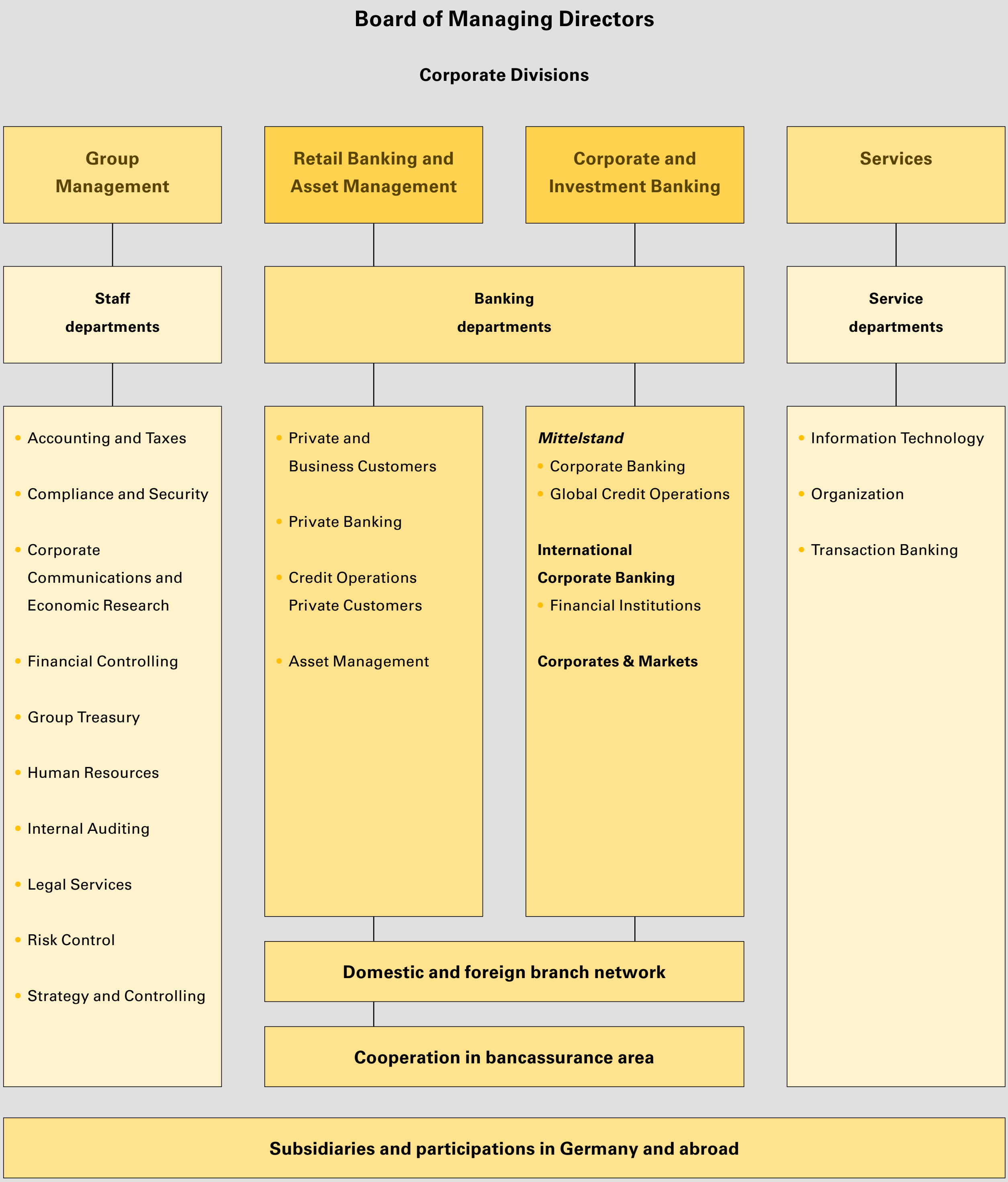
structure of commerzbank group



commerzbank worldwide

- Foreign branches
- Representative offices
- Group companies and major foreign holdings

glossary

Ad hoc disclosure
A key objective of ad hoc disclosure is to prevent insider trading. Art. 15 of the German Securities Trading Act (*Wertpapierhandelsgesetz* – WpHG) requires issuers whose securities are admitted to official trading or to the Regulated Market to make disclosures on an ad hoc basis. A new fact has to be disclosed if it has occurred within the company's area of activity and is not familiar to the public. In addition, the new fact must affect the issuer's net assets or financial position or its general business progress and must exert a considerable influence on the market price of the listed securities or, in the case of listed bonds, must impair the issuer's ability to meet its obligations.

ADR (American Depositary Receipts)
In order to make trading easier in non-US equities, US banks issue depositary receipts for equities, whose originals are kept as a rule in their country of origin. These may be traded like equities on American stock exchanges, but can be issued in various forms. An ADR may, for instance, securitize merely part of a share, thereby creating an apparently cheaper price for it.

Asset-backed securities (ABS)
Securities whose interest payment and repayment of principal are covered, or backed, by the underlying pool of claims. As a rule they are issued by a special-purpose entity in securitized form.

Assets held for dealing purposes
Under this balance-sheet item, securities, promissory notes, foreign exchange and derivative financial instruments which are used for dealing purposes are shown. They appear at their fair value.

Associated company
A company included in the consolidated financial statements neither on a fully or partially consolidated basis, but rather according to the equity method; however, a company which is included in the consolidation has a significant influence on its business and financial policies.

Available for sale
A term used to refer to financial assets that may be disposed of.

Back-testing
A procedure for monitoring the quality of value-at-risk models. For this purpose, the potential losses projected by the VaR approach are examined over a lengthy period to ascertain whether in retrospect they were not exceeded far more frequently than the applied confidence level would have suggested.

Benchmarks
Reference figures like indices, which are used, for instance, in portfolio management. For one thing, they can determine the direction of an investment strategy by providing the portfolio manager with orientation as regards the composition of portfolios. For another, they serve as a measure of investment performance.

Business continuity planning
A company's emergency planning, covering all of its units.

Cash flow hedge
This entails covering the risk related to future interest payments from a floating-interest balance-sheet transaction by means of a swap. It is measured at fair value.

Cash flow statement
This shows the breakdown and changes in a company's cash and cash equivalents during the business year. It is divided up into the items operating, investing and financing activities.

Collateral agreement
An agreement covering the security or collateral to be furnished.

Confidence level
The probability with which a potential loss will not exceed the loss ceiling defined by the value-at-risk.

Corporate governance
Corporate governance establishes guidelines for transparent corporate management and supervision. The recommendations of the German Corporate Governance Code create transparency and strengthen confidence in responsible management; in particular, they serve shareholder protection.

Cost/income ratio
This represents the ratio of operating expenses to income before provisioning, indicating the cost-efficiency of the company or of one of its business units.

Credit default swap (CDS)
A financial instrument for taking over the credit risk from a reference asset (e.g. a security or credit). For this purpose, the buyer of protection pays the seller of protection a premium and receives a compensation payment if a previously specified credit event occurs.

Credit derivative
A financial instrument whose value depends on an underlying claim, e.g. a loan or security. As a rule, these contracts are concluded on an OTC basis. They are used in both proprietary trading and in managing risk. The most frequently used credit derivative product is the credit default swap.

Credit-linked note (CLN)
A security whose performance is tied to a credit event. CLNs are frequently part of a securitization transaction or serve to restructure credit risk in order to satisfy specific customer wishes.

Credit VaR
The concept stems from the application of the value-at-risk concept for market risk to the area of credit-risk measurement. In substantive terms, the credit VaR is an estimate of the amount by which the losses arising from credit risk might potentially exceed the expected loss within a single year; for this reason: also unexpected loss. This approach is based on the idea that the expected loss merely represents the long-term median value for loan losses, which may differ (positively or negatively) from the actual loan losses in the current business year.

DAX 30
Deutscher Aktienindex (German stock index), which covers the 30 largest German blue chips with the highest turnover in official trading.

Deferred taxes
These are taxes on income to be paid or received in the future, resulting from discrepancies in assigned values between the balance sheet for tax purposes and the commercial balance sheet. At the time the accounts are prepared, they represent neither actual claims on nor liabilities to the tax authorities.

Derivatives
Financial instruments whose value depends on the value of another financial instrument. The price of the derivative is determined by the price of an underlying object (security, interest rate, currency, credit). These instruments offer greater possibilities for managing and steering risk.

Due diligence
The term is used to describe the process of intensive examination of the financial and economic situation and planning of a company by external experts (mostly banks, lawyers, auditors). In the run-up to an IPO or a capital increase, due diligence is needed before an offering prospectus can be compiled.

Economic capital
The amount which is sufficient to cover unexpected losses from risk-bearing items with a high degree of certainty (at Commerzbank currently 99.95%). It is not identical to either equity as shown in the balance sheet or regulatory capital.

Embedded derivatives
Embedded derivatives are components of an underlying financial instrument and inseparably linked to the latter, so-called hybrid financing instruments such as reverse convertible bonds. Legally and economically, they are bound up with one another.

Equity method
A consolidation method in a group's accounting to cover holdings in associated companies. The company's pro-rata net profit/loss for the year is included in the consolidated income statement as income/loss from equity investments.

Expected loss
Measure of the potential loss of a loan portfolio which can be expected within a single year on the basis of historical loss data.

Fair value
The price at which financial instruments may be sold or purchased on fair conditions. For measurement purposes, either market prices (e.g. stock-exchange prices) or – if these are unavailable – internal measurement models are used.

Fair value hedge
This is a fixed-interest balance-sheet item (e.g. a claim or a security) which is hedged against market risk by means of a swap. It is measured at fair value.

Financial instruments
Above all, credits or claims, interest-bearing securities, shares, equity investments, liabilities and derivatives are subsumed here.

Futures
The futures contract is a binding agreement committing both parties to deliver or take delivery of a certain number or amount of an underlying security or asset at a fixed price on an agreed date. Unlike options, futures contracts are very strongly standardized.

Goodwill
The difference between the purchase price and the value of the net assets thereby acquired, which remains after the hidden reserves have been realized when an equity investment is acquired or a company is taken over.

Hedge accounting
The presentation of discrepancies between the change in value of a hedging device (e.g. an interest-rate swap) and the hedged item (e.g. a loan). Hedge accounting is designed to reduce the influence on the income statement of measuring and recognizing changes in the fair value of derivative transactions.

Hedging
A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements (interest rates, prices, commodities).

Hybrid financial instruments
These are financing instruments which can be flexibly adjusted to a company's needs. In terms of character, they rank somewhere between borrowed funds and equity, making it always possible to find an optimal balance between the wish to take on risks and the restriction of entrepreneurial management. Typical examples of hybrid financial instruments are subordinated loans, dormant equity holdings and profit-sharing certificates.

International Accounting Standards (IAS)
Accounting regulations approved by the International Accounting Standards Committee. The objective of financial statements prepared according to IAS is to provide investors with information to help them reach a decision with regard to the company's asset and financial position and also its earnings performance, including changes in the course of time. By contrast, financial statements according to HGB (German Commercial Code) are primarily geared to investor protection.

Investor relations
The terms describes the dialogue between a company and its shareholders or creditors. Investor relations targets this special group with the intention of using communicative means to ensure an appropriate valuation of the company by the capital market.

Letter of comfort
Usually, the commitment of a parent company towards third parties (e.g. banks) to ensure orderly business conduct on the part of its subsidiary and the latter's ability to its meet liabilities.

Liabilities from dealing activities
Under this balance-sheet item, the derivative instruments of proprietary trading with a negative fair value appear, and also delivery commitments arising from the short-selling of securities. They are measured at fair value.

Loss review trigger
A warning signal that a trading unit might exceed its prescribed maximum loss. If this trigger is reached, appropriate measures are taken to prevent further losses.

Mark-to-market
Measurement of items at current market prices, including unrealized profits – without purchase costs being taken into consideration.

Mergers & acquisitions
In banking, M&A represents the advisory service offered to companies involved in such transactions, especially the purchase and sale of companies or parts of them.

Mezzanine
An Italian word meaning the intermediate storey of a building. A flexible financing instrument between equity and borrowed funds in balance-sheet terms. It is especially suitable for smaller businesses seeking to strengthen their capital base but not wishing to alter their ownership structure.

Netting
The setting-off of items (amounts or risks) which appear on different sides of a balance.

Online banking
A whole series of banking services handled with IT support and offered to customers electronically (by telephone line).

Options
Options are agreements giving one party the unilateral right to buy or sell a previously determined amount of goods or securities at a price established in advance within a defined period of time.

OTC
Abbreviation for "over the counter", which is used to refer to the off-the-floor trading of financial instruments.

Positive/negative fair value
The positive/negative fair value of a derivative financial instrument is the change in fair value between the conclusion of the transaction and the date of measurement, which has arisen due to favourable or unfavourable overall conditions.

Profit-sharing certificate
Securitization of profit-and-loss-sharing rights which are issued by companies of various legal forms and are introduced to official (stock-exchange) trading. Under certain conditions, profit-sharing certificates may be counted as part of banks' liable funds.

Rating
Standardized assessment of the creditworthiness of companies, countries or of debt instruments issued by them, on the basis of standardized qualitative and quantitative criteria. The rating process forms the basis for determining the probability of default, which in turn is used in calculating the capital needed to back the credit risk. Ratings may be worked out by the Bank itself (internal ratings) or by specialized rating agencies such as Standard&Poor's, Fitch and Moody's (external ratings).

Repo transactions
Abbreviation for repurchase agreements; these are combinations of spot purchases or sales of securities and the simultaneous forward sale or repurchase of these securities in an agreement involving the same counterparty.

Return on equity
This is calculated by the ratio between the pre- and after-tax profit and the average amount of equity as shown in the balance sheet; it indicates the return achieved by the company on the capital which it employs.

Revaluation reserve
In the revaluation reserve, changes in the fair value of securities and equity investments appear, with no effect on the income statement.

Securitization
In a securitization, claims (e.g. loans, trade bills or leasing claims) are pooled and transferred to a special-purpose entity or vehicle (SPV). The SPV raises funds by issuing securities (e.g. ABS or CLNs), placed with potential investors. Repayment and the interest payments on the securities are directly linked to the performance of the underlying claims rather than to that of the issuer.

Shareholder value
Shareholder value gives priority to the interests of proprietors or, in the case of listed companies, shareholders.
Under this approach, the company's management is committed to increasing the value of the company over the long term and thus to lifting its share price. This contrasts with a "stakeholder policy", which aims to achieve a balance between the interests of shareholders and other groups involved, such as customers, employees, providers of outside funds, banks, etc.
One major component of the shareholder value principle is also a shareholder-oriented, transparent information policy, which above all at major listed companies is entrusted to investor relations.

Spread
The difference between prices or interest rates, e.g. the differential between the buying and the selling price of securities, or the premium paid on a market interest rate in the case of weaker creditworthiness.

Standard risk costs
These represent the average expected calculatory risk costs in a given year (expected loss) or the valuation allowances due to the default of customers or counterparties.

Stop-loss limit
This type of limit serves to restrict or prevent losses, such that if the fair value falls below a previously determined level, the trading position in question has to be closed or the asset sold.

Stoxx
The Stoxx "family" of indices is a system of European benchmark, blue chip and sectoral indices. Stoxx Limited itself is a joint venture between Deutsche Börse AG, Dow Jones & Company, SBF-Bourse de France and the Swiss Stock Exchange.

Stress testing
Stress tests are used in an attempt to model the losses produced by extreme events, as these cannot as a rule be adequately presented by VaR models. Generally, VaR risk ratios are based on a "normal" market environment, rather than on very rare extreme situations which cannot, as a result, be represented statistically – such as the 1987 stock-market crash or the Asian crisis. Stress tests therefore represent a rational complement to VaR analyses, and also one that is required by regulators.

Subsidiary
Company controlled by its parent and fully consolidated. If it is of minor significance, it is not included in the consolidation. In this case, the company appears at amortized cost.

Sustainability
Sustainability describes business management on a long-term basis which is compatible with acceptable living conditions now and in the future. Its guiding objectives are responsibility for the environment and balanced social relations.

Swaps
Financial instruments in which the swapping of payment flows (interest and/or currency amounts) is agreed over a fixed period. Through interest-rate swaps, interest-payment flows are exchanged (e.g. fixed for floating rate). Currency swaps offer the additional opportunity to eliminate the exchange-rate risk by swapping amounts of capital.

Value-at-risk model (VaR)
VaR refers to a method of quantifying risk. VaR is only informative if the holding period (e.g. 1 day) and the confidence level (e.g. 97.5%) are specified. The VaR figure then indicates the loss ceiling which will not be exceeded within the holding period with a probability corresponding to the confidence level.

Volatility
The term volatility is used to characterize the price fluctuation of a security or currency. Frequently, this is calculated from the price history or implicitly from a price-fixing formula in the form of the standard deviation. The greater the volatility, the riskier it is to hold the investment.

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commerzbank group business progress 1968–2005[1)]

	Business volume	Total lending	Customers' deposits	Taxes paid	Allocation to reserves	Equity	Total amount of dividend paid	Staff	Offices
	€ bn	€ bn	€ bn	€ m	€ m	€ m	€ m		
1968	8.5	5.4	6.6	33.2	16.1	346	23.9	14,689	691
1969	9.8	6.5	7.1	41.8	16.3	439	32.0	15,630	743
1970	12.5	8.8	8.0	26.1	5.8	463	30.4	16,952	783
1971	15.9	11.4	9.2	39.2	13.0	541	31.5	17,533	800
1972	18.7	12.6	10.7	45.0	14.6	599	34.8	17,707	805
1973	20.5	13.5	11.1	39.2	9.2	656	40.7	18,187	826
1974	23.0	15.1	11.7	54.8	26.7	735	40.7	17,950	834
1975	29.0	18.2	14.1	97.5	42.5	844	48.8	18,749	855
1976	32.6	21.3	15.0	87.5	57.2	993	55.9	20,275	861
1977	38.6	24.0	17.3	128.0	52.3	1,165	55.9	20,429	870
1978	45.3	29.5	20.0	126.4	50.9	1,212	63.1	20,982	875
1979	52.2	34.8	20.4	97.0	20.5	1,403	64.6	21,656	885
1980	52.4	37.4	20.3	53.6	16.6	1,423	–	21,487	880
1981	53.2	38.6	21.0	52.4	12.9	1,414	–	21,130	878
1982	56.8	41.8	22.6	86.8	43.8	1,416	–	21,393	877
1983	59.1	43.3	23.2	121.3	62.3	1,491	51.7	22,047	884
1984	63.9	46.2	26.5	140.8	77.9	1,607	51.7	22,801	882
1985	71.4	48.3	28.0	164.4	89.5	1,756	72.6	24,154	882
1986	77.1	52.5	30.3	169.0	80.2	2,292	95.5	25,653	881
1987	83.8	55.7	33.5	168.0	89.8	2,379	95.7	26,640	882
1988	93.3	61.7	37.8	192.4	120.2	2,670	104.0	27,320	888
1989	99.1	64.7	43.5	252.4	143.7	3,000	115.3	27,631	897
1990	111.4	74.9	50.5	246.7	112.4	3,257	131.6	27,275	956
1991	117.1	80.7	57.2	276.6	120.1	3,420	132.0	28,226	973
1992	120.4	85.0	61.6	283.4	209.0	3,680	134.0	28,722	998
1993	147.1	92.7	68.2	310.8	143.9	4,230	176.8	28,241	1,006
1994	176.1	112.7	68.8	334.5	306.8	5,386	231.2	28,706	1,027
1995	208.1	133.1	73.2	109.4	204.5	6,297	265.8	29,615	1,060
1996	230.6	158.2	82.8	297.1	332.3	6,909	276.3	29,334	1,045
1997	276.0	185.3	93.3	489.2	295.5	8,765	344.2	30,446	1,044
1998	327.4	207.6	93.6	298.1	511.3	10,060	380.5	32,593	1,052
1999	372.1	223.2	91.0	395.6	500.0	11,141	410.8	34,870	1,064
2000	459.7	239.7	107.7	822.7	800.0	12,523	541.8	39,044	1,080
2001	501.3	239.7	116.4	–114.0	–115.0	11,760	216.7	39,481	981
2002	422.1	171.5	95.7	–103.0	–352.0	8,808	54.2	36,566	904
2003	381.6	164.7	100.0	249.0	–2 320.0	9,091	–	32,377	884
2004	424.9	160.5	105.1	352.8	212.3	11,023[2)]	149.6	32,820	965
2005	**444.9**	**164.6**	**102.8**	**408.9**	**836.5**	**13,650**[2)]	**328.4**	**33,056**	**1,039**

1) as from 1997, according to IAS; 2) including minority interests.