for non-performing loans in the form of the provisions formed and the collateral furnished. However, this excess cover is not a "luxury" but rather it is necessary, depending on the volume of performing problem loans (so-called reporting accounts), to cover the existing acute risks.

The 20 largest problem loans consist of €438m of performing and €789m of non-performing assets. All told, provision of €798m has been formed for the 20 largest problem loans.

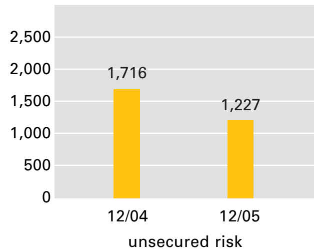
**The 20 largest sub-standard loans (4.6-5.8 ratings)**

in € m



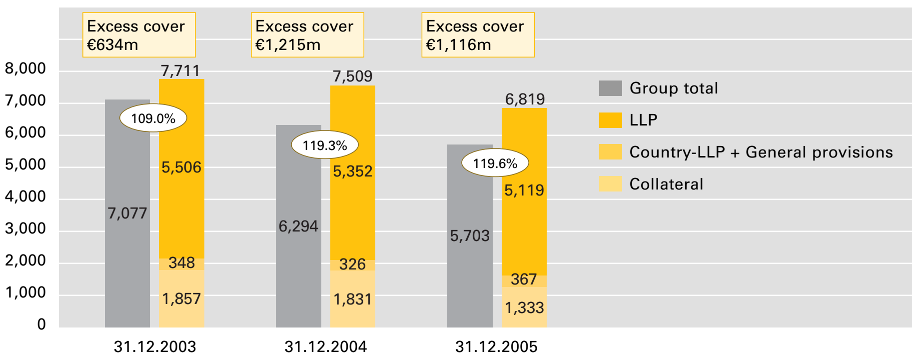

**The 20 largest problem loans (6.1-6.5 ratings)**

in € m




**High coverage ratio for non-performing loans**

in € m



For latent risks in the white and grey areas, general provisions are formed, representing coverage for the acute credit risks that exist there but which have not yet become transparent. Portfolio-based parameters (loss identification period, "LIP factor") are used to represent the time-lag here.

For concrete creditworthiness risks – which are indicated by the rating – provision is made, applying Group-wide standards, by means of specific valuation allowances on the scale of the potential loss ("loss-free valuation"); here we base our calculations on an updated conservative valuation of the furnished collateral. The amount of provisioning required for problem loans is gauged by the unsecured part of the exposure. In international credit business, the economic and political situation of the country is also reflected in the overall assessment of a borrower.

With the EU's approval of the amended IAS 39 early in 2005, binding IFRS rules now apply for risk provisioning. Building upon these rules, the Bank adopted measures last year to harmonize IFRS risk provisioning on the basis of the new Basel II parameters.

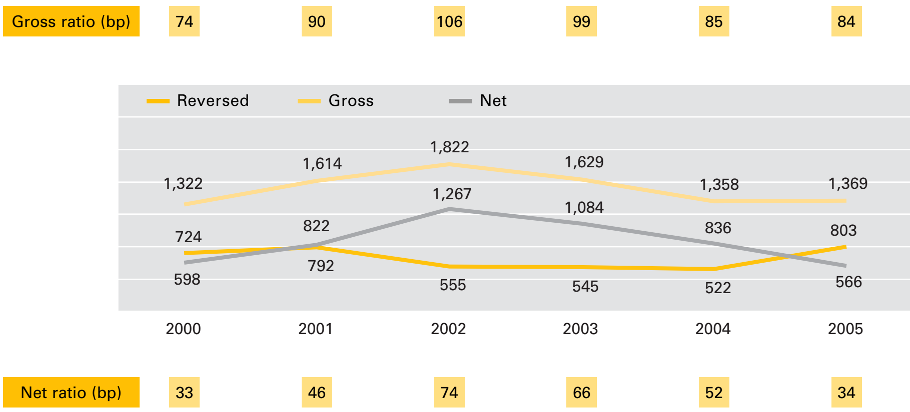
Net provisioning in 2005 was €566m and thus €270m lower than the previous year's figure of €836m and also €194m below the budgeted amount of €760m. The Group's net provisioning ratio was reduced year-on-year by 18 basis points to 0.34%, marking a return to the positive level of 2000.

The steady decline in the provisioning trend over several years is attributable, for one thing, to such external factors as bulk and country risks and, for another, to better risk management throughout the Group given improvements to the system in connection with Basel II, the creation and implementation of the credit-risk strategy, more early recognition and the inclusion of the Bank's subsidiaries.

The adequacy of the Bank's risk provisioning is regularly monitored at the portfolio level. The expected need for provisions throughout the entire financial year is worked out each spring and autumn on the basis of careful bottom-up estimates. The early recognition of risk is complemented by two top-down estimates, whereby a gradual improvement in the early recognition of all portfolio risks has been achieved over the past few years. We expect that the switch to the Basel II/IFRS system will tend to produce greater volatility in risk provisioning for both the interim and the year-end figures. Thanks to the so-called unwinding effect, some of the reversals pursuant to IFRS will be recognized in interest income, making year-on-year comparison more difficult.

Risk monitoring is complemented by the careful monitoring of the largest sub-standard and problem loans in terms of the overall volume of risk, the development of ratings and other relevant risk parameters. This creates a great sensitivity towards risk in all portfolios and at all levels of decision-making. Usually, claims are removed from the books and residual amounts are written off or reversed only after the conclusion of insolvency proceedings, after they have been disposed of, or after an accord has been reached with the borrower, or debts are waived at the expense of existing provisions. Experience has shown that, as a result, the level of problem loans – which includes non-performing loans and endangered performing loans – is higher than at institutions which follow a policy of making early write-downs due to their accounting rules.

Our experience indicates that, seen overall, a work-out policy of great staying power leads to more favourable provisioning charges. For this reason, we do not see the virtual doubling of the Commerzbank Group's portfolio of non-performing loans through the integration of Eurohypo as a threat, but rather as an opportunity. As the German real-estate scene improves in the course of the next few years, we expect to be able to register additional recoveries here.



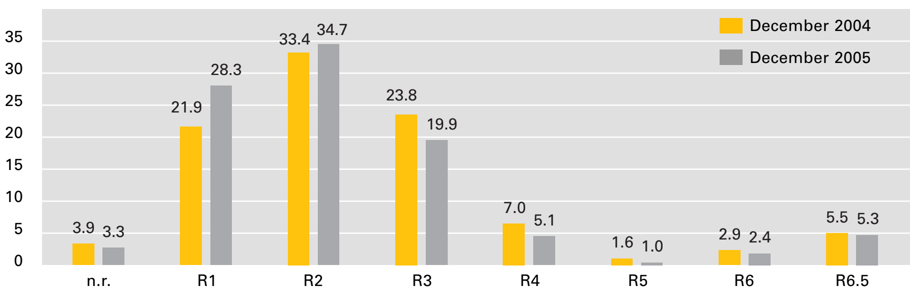

**Risk provisioning of Commerzbank Group**

in € m

### Credit portfolio analysis

Central and regional credit risk management at Commerzbank relies heavily upon an intranet-based management information system (CoMKIS), a reporting and analytical tool forming an integral part of Group-wide credit-risk control. CoMKIS makes it possible to present the main steering parameters and important risk figures; it can also be used to perform individual evaluations, such as rating- or sector-based portfolio analyses. In this way, analyses of weak points may be made on the basis of various search criteria for the purpose of credit-risk strategy, and early-recognition indicators can be defined and evaluated.

At the start of 2005, several new rating methods for corporate business were introduced together with the Commerzbank Master Scale, which have led to a distinct improvement in discriminatory power. Gradually, this is affecting the rating structures in both commercial and investment banking. Selective measures in risk management as well as healthier economic conditions are producing a further improvement in rating structure.

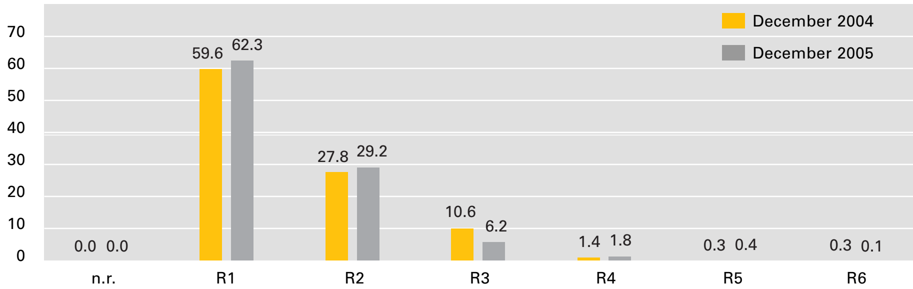



**Utilization of credit, by rating structure in Commercial Banking (excl. BRE Bank and Essen Hyp) as of 31.12.2005**

in per cent

**Counterparty risk, by rating structure in Investment Banking as of 31.12.2005**

in per cent




The rating structure in Investment Banking with a large proportion in rating groups 1 and 2 reflects the focus on counterparty risks of investment-grade quality.

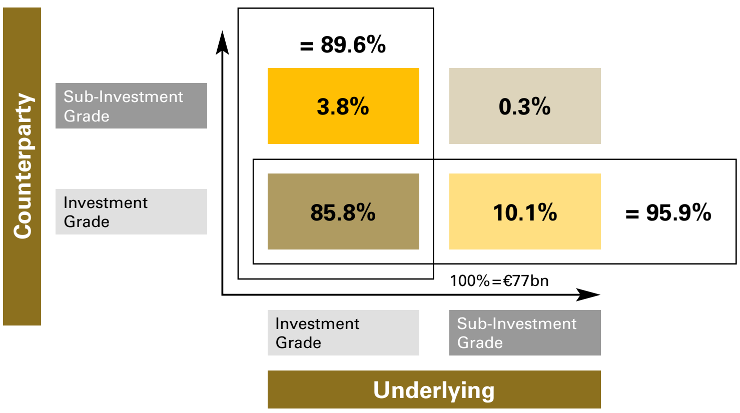
**Use of credit derivatives**

For Commerzbank, the use of credit derivatives represents a central instrument for transferring credit risk. The Bank is successful in proprietary trading as a market maker for credit default swaps and also offers its customers structured, derivative credit products. Commerzbank draws upon the expertise gained in proprietary trading to make selective use of the instruments as a credit surrogate in its banking book, thus enabling it to tap extra potential revenue in the form of risk/return-optimized earnings. In addition, the instruments are employed on the basis of publicly available information as hedging vehicles in the systematic reduction of risk. Here, Commerzbank uses credit derivatives to manage risk selectively as well and to diversify the portfolio in line with its credit-risk strategy.

The following diagram shows the structure of credit derivatives in the trading book. Credit hedges are mainly (95.9%) bought from investment-grade counterparties. Similarly, the reference assets are primarily to be found in the investment-grade bracket (89.6%). Commerzbank has concluded only 0.3% of the protection it has bought to cover sub-investment-grade issuers in the sub-investment-grade area. The development of counterparty risk and long/short positions is steered by means of the system of limits and the established credit limits. Open long positions may be taken up in the trading book within the approved issuer limits.

With hedge funds, we assume counterparty risk virtually only on a secured basis (collateral agreements) and ensure that our confirmations are themselves promptly confirmed.

**Protection bought for the trading book as of 31.12.2005**



**Securitization transactions**

Commerzbank arranges and places ABS/MBS transactions for clients in Germany and other European countries. Issuing activity was concentrated on true-sale securitizations last year. The underlying securities are primarily commercial mortgages, corporate loans and trade bills. Borrower's note loans and mezzanine portfolios are actively sold in Germany to *Mittelstand* clients with the aim of placing them in the capital market.

In order to achieve broader diversification of its portfolio and to tap extra earnings potential, Commerzbank is active to a reasonable extent as an investor – as defined by the new Basel Capital Accord (Basel II) – in tranches of other securitization transactions. The Bank also uses securitizations as an originator in accordance with the Basel II definition for freeing up regulatory capital and for selectively selling and covering credit risk. The following table presents an overview of Commerzbank's securitized assets (nominal volume as of December 31, 2005):

| | Nominal amount in € m |
|---|---|
| Collateralized loan obligations (CLO)* | 1,470 |
| Residential mortgage-backed securities (RMBS) | 5,582 |
| **Total** | **7,052** |

* As CLO represent revolving pools, the overall securitized volume in 2005 was €10,789m.

In order to promote the true-sale market in Germany and to improve the overall framework for these transactions, Commerzbank has joined the True Sale Initiative (TSI), cooperating with Kreditanstalt für Wiederaufbau and other banks.

## 2) Market risk

**Organization and strategy**

- The active management of market risk is entrusted to the various business lines, which within the scope of set limits and trading competencies expose themselves to market risk for the purpose of generating revenue.
- The central management of risk is performed by specialized market-risk control units within ZRC that are independent of trading activities.
- The Risk Committee deals exclusively with topics relating to market risk on a monthly basis. Detailed reports are presented at these meetings on the development of risk in the trading and banking books, complemented by scenario analyses of specific movements in interest-rate, equity, currency and credit markets.
- Market risk is managed by means of a sophisticated system of limits, combined with reliable and optimized methods for measuring and monitoring risk. The methodological competence for the Group as a whole, including the provision of the required market data and reporting, lies with ZRC.
- ZRC in consultation with the various business lines and the Board of Managing Directors establishes the limits in a top-down and bottom-up planning process, taking into account the Bank's risk-taking capability.

- Commerzbank uses economic capital and business expectations in establishing its market-risk limits, creating a risk/return-based steering of market risk. The extent to which the limits are used, together with the relevant P&L figures, is reported daily to the Board of Managing Directors and the various heads of business lines.
- In consultation with the Parent Bank, the subsidiaries have as a rule established a similar form of risk control. In such cases, market risk is monitored on a local basis. The relevant data are made available daily to ZRC, which calculates and monitors the Group risk.
- We ensure high liquidity for our market-risk positions and subject portfolios comprising less liquid products to particularly close observation.

**Methodology**
The calculation of market risk is based on the value-at-risk method. In line with the supervisory requirements, the monitoring of market risk by ZRC covers the following categories:

- The general market risk: calculated by means of historical simulation.
- The specific market risk: worked out using the variance-covariance method.
- The interest-rate risk: calculated as part of the market-risk model on the basis of sensitivities related to certain maturities and extensive stress tests.
- The market liquidity risk: for quantifying market liquidity risk closing-out strategies for specific portfolios are defined.

At the Parent Bank and its foreign branches, Commerzbank uses an internal model in order to calculate the capital requirements for the general and specific market risk. In addition, Commerzbank's internal model has already been approved for its CISAL subsidiary. It is planned to submit applications for other subsidiaries.

Through the employment of backtesting methods, the internal model's reliability is regularly checked. Apart from meeting supervisory requirements, the aim is to assess and steadily improve forecasting quality. The total number of significant deviations provides the basis for the evaluation of the internal risk model by the supervisory authorities.

**Stress test and scenario analysis**
While the value-at-risk approach provides a forecast for possible losses under "normal" market conditions, it cannot predict contingent losses under extreme conditions. For this reason, the VaR approach is complemented by the calculation of stress tests in order to take account of possible extreme market movements. Stress tests are intended to simulate the impact of crises, extreme market conditions and major changes in correlations and volatilities.

- As part of daily reporting, stress tests are applied in a system of "overnight" stress limits, which are adapted to accommodate the risk factors of individual portfolios in each business line.
- Stress tests performed across portfolios simulate the impact of historical and conceivable future crisis scenarios on the Group as a whole.

- The impact of an interest-rate shock on the economic value of the Group's banking books are simulated every quarter. The maximum decline due to a parallel shift of 200 basis points in the interest-rate curve was €522m at year-end. This translates into a decline in equity of 4.1%, which is well below the limit of 20% defined by Basel II for so-called outlier banks.
- The overall picture is rounded off by monthly scenario analyses for each investment category (e.g. hypothetical interest-rate, equity, foreign-exchange and credit-spread scenarios).

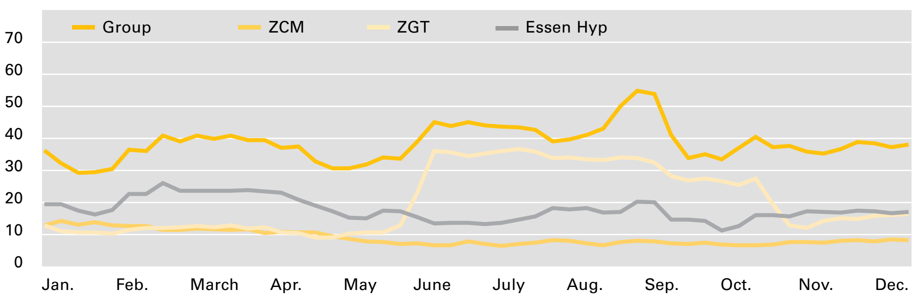
**Development in 2005 financial year**

For Commerzbank, 2005 was another year in which market risk was systematically reduced even further in various sections of the Group. In Investment Banking, this was achieved through the continuing concentration on customer-related business and the accordingly narrower scope for proprietary trading. Further reductions were realized by systematically paring down the Bank's portfolio of equity holdings.

At the same time, risk control itself had to adjust considerably to the market environment and to changes in customers' preferences. In response to greater demand for hedge funds and banking products related to hedge funds, for instance, and to Commerzbank's increasing activities in this area, the relevant approval powers were introduced and suitable internal guidelines were implemented.

The Bank's own investments in this area are systematically counted against the available market-risk limits and in future they will also be subject to special volume limits for hedge-fund investments, hedge-fund-specific stress tests, diversification criteria for target investments and a strict due diligence for hedge-fund partners.

| | Equity holdings | | Corporates & Markets (ZCM) | | Group Treasury (ZGT) | | Essen Hyp | | Group (excl. equity holdings) | |
|---|---|---|---|---|---|---|---|---|---|---|
| in € m | **2005** | **2004** | **2005** | **2004** | **2005** | **2004** | **2005** | **2004** | **2005** | **2004** |
| Maximum | 84.6 | 140.6 | 15.4 | 26.6 | 37.6 | 27.4 | 26.1 | 27.6 | 56.1 | 55.8 |
| Median | 60.4 | 82.5 | 8.2 | 18.7 | 15.1 | 12.4 | 17.1 | 21.2 | 37.9 | 39.1 |
| Minimum | 50.8 | 74.5 | 6.2 | 11.3 | 8.5 | 8.9 | 10.9 | 9.1 | 27.0 | 21.3 |
| Year-end figure | 59.3 | 82.9 | 8.6 | 12.4 | 15.9 | 13.3 | 17.3 | 14.1 | 39.1 | 25.2 |



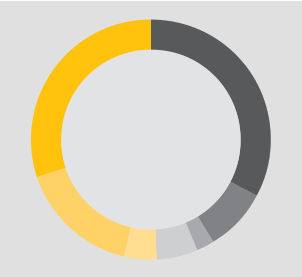

**Value-at-risk in the course of 2005**

Weekly averages, in € m
1-day holding period,
97.5% confidence level

In refining its methods of calculating risk, the Bank devoted special attention to the market liquidity of its trading positions in the past financial year. Over and above the supervisory requirements, it introduced a market-liquidity VaR on the basis of hedging strategies for market risk which are used for specific portfolios.

**Percentage distribution of market risk as of 31.12.2005**

1-day holding period; 97.5% confidence level



- 30.1% ZGT
- 16.3% ZCM
- 4.5% ZAM
- 32.7% Essen Hyp
- 8.5% New York Corp. Bank IB
- 2.4% EEPK
- 5.5% Other

## 3) Liquidity risk

### Organization and strategy

At Commerzbank, liquidity risk is used as a synonym for the cash liquidity risk and describes the risk of possible payment gaps in terms of the Bank's solvency. Ensuring that Commerzbank is solvent at all times, including in crisis situations, is the duty of the staff department Group Treasury (ZGT). Measurement and monitoring at Group level, however, are performed by the staff department Accounting and Taxes (ZBS) and ZRC.

In accordance with the current supervisory requirements (Principle II), an institution's liquidity is deemed to be guaranteed if the weighted liquid assets available to it within 30 days cover the weighted payment obligations callable during this period. This figure is calculated and reported by ZBS. All the same, in practice, a liquidity risk also exists over an institution's full maturity spectrum and for its off-balance-sheet items. For this reason, and to meet elementary requirements of Basel II, Commerzbank has introduced supplementary liquidity ratios.

Since the year under review, liquidity risk is additionally controlled by means of a differentiated system of limits on the basis of the computed available net liquidity. The use made of such limits is worked out both for a base scenario reflecting current market conditions and for stress scenarios influenced by either market or behavioural factors; it is monitored at the relevant steering and limit levels. The current use of limits is calculated weekly and made available for further processing on special pages of Commerzbank's intranet. All limit overruns are reported to ZGT and the Risk Committee.

### Liquidity ratios

The available net liquidity (ANL) approach is used for controlling purposes. Crucial to applying the ANL approach is the calculation of so-called legal and economic cash flows, both for balance-sheet and off-balance-sheet items. Legal cash flows cover the flows of payments expected under contractual agreements, whereas economic cash flows also include the effects of customers' behaviour. For possible liquidity gaps in the future, offset assets are worked out (balance sheet liquidity), which are the result of borrowing against liquid assets and/or disposing of such assets.

All three ratios are worked out both under current market conditions and under various stress scenarios influenced by either market or behavioural factors. Limits are established for both the base case and the stress case. The Bank also aims to ensure that the Commerzbank Group always has a supply of liquidity in times of greater stress, while preserving the flexibility of the individual market units.

**Liquidity management**

The future funding need is calculated on the basis of the ANL figures, projected into the future, complemented by the expected liquidity effects resulting from business-policy decisions. The aim is to manage liquidity efficiently and to cover the Bank against liquidity bottlenecks, taking into account the recommendations of Basel II. For this purpose, the Bank practises the stable funding concept, whereby long-term lending is largely funded at long term. In order to react promptly to any gaps that are identified between Commerzbank's assets and its funding side, the structure of the balance sheet is constantly analysed. In addition, ZGT maintains liquidity portfolios in the leading currency centres.

In 2005 (2004), the liquidity coefficient in accordance with Principle II was between 1.10 (1.13) and 1.20 (1.19); it was thus at all times well above the value of 1.0 required by the supervisory authorities. At end-2005, the Bank – as in the previous year – had a liquidity reserve of €21bn.

## 4) Equity holding risk

Equity holding risk is controlled by ZRC, whereas the management of such risks is handled by two different units of the Bank. Private equity business is managed by ZCM and monitored by the operative credit unit ZCO. Strategy and Controlling (ZKE), performing the independent back-office function, is responsible for all the strategic and other equity holdings.

Before new equity holdings are acquired, the potential risks are analysed by means of due diligence measures, while already existing equity investments are controlled on the basis of regular reports from the enterprises in question. At the same time, the market risk stemming from the Bank's listed equity investments is monitored daily – like the calculation of trading positions – by ZRC and reported, together with the risk from non-listed investments, to the Board of Managing Directors.

## 5) Operational risk

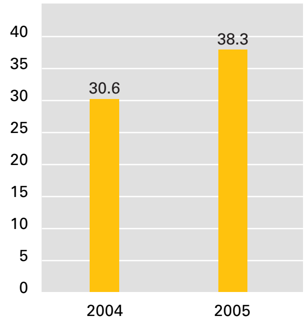
**Organization and strategy**

Commerzbank's management of operational risk is built upon the recommendations of the Basel II specialist committee OpRisk, which were worked out in the year under review with the Bundesbank and BaFin. Work focused on steadily expanding the operational risk management framework and preparing for supervisory approval of the Advanced Measurement Approach (AMA) pursuant to Basel II. The various organizational units as well as independent Risk Control draw upon the same methods and systems for identifying, evaluating, analysing, reporting and managing operational risk.

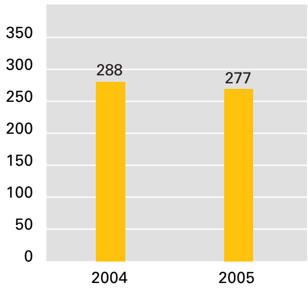
The Operational Risk Committee and the Risk Committee are regularly informed about the risk situation. In addition, the Global OpRisk Forum serves to help Risk Control and the operational risk managers prepare the ground for decisions and discuss ongoing developments, projects and events; it also serves the general exchange of views at work level.

**Losses resulting from operational risk (no. of events and volume) excl. provisions**

in € m




Number of losses




**Operational risk methods**

On the basis of the requirements which were made more concrete last year, the Bank continued to prepare the ground for working out the capital needed for operational risk under the Basel II Advanced Measurement Approach (AMA). Above all, this makes it necessary to carry out Group-wide cross-process quality self-assessment. With the aid of this method, the quality of work processes, internal controls and the business environment are systematically evaluated locally and analysed centrally on the basis of end-to-end processes. The findings are used to identify potential weak spots and represent a major qualitative component in the AMA model.

The Group-wide collection of loss data exceeding €5,000 – in line with Basel II – continued in the year under review and was extended to include information relevant from the insurance standpoint. In this way, the management of operational risk and insurance have been more strongly integrated, creating the conditions for insurance to be included in the calculation of the Bank's capital. The internal loss data collected since 2002 thus more than meet the Basel II requirement of a minimum collection of three years for the first-time application of the AMA approach for calculating equity as from 2008.

For modelling the fat tail of the loss distribution – i.e. the financial risk of rare major loss events – external loss data from Operational Riskdata eXchange Association, Zurich (ORX) are used in addition to the internal loss data. The data syndicate, which the Bank helped to found, now consists of 22 international banks. These data also enable the Bank to compare its own risk profile with that of other international banks, which provides important impulses for managing operational risk.

In addition to the anonymous external data from ORX, the Bank continued to evaluate public external data last year. These are particularly useful for developing suitable scenario analyses. Scenario analysis has been launched at the Group's main units and provides support for those responsible for assessing their local operational risk.

Last year, the Bank's organizational units began to collect key risk indicators (KRI) permitting statements about potential risks of loss. In addition, Commerzbank continues to participate in an initiative of international banks to establish a uniform system for ordering and collecting these indicators. Our KRIs in the credit derivatives area, for instance, show that the Bank can confirm business in this market segment far more quickly than the benchmark of the International Swaps and Derivatives Association (ISDA).

In the reconciliation area, the Bank has substantially optimized processes and monitors any breaks which occur promptly by means of a revamped management information system (MIS). Here the breaks (EL/UL) are measured, which facilitates the escalation process, making adequate provisioning possible. Compared with the average ISDA data of large international banks, the Commerzbank Group has far fewer breaks and open confirmations relative to its transaction volume, which we see as evidence of our efficient settlement procedures.

The stability, quality and information value of the mathematical-statistical model were improved further in the year under review and its depth was increased. Explicit inclusion of the correlations between the Bank's various business units produces diversification effects which give rise to a figure about €300m lower than the previous year's (in either case, before insurances). Regular benchmarking and exchanges with leading banks ensure that the model can be used for international comparisons.

Parallel to this, the Bank's future capital requirements are still calculated according to the standardized approach of Basel II. The partial use of AMA and the standardized approach is also possible for individual Group units.

**Legal risk**

The management of the Commerzbank Group's legal risk worldwide is entrusted to Legal Services (ZRA). The central function of ZRA is to recognize potential losses arising from legal risk at an early stage and to devise solutions for reducing, restricting or avoiding such risks. In this connection, ZRA produces guidelines and standard contracts for the entire Group, which are implemented in close cooperation with business lines, branches and subsidiaries.

ZRA also manages the provisions which are formed for the Commerzbank Group's legal proceedings and ensures that they are included in the calculation of operational risk. The major legal proceedings against the Commerzbank Group are reported at regular intervals to the Operational Risk Committee, the Risk Committee, the Board of Managing Directors and the Supervisory Board in the form of individual analyses. Worldwide, a growing readiness can be noted in the financial sector to press customers' claims through legal action. This is also being encouraged by the ever more complex regulation of the financial markets, with the constant additions to banks' catalogue of duties.

**Business contingency and continuity planning**

In order to ensure that banking activities are maintained and to reduce losses arising from serious interruptions of its operations to a minimum, the Bank has business contingency plans in written form. In a Group-wide central business contingency policy, the responsibilities of the different head-office departments and individual units are described.

By means of regular business contingency self-assessments, the Bank creates for itself a standardized overview of the emergency measures for which the units assume responsibility. These assessments were performed in all the main relevant units last year. In addition, numerous emergency tests are conducted in which the failure of individual locations or systems are simulated.

### 6) Business risk

In line with their immediate responsibility for risk and earnings, the individual divisions and subsidiaries of the Bank also take charge of the operational management of business risks which occur in their area of activity. As part of overall Bank management, business risk is also included in the calculation of economic capital.

Business risk is worked out using an earnings/cost-volatility model, which calculates historical monthly deviations of actual fee income and general non-period costs from the planned result. As with the procedure applied for other types of risk, the calculation is based on a confidence level of 99.95% and a one-year time frame.

### 7) Non-quantifiable risks

Pillar II of the new Basel framework and MaRisk call for an integrated approach to risk and consequently require that other non-quantifiable categories of risk be considered, such as reputational risk. As it is not possible to model these risks, they are subject to qualitative controlling.

**Strategic risk**

Responsibility for the strategic steering of Commerzbank lies with the Board of Managing Directors, with support in the case of strategic issues provided by ZKE. Some business-policy decisions – e.g. the acquisition of equity holdings exceeding 1% of the Bank's equity – also require the approval of the Risk Committee of the Supervisory Board. Constant observation of German and international competitors leads to an analysis of the major changes and developments, with conclusions derived for the Bank's strategic positioning and the appropriate measures introduced for ensuring competitiveness. In accordance with MaRisk, the Bank has to document both a business strategy and an overall risk strategy compatible with it.

**Reputational risk**

Reputational risk may lead to groups which Commerzbank addresses – above all the public, its employees and rating agencies, investors and business associates – losing confidence in the Bank or to its reputation being impaired. For the most part, reputational risk stems from other types of risk, which it reinforces. Against this background, all business-policy measures and activities are subjected to careful scrutiny. In particular, Commerzbank avoids business-policy measures and transactions which entail extreme tax or legal risks and also environmental risks.

In their business activities, the operational divisions, branches and subsidiaries bear immediate responsibility for reputational risk arising from their particular business activity. In retail business, for example, the focus is on providing risk-sensitive advice appropriate to the customer's investment approach. Competent advice reflecting customers' needs and intensive information ensure that customers suffer no harm, consequently preventing reputational risk. The satisfaction of Commerzbank customers is regularly measured by the relevant market research institutes. The Bank's professional complaints management is an additional instrument through which customers can establish contact.

In corporate business and in export finance, environmental risks are increasingly taken into consideration – wherever necessary, when loan applications are being examined.

In the course of its corporate governance, Commerzbank ensures that it remains within the framework of its articles of association and published business-policy principles. The staff department Compliance and Security (ZCS), which reports directly to the CFO, monitors compliance with all German and foreign regulations and supervisory requirements in connection with securities transactions. The following topics also play an important role in protecting the Bank's reputation: investor protection, reducing the potential for insider trading and the general avoidance of conflicts of interest or – wherever necessary – managing such conflicts with the goal of resolving them.

Contact with the financial community (investors and analysts), the media and the general public is managed by the staff department Corporate Communications (ZKV), which reports directly to the Chairman of the Board of Managing Directors. A communication guideline for the entire Group lays down binding rules in this respect. On the basis of media observation and market research as well as stakeholder surveys and dialogue with various groups, topics relevant for the Bank's reputation are constantly identified, evaluated and actively dealt with, if necessary.

In 2005, a first milestone was reached with the Bank's publication of its corporate responsibility report.

In the course of 2006, a newly installed group will coordinate reputation management throughout the Group.

**Compliance risk**

Very strict legal provisions apply in the financial sector as regards compliance. Commerzbank has established additional rules which are intended to ensure that the conduct of its employees is always correct even in difficult situations and is in line with current legislation. The Bank's compliance manual should be mentioned here, as well as staff guidelines of the Federal Banking Supervisory Office and the Federal Supervisory Office for Securities Trading (now German Financial Supervisory Authority – BaFin), which have been integrated through employment contracts or internal Bank agreements, and job instructions published on the Bank's intranet, providing staff with concrete guidelines for implementing the respective legislation. At Commerzbank, the staff department Compliance and Security sets up and monitors observance of such rules.

Compliance not only advises and informs the various business lines and the Bank's employees on general issues relevant to compliance, supporting colleagues in critical cases of day-to-day business as well; in conjunction with the respective specialist departments, it also ensures that statutory or supervisory requirements relating to compliance are implemented. In this connection, the German legislation to improve investor protection (AnSVG) should be mentioned, which became effective on October 31, 2004. Further legislative or supervisory measures were enacted by the supervisory authority in order to make AnSVG more concrete.

When these statutory and supervisory requirements were implemented, the areas of the Bank affected as well as the Board of Managing Directors and Supervisory Board were informed, detailed information was published on the intranet and a procedure was implemented by Compliance for reporting suspected offences. Compliance monitors staff who are potentially capable of insider trading in the form of a watch list.

Since the attack on the World Trade Center in New York, the legal and supervisory requirements in connection with money laundering and the financing of terrorism have steadily increased, as has the public's interest in this topic. The third EU money-laundering directive, which is now being incorporated into German law, will lead to further requirements as regards the preventive measures of the financial sector.

In order to counter the specific risk that its business activities will be misused by third parties for the purpose of money-laundering or funding terrorism, the Bank is conducting an analysis of the threat posed by the existing relevant risks. The findings of this analysis will be taken into account as part of the constant adjustment and improvement of the Bank's preventive measures. They will be integrated through the implementation of specific risk-mitigating measures, either when new customers are accepted, or when their transactions are monitored, but also in training staff and making them sensitive to the dangers. All the experience gained through this selective analysis and its continual monitoring will be used in adjusting the system of risk management.

The Bank's employees are obliged to report out-of-the-ordinary transactions raising the suspicion of money laundering or the funding of terrorist activities to Compliance/Financial Investigations, so that the transaction can be subjected to individual scrutiny.

## IV. Summary and outlook

### Summary

In the 2005 financial year, Commerzbank further extended its risk-control and risk-management system. In many areas, significant progress was achieved, which will make a major contribution in the future as well towards improving overall Bank management.

In this connection, the stronger integration of the internal economic capital approach into more individual and overall Bank management processes represents a considerable contribution towards realizing potential value within the Commerzbank Group.

At all times, it was ensured that the available risk capital was well above the defined capital buffer.

All the parties involved showed great commitment in maintaining the current projects for implementing the new supervisory requirements (Basel II, MaRisk) in 2005. The Bank took a major step forward in this respect, leading not only to optimized capital allocation in accordance with Basel II but also to a distinct improvement in risk-sensitive steering.

Building upon the rules of the amended IAS 39, the Bank adopted measures in 2005 to harmonize its risk provisioning in accordance with IFRS on the basis of the Basel II parameters.

### Outlook

The supervisory authority is expected to start examining the Commerzbank Group's application for certification of the Basel II IRB Advanced Approach in 2006. As things stand today, the advanced Basel II approaches can definitely be implemented and tested within the set period – which, according to the supervisory authority's present planning, means by December 31, 2007. Thanks to the continuing progress made in collating, evaluating and modelling operational risk, the stability and information value of Basel II's ambitious AMA approach were further enhanced in the year under review.

### Overhaul of credit-risk strategy

The Bank's credit-risk strategy was subjected to its annual review in 2005. Based on the stock-taking conducted jointly by Risk Control and the front- and back-office units, the strategic direction was established for lending and measures were planned for the 2006-2008 period. This year, a comprehensive overall risk strategy for 2007-2009 will be worked out, covering Eurohypo as well.

The forward-looking orientation of the loan portfolio in keeping with the credit-risk strategy is being systematically maintained. Clear incentives are being created here for expanding overall lending to SMEs according to plan, but also for reducing and limiting risk-carrying sub-portfolios. The focus in risk mitigation is on bulk risks.

### Intensive treatment and development of provisioning

In the intensive treatment area, the Bank is prepared to act as lead manager; its staff in this segment are developing quite consciously into risk managers, concentrating on preserving the company in question and its jobs and acting, therefore, in their clients' interest.

Through the expansion of portfolio-management activities and the early adoption of risk-mitigating measures, it proved possible to lower provisioning considerably again last year, with the selective reduction of latent bulk risks and problem loans making an important contribution here. For 2006, Commerzbank has set itself the goal of further optimizing its risk/return-based provisioning. For bulk and country risks, the optimum level has been achieved, with no net charges registered in 2005; realistically, though, we must expect setbacks here at some time. In the meantime, we have achieved a positive level on the whole in German *Mittelstand* business, which is why we do not see a further reduction of overall net provision for possible loan losses within the Commerzbank Group as the most realistic case in 2006. Under normal circumstances, we would be able at best to hold the level now achieved; however, we expect additional charges on the retail side. As Eurohypo will no longer have a risk umbrella at its disposal in 2006, and we have to bring its provisioning into line with the strict standards applied throughout the Group, we do not believe at present that the new consolidated figure for the two institutions will be lower than in 2005.

### Boosting efficiency in credit processing

Starting in 2006, the results of a worldwide project to further boost productivity in the overall lending process ("etec" – end-to-end credit) will substantially help to raise efficiency, thereby improving our market presence for the targeted *Mittelstand* clients in particular. One major project in 2006 will be to combine loan processing for private and business customers with that of Eurohypo in the form of a loan factory and to reposition the separate back-office function, with recourse to modern decision systems. Over the medium term, we see not only a chance of making credit processing far more efficient, but also an opportunity for much improved risk selection. Since market conditions in the Private and Business Customers segment continue to be difficult, we intend to place special emphasis in future on the risk-based steering of business in selectively expanding our share of the mass retail market. As we can expect our retail portfolio to tie up far less equity with the implementation of Basel II, however, we want to explore all the scope for growth that is reasonable from a risk/return aspect.

The introduction of rating methods with demonstrably great discriminatory power is a major contribution to value creation within the Commerzbank Group. Together with the certification of rating methods, the migration of further methods to a uniform web-based platform and also the support provided for business lines in the form of follow-up releases will represent significant steps in 2006.

### Enhancing overall Bank management

In overall Bank management, a review of resource allocation and the steering process will take place at Group level, with the objective of establishing new control variables, including the respective profit targets, based on the economic capital approach.

Subsequently, consistent value-based planning and steering will be implemented at the overall Bank and business-line levels, based on the economic capital approach. Eurohypo will be included here right from the outset.

Another main activity in 2006 will be developing and establishing specific stress scenarios for the use of economic capital for the overall Bank portfolio and for individual portfolios.

Making our employees even more sensitive to risk is a key goal this year. The establishment of a risk culture, which this entails, will be supported by a risk manual, available throughout the Bank, the publication of last year's report on corporate responsibility and a code of conduct.

### Integration of Eurohypo

We look upon the integration of Eurohypo into economic capital management, risk control and the risk-based management of credit risk as the special challenge we face in 2006, yet we are confident that we can ensure that all the relevant processes are harmonized in the course of the year. In risk control/risk management, the integration timetable is already well advanced. We consider the great expertise of Eurohypo's back-office team to be very positive, facilitating the integration process in all risk-related issues.

**Corrigan Report implemented**

Now that BaFin's MaH examination has been successfully completed, Commerzbank will subject the recommendations of the so-called Corrigan Report (Counterparty Risk Management Policy Group II [CRMPG II]) to intensive scrutiny in 2006 and ensure that they are systematically implemented throughout the Group – insofar as they have not already been met. This applies in particular to business involving hedge funds. The report's 47 recommendations for market participants are intended to create a more stable financial market overall through the proactive behaviour of all market participants, especially in risk management. In this way, systemic risk is to be reduced to a minimum and crises of the financial markets as a whole prevented.

**To sum up**

With the integration of Eurohypo, the Commerzbank Group will become Germany's leading financing bank. Precisely for this reason, we believe that considerable value leverage for further boosting the Group's earnings performance over the next few years lies in the claim to "being the benchmark in risk control and management". The importance of highly-developed risk management was also confirmed in an international benchmarking study last year, where it is seen as the most significant challenge to successful business management for internationally competitive banks. We share this view and are confident that we can achieve further major breakthroughs in risk control and management during this decade. This will prove highly positive for the market positioning of the Commerzbank Group in its target markets and for the selective exploration of the risk/return-based scope for expansion in lending. What is more, the cyclical volatility of business performance in lending can be further reduced as a result.

The aim to be a national and international leader in risk management is not an end in itself for Commerzbank and by no means implies avoiding risk wherever possible. Rather, it stands for creating and developing efficient structures, systems and strategies and implementing them with the aid of skilful front- and back-office staff with the goal of achieving good risk/return results in the target portfolios. We intend to take on risks wherever we are able to steer and monitor them and wherever they pay off for our shareholders.