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COMMERZBANK AG

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financial statements and management report 2006

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management report of commerzbank ag

BUSINESS ENVIRONMENT AND OPERATING CONDITIONS

2006 was another extremely positive year for the world economy: a growth rate of some 5% was achieved for the third time in a row. As in previous years, it was South East Asia and North America that provided the main boost to this growth. The distinct tightening of monetary policy in the US, however, led to the economy there losing steam in the second half.

The big surprise last year was undoubtedly the upswing in German business, with a growth rate of 2.7% – the highest since the turn of the millennium. Strong demand for exports continued to be the main driver behind the economy, but companies also increased their capital expenditure and construction reported a positive performance for the first time since 1999. Private consumption continued to be the weak feature despite a turn for the better in the labour market.

Once again, the main feature on the financial markets was a significant rise in share prices. The surprisingly good economy and continued strong rises in corporate profits pushed the DAX up by 22%.

The economic upswing and buoyant equity markets were favourable for our business in 2006. Almost all of our segments showed stronger earnings. Of particular note were the sharp rise in net commission income and the trading result, along with significantly lower risk provisioning in the *Mittelstandsbank*. Only the Private and Business Customers segment felt the weight of a persistently high level of risk provisioning. We reported not just higher valuation allowances from the ongoing business here, we also took a one-off charge totalling €293m to harmonize the Commerzbank and Eurohypo risk models in the third quarter of 2006.

Eurohypo successfully integrated

In line with the contractual terms, we acquired another 49.1% of Eurohypo AG on March 31, 2006 and placed it in Commerzbank Inlandsbanken Holding AG. Parallel to the acquisition, the bank issued hybrid capital for the first time in its history to keep the core capital ratio in our target range of 6.5% to 7%.

The main areas of integration in 2006 were the retail credit business, treasury and risk controlling. The latter two units from both banks have now been merged and their shared processes are working seamlessly. The planning phase in the retail credit business has been completed and the roll-out across the Bank will take place in 2007.

We have also changed our organizational structure following the takeover of Eurohypo. In addition to the Retail Banking and Asset Management and the Corporate and the Investment Banking divisions, we have now created a new Commercial Real Estate, Public Finance and Treasury division.

ASSET AND FINANCIAL POSITION AND EARNINGS PERFORMANCE

Commerzbank maintains 791 branch offices in Germany, offering its retail and corporate customers a nationwide network for its wide range of services and advisory capabilities. Subsidiaries operate in specialized areas such as leasing, asset management and real estate. Outside of Germany, the Bank works primarily with corporate customers at more than 20 branch offices, 26 representative offices and 15 key subsidiaries. It is also active in the retail customer business and in asset management in selected locations. An overview of the international locations is provided on page 62 of this report.

Profit and loss account

The total earnings of Commerzbank AG rose by 2.4% to €5.4bn. There were various drivers behind the changes in the individual items in the profit and loss account:

Net interest income dropped by 5.4% to €3.6bn. While dividends from securities and investments and income from credit and money-market transactions grew by 35.3% and 16.2% respectively, the income from profit pools, profit transfer and partial profit transfer agreements fell by 35.8%. Primarily responsible for this development was Commerzbank Inlandsbanken Holding which included an special effect last year stemming from the inclusion of Eurohypo. This one-off effect could not be offset by the additional income from Commerzbank Auslandsbanken Holding, which for the first time incorporated the profits of Caisse Centrale de Réescompte (integrated in 2005), and transferred them to the AG. Total interest income increased by 9.5%; the decline in net interest income can be attributed to the interest expenses, which were 18.4% higher. The causes here were both to the increase in average market interest rates and the interest payments for the hybrid capital incurred for the first time.

Commission income experienced a rise of 8.3%. Our income in the securities business and asset management was 9.2% higher and the increase was as much as 15.0% in our syndication business. We posted modest growth in payments transactions and international business. Total net commission income rose by 6.9% to €1.6bn.

Our trading activities are included in net income from financial transactions. Following a negative balance the previous year, we achieved a total result of €199.7m for 2006. We are very satisfied with the rates of growth in almost all segments – securities, foreign exchange and currencies, and forward interest-rate transactions

Costs still under control

Personnel expenses, despite the continued drop in the number of employees, rose by 5.7% to €2.2bn. Salary increases and higher bonus payments brought about by our positive business performance were the primary contributors to this development. In contrast, we were able to reduce other expenses moderately by 2.0% to €1.2bn. Scheduled depreciation of fixed assets and other intangible assets was also down slightly. Total administrative expenses rose by 2.6% to €3.6bn.

The other operating result fell from €2.4m the previous year to a loss of €179.1m. Although income rose by 25.0% to €185.3m, expenses increased two-and-a-half-fold to €364.3m. Higher provisions for stock-option plans, higher expenses for rents and leasing and the costs for issuing our hybrid capital were the primary causes.

We reported restructuring expenses of €215.4m for projects associated, in particular, with the integration of Eurohypo and process improvements in transaction banking and IT.

Pre-tax profit was lower than the previous year by 31.0% at €506.4m. We reported taxes of €13.6m, following a figure of €406.1m the previous year. This considerable reduction can be attributed to the release of capitalized deferred taxes the previous year. The 2006 tax expenses also reflect the effects of the new tax laws. Net distributable profit was €492.9m, 50% more than in 2005. We will propose to the Annual General Meeting to use this amount to pay a dividend of 75 cents per Commerzbank share, following a dividend of 50 cents the previous year.

Commerzbank AG balance sheet

Over the course of the year the total assets of Commerzbank AG declined slightly by 3.0% to €273.2bn. Claims on banks and customers fell by 5.4% to €76.4bn and 1.4% to €111.1bn respectively.

A portfolio of multinational corporate loans totalling €4.5bn were synthetically securitized in CoCo Finance Ltd 2006-1. These loans remain on Commerzbank's balance sheet; the credit risks from the underlying portfolio are transferred synthetically. The primary aim of this transaction is to positively impact regulatory capital requirements under Principle I, but it also simultaneously takes into account the requirements of regulatory equity capital release under the terms of Basel II.

While bonds and other fixed-income securities – following an increase the previous year – experienced a decline, falling by 6.2% to €45.9bn, we raised shares and other variable-yield securities by 4.7% to €7.5bn. The item associated companies fell sharply by 53.0%, despite our acquiring 1.0% of Deutsche Börse AG and participating in a capital increase by Linde AG. The primary cause here was the sale of our holdings in Korea Exchange Bank and Ferrari. In contrast, holdings in affiliated companies increased considerably by 37.1% thanks to the acquisition of 49.1% of Eurohypo.

Cost management continued to drive the trend in fixed assets which we reduced by a further 19.3% to €493.6m.

Securitized liabilities rise by over one-fifth

We reduced liabilities to banks by a significant 17.6% to €99.9bn; in contrast, customer deposits were up by 2.7%, reaching €96.7bn, and securitized liabilities up by 22.3% to a level of €37.1bn.

A further €5m was added to the foundation capital of Commerzbank Foundation in January 2006. This now totals €36.1m. The foundation was established with capital of DM5m to commemorate the centenary of Commerzbank in 1970. It is involved in a number of different non-profit activities.

Almost no change to equity capital

Commerzbank AG's equity capital rose by 1.7% from the end of 2005 to €10.3bn; this increase was almost solely due to the 50% increase in distributable profit. Issuing employee shares caused the subscribed capital and capital reserve to grow moderately by a total of €8.8m. Retained earnings remained unchanged.

The item subordinated liabilities reflects the issue of the hybrid capital; it rose from a level of €5.0bn at the end of 2005 to its current level of €8.8bn. By contrast, we were able to bring down the profit-sharing certificates by almost a quarter to €1.2bn.

The Tier 1 capital ratio, despite a slight increase in the risk-weighted assets of 2.7% to €125.1bn, reached 8.2%, following a figure of 8.0% the previous year. The equity ratio increased from 12.6% at the end of 2005 to 14.9%.

Off-balance-sheet liabilities continued their upward trend. Contingent liabilities of €24.6bn were reported as of December 31, 2006, compared to last year's figure of €23.2bn. We saw a rise of 11.7% in irrevocable lending commitments to €35.6bn.

Corporate Responsibility

Corporate responsibility describes the extent to which a firm is aware of – and lives up to – its responsibilities in those areas where its activities have an impact on society, the employees of the firm, the environment and the business landscape. It is an umbrella term encompassing a wide range of topics such as sustainability, corporate governance and corporate citizenship.

In 2005 Commerzbank published a sustainability report entitled "Ideals" containing information on these issues. This report is updated on the sustainability and responsibility pages of the Bank's web site. We report constantly on the corporate responsibility measures we have put in place, as well as where our weaknesses lie and areas where there is room for improvement. These pages are also designed to encourage dialogue with our stakeholders.

Companies are expected to be socially responsible, and justifiably so. Commerzbank take this responsibility very seriously and makes charitable donations and is involved in sponsorship and initiatives in the areas of education and culture, academia and business, and the environment and social issues.

Motivated employees are key to a company's success. We create the right environment by providing a good benefits package, training and development opportunities, and facilities such as company childcare. Our activities and innovations in the area of equal opportunity (diversity) is just one focus. We feel a special commitment to the younger generation: in 2006, Commerzbank once again hired more than 500 trainees. This means that by the end of the year under review there were 1,370 young people training for their professional careers at Commerzbank AG, which represented a slight increase over the previous year. That our efforts in the area of social responsibility truly stand out is evidenced by the fact that we again provided training that extended beyond our own needs in 2006. There is intense competition in Germany, no longer limited just to the best college graduates but also increasingly for well-qualified trainees. We have successfully positioned ourselves as an attractive employer for trainees in this difficult competitive environment. Contributing to these efforts were, among other things, various events for teachers and pupils and regular internet chat sessions that have made our target groups more aware of the professional training offered at Commerzbank. Training is the key to the future. Commerzbank therefore expanded and modernized its training programmes in 2006. The Bank offers a wide range of different training options; the traditional dual training programme for bankers, office communications and IT specialists, and also courses of study in cooperation with professional institutes and the Frankfurt School of Finance and Management leading to various bachelor degrees and qualifications.

At the end of 2006 Commerzbank employed a total of 24,327 people, with 1,957 of them working outside of Germany. The staff turnover rate hardly changed from the previous year, hovering at the low level of 3.2%.

Summary: 2006 business position

We can be very satisfied with the way our business developed last year. We made progress in all of our core segments and took important steps on the path to sustainable growth. Eurohypo AG was successfully integrated into the Commerzbank Group.

REPORT ON POST-BALANCE SHEET DATE EVENTS

No significant business transactions occurred after the balance-sheet date.

OUTLOOK

Economic growth in Germany will most likely slow down in light of the forecats weakening in the global economy, the ECB's interest rate rises and the VAT increases that went into effect at the beginning of 2007. Nevertheless there is plenty to suggest that the upturn will continue, albeit at a slower pace. We assume that growth in the current year will be 1.7%; slightly higher growth rates may be possible again in 2008. We expect the upwards trend to continue on the stock markets and predict that the DAX will be at 7,250 at the end of 2007.

We expect the favourable market environment this year to have a positive impact on our business. We want to make good headway in achieving our goal of a sustainable return on equity after taxes – adjusted for special factors – of 15% and a similarly adjusted consolidated cost/income ratio of a maximum of 60% in the Commerzbank Group. To do so, we must continue to keep our costs under control and shift our earnings towards comparatively stable commission income. At the same time, we expect regulatory equity to be eased by the Basel II rules and want to more actively pursue capital management.

We have therefore decided on an offensive strategy for the next few years and have established efficiency and growth programmes in several of our operational segments. Our medium-term goal is to considerably boost profitability in all segments.

In the retail customer business we will invest roughly approximately €400m more in personnel and equipment by 2009, for example, in our branches of the future specializing in advisory services. We want to increase the number of these branches from 120 to around 260 by the end of the year. We will also create an additional 500 new jobs in sales. These activities are geared toward acquiring a total of around 250,000 new customers in our branch business. The persistently high need for risk provisioning in the retail credit business, however, will continue to be a strain in 2007.

Our Alpha growth programme is currently underway in the asset management segment. Here too we are investing heavily in product quality, in innovation and in customer and sales orientation, with the aim of increasing assets under management from today's level of €58bn to around €100bn by the year 2011. We are confident that we will also be able to generate an inflow of funds again as early as this year with our attractive range of products and services and our outstanding performance in the retail fund business. The accelerated expansion of the external and internal sales activities has an important role to play. We want to increase their share of the total sales in the coming years from 40% today to around 50%.

We also want to grow our corporate customer segment. It is precisely in this area that we will take advantage of the economic upswing to expand further and become more profitable. On the domestic market our "Move to the Top" programme is in place and has successfully created 12,000 new loyal *Mittelstand* customers since 2004. Every third company in Germany with annual turnover of more than €2.5m now has an account with us. We will continue this year to drive cooperation between the more traditional banking business and the modern capital market business, so as to be able to offer innovative products and services to larger medium-sized companies and big companies.

Structured products will continue to play a significant role in Corporates & Markets, where we have already made decisive progress on the path to greater profitability following the realignment. We are planning on using this range of products and services to get a selective foot in the door of the US and Asian markets in the future. More in-depth collaboration with Eurohypo also offers considerable potential. Our strict customer orientation is always the governing maxim for all of our businesses. We hope that this will allow us to ensure the sustainability of our earnings and make us less susceptible to the volatility of the markets.

The Commercial Real Estate segment now includes, along with Eurohypo, the activities of CommerzLeasing und Immobilien AG and the open-ended real-estate funds of the Commerz Grundbesitz Group. With this move, we have consolidated all of Commerzbank's real-estate interests into a single division, both on the financing side and for investment products. We are certain that this will keep us ahead of the game when it comes to handling new areas such as Reits.

We intend to become a leading European provider in the Public Finance and Treasury segment. The focus will be more on qualitative growth than on increasing total assets. In view of the financial difficulties in the public sector we see considerable potential for generating added-value for our customers with structured solutions and, simultaneously, stable earnings for Commerzbank, independent of the market situation.

We will trim down in IT and transaction banking so these services can be provided more quickly, reliably and cheaply in the future. As part of the Service to Perform programme our stated goal is reduce costs in this area by roughly 20% from their 2005 level. This will make it possible for us to continue to provide a majority of services from our own country and dispense with outsourcing.

As the world rapidly becomes more interconnected, we will also place great strategic importance on international business. As an internationally active institution that alone transacts more than 16% of all German foreign trade, we especially want to fortify our operations in those places where our German corporate customers are doing business.

The favoured regions include Asia and, increasingly, the Far and Middle East. Consequently, we will apply for an operating branch office in Dubai in the near future. Our primary focus, however, continues to be Central and Eastern Europe, including Russia. Our subsidiary in Poland, BRE Bank, can look back on an excellent year and still sees good potential both in its corporate and retail customer business. In Hungary we now have more than 700 medium-sized companies in our customer base. We will be able to support even more customers in what is soon to be ten local branch offices. The situation in the Czech Republic and Slovakia, where we are also increasing our proximity to medium-sized corporate clients with additional branch offices, is similar.

Overall, we feel that we are in good position to take advantage of opportunities for profitable growth. Our top priority is to increase earnings by exploiting the existing potential but we also want to seize opportunities for external growth. Continued strict cost management will allow us to boost efficiency.

REMUNERATION REPORT

The report follows the recommendations of the German Corporate Governance Code and takes account of the requirements of the German Commercial Code as well as of the Disclosure of Remuneration of Members of the Board of Managing Directors Act *(VorstOG)*, which came into force on August 11, 2005.

Board of Managing Directors

Principles of the remuneration system

The Supervisory Board has delegated its responsibility for remuneration for the Board of Managing Directors to its Presiding Committee, comprising Dr. h.c. Martin Kohlhaussen as Chairman, Uwe Tschäge as Deputy Chairman of the Supervisory Board, Prof. Dr. Jürgen F. Strube and Werner Malkhoff. In determining and, when appropriate, changing the remuneration structure, particular attention is paid to the situation and level of success achieved by the Company as well as to the performance of the Board of Managing Directors. Reviews are carried out routinely every two years. The current remuneration structure for members of the Board of Managing Directors was decided in July 2004 and supplemented in November 2006. The results of the first routine review of the remuneration structure did not have any effect on the year under review.

Remuneration comprises the following components: remuneration unrelated to performance, a variable performance-related bonus, long-term performance plans and pension commitments.

Components comprising remuneration unrelated to performance

The components comprising remuneration unrelated to performance include basic salary and remuneration in kind.

The basic salary, which is paid in equal monthly amounts, is €760,000 for the chairman of the Board of Managing Directors and €480,000 for the other members of the Board.

Remuneration in kind mainly consists of use of a company car and insurance contributions, and tax and social security contributions thereon. The specific amount varies between the individual members of the Board depending on their personal situation.

Components comprising performance-related bonus
Besides the fixed salary, members of the Board of Managing Directors receive a variable bonus based on the following key figures: return on equity (RoE) before tax, cost/income ratio (CIR) and operating earnings before tax (excluding special factors). Targets for each of these three equally-weighted parameters and a target bonus are set for each of the members of the Board of Managing Directors; the bonus resulting from these inputs is limited to twice the target bonus. To reward the individual performance of members of the Board of Managing Directors and to take account of exceptional developments, the Presiding Committee may in addition raise or lower the bonus so calculated by up to 20%. Pay for serving on the boards of consolidated subsidiaries is set off against the variable bonus (this amounted in 2006 to a total of €543,000). The bonus for one financial year is paid out in the following year.

Long-term performance plans
For several years, the members of the Board of Managing Directors and other executives and selected staff of the Group have been able to participate in long-term performance plans (LTPs). These are virtual stock-option plans that are offered each year and contain a promise to pay in the event that the Commerzbank share price outperforms the Dow Jones Euro Stoxx Banks Index over three, four or five years and/or the Commerzbank share price gains at least 25% in absolute terms. If these hurdles are not met after five years, the promise to pay lapses. If payments are made, members of the Board of Managing Directors will each invest 50% of the gross amount paid out in Commerzbank shares. In order to participate in the LTPs, eligible participants have to invest in Commerzbank shares. Members of the Board of Managing Directors may participate with up to 2,500 shares, the chairman of the Board of Managing Directors with up to 5,000 shares.

Members of the Board of Managing Directors participated in the last financial year with personal holdings of shares in the 2006 LTP as follows:

	LTP 2006		
	Number of participating shares	Attributable fair value in € when the shares were granted	pro-rated on 31.12.2006[1]
Klaus-Peter Müller	5,000	174,550	24,550
Martin Blessing	2,500	87,275	12,275
Wolfgang Hartmann	2,500	87,275	12,275
Dr. Achim Kassow	2,500	87,275	12,275
Bernd Knobloch	2,500	87,275	12,275
Klaus Patig	–	–	–
Michael Reuther[2]	–	–	–
Dr. Eric Strutz	2,500	87,275	12,275
Nicholas Teller	2,500	87,275	12,275

The amount of remuneration realized from participating in the 2006 LTP may vary significantly from the figures in the table and – as with the 1999, 2000 and 2001 LTPs – may even fall to zero, as the final amount paid out is not fixed until the end of the term of each LTP.

Owing to the performance of the Commerzbank share price in the year under review, payments were made under the 2002 and 2003 LTPs. These were concluded with payments per participating share of €80 for the 2002 LTP and €100 for the 2003 LTP.

Listed below are the payments to members of the Board of Managing Directors who participated in these plans:

	LTP 2002[3]		LTP 2003[3]	
	Number of participating shares	Amount in €	Number of participating shares	Amount in €
Klaus-Peter Müller	5,000	400,000	5,000	500,000
Martin Blessing	2,500	200,000	2,500	250,000
Wolfgang Hartmann	2,500	200,000	2,500	250,000
Nicholas Teller	–	–	2,500	250,000

1) Amount of provisions made for the LTP as at December 31, 2006.
2) Mr Reuther was not yet a member of the Commerzbank Board of Managing Directors at the time.
3) Prior to joining the Board, Mr Strutz participated in the 2002 and 2003 LTPs with 1,200 shares and 1,000 shares respectively and accordingly received payments from these of €96,000 (2002 LTP) and €100,000 (2003 LTP). Mr Teller did not become a member of the Board of Managing Directors until 2003 and, prior to joining the Board, did not participate in the 2002 LTP. Mr Patig participated in neither the 2002 LTP nor in the 2003 LTP.

Pensions

The Bank provides members and former members of the Board of Managing Directors or their surviving dependants with a pension. A pension is paid if, upon leaving the Bank, members of the Board of Managing Directors

- have celebrated their 62nd birthday
- are permanently unable to work
- end their employment contract with the Bank after celebrating their 58th birthday having been a member of the Board of Managing Directors for at least ten years, or
- have been a member of the Board of Managing Directors for at least 15 years.

The pension consists of 30% of the latest agreed annual basic salary after the first term of appointment, 40% after the second and 60% of the latest agreed annual basic salary after the third term of appointment. The pensions are reduced in line with the statutory provisions on company pensions if members of the Board of Managing Directors leave the Board before their 62nd birthday. Vesting of pension rights is also essentially based on the statutory provisions on company pensions.

Instead of their pension, members of the Board of Managing Directors will continue to receive their prorated basic salary for six months as a form of transitional pay if they leave the board after celebrating their 62nd birthday or because they are permanently unable to work any longer[4]. If members of the Board of Managing Directors receive a pension before their 62nd birthday without being unable to work, the pension will be reduced to reflect the payments starting earlier. Half of any income received from other activities will be set off against any pension rights up to this age.

Pension payments to members of the Board of Managing Directors are raised by one percent p.a. from when they are first paid out. Under certain circumstances an increase in excess of this level will be considered, but there is no right to any such increase.

The following table lists the pension rights of the members of the Board of Managing Directors as at the end of the year under review:

	Pension rights Annual amount when pension is first paid out in € (as of 31.12.2006)[5]
Klaus-Peter Müller	456,000
Martin Blessing	192,000
Wolfgang Hartmann	192,000
Dr. Achim Kassow	144,000
Bernd Knobloch	144,000
Klaus M. Patig	288,000
Michael Reuther	144,000
Dr. Eric Strutz	144,000
Nicholas Teller	192,000

The surviving dependants' pension for a spouse amounts to 66⅔% of the pension entitlement of the member of the Board of Managing Directors. If no widow's pension is paid, minors or children still in full-time education are entitled to an orphan's pension amounting in each case to 25% of the pension entitlement of the member of the Board of Managing Directors, but no higher in total than the widow's pension.

The assets backing these pension obligations have been transferred under a contractual trust arrangement to Commerzbank Pension-Trust e.V. The provisions for pension obligations to be formed by December 31, 2006 further to the German Commercial Code (HGB) amounted to €16.4m for members of the Board of Managing Directors. In the year under review, provisions for active members of the Board of Managing Directors were formed in the amount of €1.7m, and €4.9m were transferred to Commerzbank Pension-Trust e.V.

4) Mr Knobloch receives this transitional pay in view of his many years on the Board of Managing Directors of Eurohypo AG, even if he leaves the Board immediately after his first term of appointment.

5) The amounts take into account the current term of appointment of the individual members of the Board of Managing Directors and furthermore assume that, barring inability to work, no pension will be paid before a member's 62nd birthday and that the member will remain on the Board until the pension is due.

Change of Control

In the event that a shareholder takes over at least a majority of the voting rights represented at the Annual General Meeting, or that an affiliation agreement is signed with Commerzbank as a dependent entity, or in the event of Commerzbank being merged or taken over (Change of Control), all members of the Board of Managing Directors are entitled to terminate their contracts of employment. If members of the Board of Managing Directors take advantage of this right to terminate their contract or if, in connection with the Change of Control, their membership of the board ends for other reasons, they are entitled to compensatory pay for the remainder of their term of appointment in the amount of 75% of their total average pay (basic salary and variable bonus) and to a severance payment in the amount of total average annual pay for two years. Depending on the age and length of service on the Board, this severance payment increases to three[6)] to four[7)] times total annual pay. Taken together, compensatory pay and severance payment may not exceed total average pay for five years or – if such members of the Board of Managing Directors are already over 60 at the time their activity on the Board ceases – for the period up to such members' 65th birthdays. In respect of retirement benefits and long-term performance plans, members of the Board of Managing Directors will essentially be treated as if they had remained as members of the Board of Managing Directors until the end of their latest term of appointment. There is no entitlement to severance pay if members of the Board of Managing Directors receive money in connection with the Change of Control from the majority shareholder, the controlling company or the other legal entity in the event of a merger or acquisition.

Other regulations

The contracts of employment of members of the Board of Managing Directors always end automatically with the end of their term of appointment. In derogation of this, those members who joined Commerzbank's Board of Managing Directors before 2002 will, in the event of a premature end to their appointments (unless for good cause), be released from the remaining term of their contract of employment and will continue to receive their basic salary for the remainder of their term of office.[8)] If a contract of employment is not extended at the end of a term of office, without there being good cause, members of the Board of Managing Directors so affected will continue to receive their basic salary for a further six months. Members of the Board of Managing Directors who were appointed to the Board before 2004[9)] receive their basic salary in such cases for a further twelve months from the end of their second term of appointment. This continuation of salary ceases if members of the Board receive payments under the regulations set out above in the section headed Pensions.

Certain amounts received from a pension to which Mr Teller is entitled for his work in the Commerzbank Group before joining the Board of Managing Directors are set off against his pension.

Commerzbank signed an agreement with Mr Patig, who left the Board at the end of January 2007. Under this agreement his contract of employment as a member of the Board of Managing Directors expiring in March 2008 was terminated as at the date of his departure. In terms of remuneration, Mr Patig will effectively be treated as if he had remained on the Board until March 2008; he will receive a lump sum in lieu of his variable bonus for the period from January 2007 until March 2008 in the amount of €1,823 thousand, which will be paid together with his bonus for 2006.

No members of the Board of Managing Directors received payments or promises of payment from third parties in the course of the last financial year in respect of their work as a member of the Board of Managing Directors.

6) Mr Hartmann and Mr Knobloch
7) Mr Müller
8) Messrs Müller, Blessing, Hartmann and Patig
9) Messrs Müller, Blessing, Hartmann, Patig, Dr. Strutz and Teller

Summary

The following table shows the cash remuneration paid to individual members of the Board of Managing Directors for 2006 and, for comparison, for 2005:

Amounts in €1,000		Cash remuneration Basic salary	Variable remuneration[11]	Payment for the LTPs 2002 and 2003	Other[10]	Total
Klaus-Peter Müller	**2006**	760	2,736	900	80	4,476
	2005	760	2,280	0	86	3,126
Martin Blessing	**2006**	480	1,695	450	77	2,702
	2005	480	1,500	0	69	2,049
Wolfgang Hartmann	**2006**	480	1,350	450	109	2,389
	2005	480	1,500	0	134	2,114
Dr. Achim Kassow	**2006**	480	1,600	–	44	2,124
	2005	480	1,500	–	123	2,103
Bernd Knobloch[12]	**2006**	360	1,125	–	35	1,520
	2005	–	–	–	–	–
Klaus M. Patig	**2006**	480	1,500	0	65	2,045
	2005	480	1,500	0	60	2,040
Michael Reuther[12]	**2006**	120	375	–	2,885	3,380
	2005	–	–	–	–	–
Dr. Eric Strutz	**2006**	480	1,650	196	42	2,368
	2005	480	1,500	0	42	2,022
Nicholas Teller	**2006**	480	1,800	250	78	2,608
	2005	480	1,500	0	58	2,038
Total	**2006**	**4,120**	**13,831**	**2,246**	**3,415**	**23,612**
	2005[13]	**3,640**	**11,280**	**0**	**572**	**15,492**

Loans to members of the Board of Managing Directors

Members of the Board of Managing Directors have been granted cash advances and loans with terms ranging from on demand up to a due date in 2018 and at interest rates ranging between 3.00% and 12.00%. Collateral security is provided on a normal market scale, if necessary through mortgages and pledging of security holdings. The overall figure (€1,261,000) includes rental guarantees of €23,000 provided for two members without a commission fee being charged; this is in line with the Bank's general terms and conditions for members of staff.

As at the reporting date, the aggregate amount of advances and loans granted and contingent liabilities was €1,261,000; in the previous year it was €1,559,000.

Supervisory Board

Principles of the remuneration system and remuneration for 2006

The remuneration of the Supervisory Board is regulated in Art. 15 of the Articles of Association; the current version was approved by a resolution of the Annual General Meeting on May 30, 2003. This gives

10) "Other" includes payment in kind in the year under review (€546,000) and, for Mr Reuther, an amount of €2,869,000 paid to him as special remuneration for payments he had to forego from his previous employer arising from restricted equity units and bonuses when he joined the Board.

11) Payable in the following year subject to approval of the annual financial statements less remuneration already received for performing board functions at consolidated companies (€543,000; previous year: €483,000).

12) Pro rata for the period since being appointed.

13) The totals for 2005 do not include amounts for the member of the Board of Managing Directors Andreas de Maizière who left the Board in 2005 (pro rata fixed pay of €280,000 and payments in kind of €79,000).

members of the Supervisory Board basic remuneration for each financial year, in addition to compensation for out-of-pocket expenses, as follows:

1. fixed remuneration of €20,000 and
2. a variable bonus of €2,000 for each €0.05 of dividend in excess of a dividend of €0.10 per share distributed to shareholders for the previous financial year.

The Chairman receives triple and the Deputy Chairman double the aforementioned basic remuneration. For membership of a committee of the Supervisory Board meeting at least twice in any calendar year, the committee chairman receives additional remuneration in the amount of the basic remuneration and each committee member in the amount of half the basic remuneration; this additional remuneration is paid for no more than three committee appointments. In addition each member of the Supervisory Board receives an attendance fee of €1,500 for attending a meeting of the Supervisory Board or one of its committees. The fixed remuneration and attendance fees are payable at the end of each financial year and the variable bonus after the Annual General Meeting that passes a resolution approving the actions of the Supervisory Board for the financial year concerned. The value-added tax payable on the remuneration is refunded by the Bank.

Under this system, the members of our Supervisory Board will receive remuneration of €1,661,000 for the 2006 financial year (previous year: €1,393,000), provided the Annual General Meeting of Commerzbank AG resolves that a dividend of €0.75 be paid per no par-value share.

Altogether €235,000 was paid in attendance fees for participation in the meetings of the Supervisory Board and its four committees (Presiding, Audit, Risk and Social Welfare Committees) which met in the year under review. The turnover tax of €316,000 to be paid on the overall remuneration of the members of the Supervisory Board was refunded by Commerzbank Aktiengesellschaft.

Members of the Supervisory Board once again provided no advisory, intermediary or other personal services in 2006. Accordingly, no additional remuneration was paid.

The remuneration and the attendance fees are divided between the individual members of the Supervisory Board as follows:

2006 **Supervisory Board members**	**Basic remuneration in €1,000**	**Committee remuneration in €1,000**	**Total in €1,000**
Dr. h.c. Martin Kohlhaussen	138.0	92.0	230.0
Uwe Tschäge	92.0	23.0	115.0
Hans-Hermann Altenschmidt	46.0	23.0	69.0
Dott. Sergio Balbinot	46.0	23.0	69.0
Herbert Bludau-Hoffmann	46.0	–	46.0
Astrid Evers	46.0	–	46.0
Uwe Foullong	46.0	–	46.0
Daniel Hampel	46.0	–	46.0
Dr.-Ing. Otto Happel	46.0	23.0	69.0
Dr. jur. Heiner Hasford	46.0	23.0	69.0
Sonja Kasischke	46.0	–	46.0
Wolfgang Kirsch	46.0	23.0	69.0
Werner Malkhoff	46.0	23.0	69.0
Prof. h.c. (CHN) Dr. rer. oec. Ulrich Middelmann (since April 1, 2006)	34.5	–	34.5
Klaus Müller-Gebel	46.0	69.0	115.0
Dr. Sabine Reiner	46.0	–	46.0
Dr. Erhard Schipporeit	46.0	–	46.0
Dr.-Ing. Ekkehard D. Schulz (until March 31, 2006)	11.5	–	11.5
Prof. Dr. Jürgen F. Strube	46.0	23.0	69.0
Dr. Klaus Sturany	46.0	–	46.0
Dr.-Ing. E.h. Heinrich Weiss	46.0	23.0	69.0
Total 2006	**1,058.0**	**368.0**	**1,426.0**
Total 2005	**828.0**	**288.0**	**1,116.0**

Loans to members of the Supervisory Board

Members of the Supervisory Board have been granted loans with terms ranging from on demand up to a due date in 2031 and at interest rates ranging between 4.88% and 6.70%. In line with market conditions, some loans were granted without collateral security, against mortgages or against the assignment of credit balances and life insurance policies.

As at the reporting date, the aggregate amount of advances, loans and contingent liabilities granted to members of the Supervisory Board was €1,413,000; in the previous year it was €1,504,000.

Other details

D&O liability insurance

There is a D&O liability insurance policy for members of the Board of Managing Directors and the Supervisory Board. The excess payable by members of the Supervisory Board amounts to one year's fixed remuneration and for members of the Board of Managing Directors 25% of one year's fixed remuneration.

Purchase and disposal of the Company's shares

Pursuant to Art. 15 a of the German Securities Trading Act, transactions by executives of listed companies and their families have to be disclosed and published. Accordingly, purchases and disposals of shares and financial instruments related to Commerzbank to the value of €5,000 and upwards must be reported immediately and for the duration of one month. The Bank relates this reporting requirement to the Board of Managing Directors and the Supervisory Board, in line with the recommendations in the BaFin Guide for Issuers.

Members of the Commerzbank's Board of Managing Directors and Supervisory Board have reported the following dealings (director's dealings) in Commerzbank shares or derivatives thereon in 2006:[14)]

Date	Name	Function	Purchase/ Disposal	Number of shares	Price per share in €	Amount in €
08.03.2006	Daniel Hampel	Member of Supervisory Board	P	120	28.56	3,427.20
04.05.2006	Martin Blessing	Board of Managing Directors	P	5,000	30.59	152,950.00
18.05.2006	Dr. Achim Kassow	Board of Managing Directors	P	3,500	29.15	102,025.00
18.05.2006	Dr. h.c. Martin Kohlhaussen	Chairman of Supervisory Board	D	4,000	28.57	114,280.00
22.05.2006	Dr. Eric Strutz	Board of Managing Directors	P	3,496	28.79	
				4	28.78	100,764.96
23.05.2006	Hans-Hermann Altenschmidt	Member of Supervisory Board	P	200	28.71	5,742.00
23.05.2006	Daniel Hampel	Member of Supervisory Board	P	300	28.63	8,589.00
30.05.2006	Bernd Knobloch	Board of Managing Directors	P	1,068	29.17	
				1,432	29.18	72,939.32
15.06.2006	Klaus-Peter Müller[15)]	Board of Managing Directors	P	16,953	26.55	450,102.15
15.06.2006	Martin Blessing[15)]	Board of Managing Directors	P	8,477	26.55	225,064.35
15.06.2006	Wolfgang Hartmann[15)]	Board of Managing Directors	P	8,477	26.55	225,064.35
15.06.2006	Dr. Eric Strutz[15)]	Board of Managing Directors	P	1,884	26.55	50,020.20
15.06.2006	Nicholas Teller[15)]	Board of Managing Directors	P	4,709	26.55	125,023.95
09.08.2006	Klaus-Peter Müller	Board of Managing Directors	P	3,000	26.30	78,900.00
09.08.2006	Dr. Eric Strutz	Board of Managing Directors	P	2,000	26.17	52,340.00
09.08.2006	Dr. Achim Kassow	Board of Managing Directors	P	2,000	26.24	52,480.00
09.08.2006	Martin Blessing	Board of Managing Directors	P	4,000	26.00	104,000.00
09.08.2006	Nicholas Teller	Board of Managing Directors	P	2,000	26.21	52,420.00

All told, the Board of Managing Directors and the Supervisory Board did not own more than 1% of the issued shares and option rights of Commerzbank AG on December 31, 2006.

14) The directors' dealings – with the exception of share purchases that did not need to be reported in connection with payments made under the 2002 and 2003 LTPs (see footnote 15 below) – were published in the year under review on the Commerzbank website under Directors' Dealings.

15) Reinvestment of 50% of the gross amounts paid out as a result of participating in the 2002 and 2003 LTPs.

INFORMATION PURSUANT TO ARTS. 289 (4) AND 315 (4) OF THE GERMAN COMMERCIAL CODE (HGB)

1. Structure of subscribed capital

Commerzbank has issued only ordinary shares, the rights and duties for which arise from legal requirements, in particular Arts. 12, 53a et seq., 118 et seq. and 186 of the German Stock Corporation Act. The subscribed capital of the company totalled €1,708,638,206.60 at the end of the financial year. It is divided into 657,168,541 no-par-value shares. The shares are issued in the form of bearer shares.

2. Appointment and replacement of the members of the Board of Managing Directors and amendments to the Articles of Association

The members of the Board of Managing Directors are appointed and replaced by the Supervisory Board pursuant to Art. 84 of the German Stock Corporation Act and Art. 6 (2) of the Articles of Association. If there is a vacancy on the Board of Managing Directors for a member required by law or by the Articles of Association and the Supervisory Board has not appointed a replacement, in urgent cases one will be appointed by a court under Art. 85 of the German Stock Corporation Act. Each amendment to the Articles of Association requires a resolution of the Annual General Meeting under Art. 179 (1) of the German Stock Corporation Act. Unless the law mandates a larger majority, a simple majority of the represented share capital is adequate (Art. 19 (3) (2) of the Articles of Association). The authority to amend the Articles of Association, which only affect the version in force, has been transferred to the Supervisory Board under Art. 10 (3) of the Articles of Association in compliance with Art. 179 (1) (2) of the German Stock Corporation Act.

3. Powers of the Board of Managing Directors

According to the Annual General Meeting resolutions from May 17, 2006, Commerzbank is authorized to acquire its own shares in the amount of up to 5% of the share capital under Art. 71 (1) (7) of the German Stock Corporation Act and in the amount of up to 10% according to Art. 71 (1) (8) of the German Stock Corporation Act. These authorizations expire on October 31, 2007.

The Board of Managing Directors, with the approval of the Supervisory Board, is authorized to increase the share capital by issuing new shares under Art. 4 of the Articles of Association (authorized capital) as follows:

a. Up to €225,000,000.00 (authorized capital 2004/I) by April 30, 2009 according to Art. 4 (3) of the Articles of Association,

b. to issue shares for employees in the amount of up to €19,768,703.60 by April 30, 2007 according to Art. 4 (4) of the Articles of Association and in the amount of up to €12,000,000.00 (authorized capital 2006/III) by April 30, 2011 according to Art. 4 (9),

c. in the amount of up to €225,000,000.00 (authorized capital 2004/II) by April 30, 2009 according to Art. 4 (6) of the Articles of Association and in the amount of up to €200,000,000.00 (authorized capital 2006/II) according to Art. 4 (8) of the Articles of Association, whereby subscription rights may be excluded insofar as the capital increase is made against contributions in kind for the purpose of acquiring companies or interests in companies, and

d. in the amount of up to €170,000,000.00 (authorized capital 2006/I) by April 30, 2011 according to Art. 4 (7) of the Articles of Association, whereby subscription rights may be excluded if the issue price of the new shares is not materially lower than that of already listed shares offering the same conditions (Art. 186 (3) (4) of the German Stock Corporation Act).

When utilizing authorized capital, subscription rights must always be granted to shareholders; with the exception of the cases listed under a-d, subscription rights can only be excluded for residual amounts and to protect the rights of holders of conversion or option rights.

Moreover, the Annual General Meetings on May 30, 2003 and on May 20, 2005 have given the Board of Managing Directors – until May 30, 2008 – the authority to issue convertible bonds or bonds with warrants or profit-sharing certificates (with and without conversion or option rights) upon exclusion of subscription rights. Authorized capital *(Bedingtes Kapital)* in the amount of up to €403,000,000.00 is available for this purpose according to Art. 4 (5) of the Articles of Association.

4. Key agreements in the event of a Change of Control as a result of a takeover bid

In the event of a Change of Control at Commerzbank, an extraordinary right of termination has been negotiated by Commerzbank with several contract partners in favour of those contract parties as part of ISDA master agreements. In general, the right of termination is conditional upon Commerzbank's creditworthiness worsening considerably. In the event of this type of termination, the individual contracts concluded under these master agreements would have to be settled at fair value, which can be determined on every stock exchange trading day. The possibility cannot however be excluded that, if an individual customer with an especially large volume of business terminates a contract, Commerzbank's net assets, financial position and operating results could nevertheless be heavily impacted due to the Bank's possible payment obligations. A master agreement with a cooperation partner also contains a reciprocal right of termination for all cooperative efforts concluded as part of this master agreement. Such a termination would have a considerable impact on the net assets, financial position and operating results of the Bank.

5. Golden/tin parachutes

In the event of a Change of Control at Commerzbank, all members of the Board of Managing Directors have the right to terminate their employment contracts. If members of the Board of Managing Directors make use of this right of termination or end their Board activities for other reasons in connection with the Change of Control, they are entitled to a severance payment in the amount of the capitalized average total annual payments for between two and five years. With regard to retirement benefits and long-term performance plans, members of the Board of Managing Directors are essentially treated as if they had remained on the Board of Managing Directors until the end of their most recent term of office. There is no entitlement to a severance payment to the extent a member of the Board of Managing Directors receives payments from the majority shareholder, from the controlling company or from the other legal entity in the event of integration or merger in connection with the Change of Control.

In a few exceptional cases, individual managers in Germany and abroad have received an assurance of their payments for a transitional period effective from the start of their activities for the Bank in the event that they leave the bank in connection with a Change of Control at Commerzbank.

RISK REPORT

I. Important developments in 2006

- A **due diligence review of the Eurohypo loan portfolio** carried out at the beginning of the year with the help of external experts came to the conclusion that the value of the collateral in the commercial business is appropriate and that the risk in the default portfolio is adequately covered. In addition, a Section 44 audit carried out on behalf of the regulatory authority confirmed that the Eurohypo risk processes are appropriate and conform to the Minimum Requirements for the Risk Management of Credit Institutions (MaRisk).
- The **integration of Eurohypo** into the risk management processes was virtually completed by the end of 2006. The Bank's well-established rating-based system of competences was revised and the competences of the various committees increased in a targeted manner; this was the way we integrated Eurohypo into the structure of decision-making bodies. In addition we have set up a uniform means of management so that any decisions on the methods and processes to be used are only ever made by Central Risk Control and the risk situation is interpreted in reporting in a uniform manner. In addition, we have succeeded in retaining all of Eurohypo's main risk management decision-makers and integrating them into the new organizational structure.

- We completed the **new conceptual plan** for Commerzbank and Eurohypo's **Retail operative credit function** with an eye to creating a shared credit factory and will be implementing this in 2007. This operative credit function will in future concentrate on taking risk-appropriate decisions, managing and monitoring the loan portfolio and prevention and workouts. At the same time, the credit factory that has been newly established on the front-office side will be responsible for efficient, customer-oriented processing and operational management of the portfolio. We now have substantially better scoring systems and risk-appropriate cut-off limits for individual competences in the front office in place. The front office is also responsible for ensuring consistent risk/return-oriented management of the portfolio. We are confident that we can gradually reduce the run rate of the provision for possible loan losses in the white portfolio on a lasting basis. Together with the calculable significant reduction of approximately one-third in the regulatory capital requirements under Basel II, we consider that we are now well positioned for the retail lending business. We aim to play a leading role on the German retail lending market with this efficient business model.

- We completed the etec efficiency project in the **Corporates & Markets operative credit function** in 2006. One consequence was the creation of a system whereby individuals can take decisions about SMEs on the basis of a "rating navigator" which forms part of a traffic light system; the amber section of this traffic light system (requiring dual control) was concentrated in one location in Dresden for the whole of Germany. A centre of competence with global responsibilities along sectoral lines was set up in Frankfurt for major companies; structured finance activities were also concentrated in Frankfurt.

- The well-established **CRE & Public Finance operative credit function** structures were extended across the whole Bank. By bundling the Corecd property management business with the Eurohypo subsidiary Casia into a single property management unit called EH Estate Management under the Commercial Real Estate & Public credit function, Commerzbank is demonstrating the growing significance of this field.

- In line with its three corporate divisions, the Bank now has three operative credit function units for **credit-risk management** and these have been merged with Risk Control in the **Group Management division**. As required under MaRisk, this reflects the fact that credit-risk management plays the leading role in managing the loan portfolios of the front office units in a risk-appropriate manner and is responsible for sending clear signals on origination and secondary market activities. We in turn take account of this by rigorously measuring the performance of the operative credit function units, primarily by tracking the change in the delta of gross income and expected loss and the deviation between budgeted and actual figures in the provision for possible loan losses.

- **Prevention and workout units** were set up within the three operative credit function units, each as a separate area under the same name – intensive care; we expect this too to lead to better results-oriented management. The intensive care function aims wherever possible to develop practical strategies for keeping transactions afloat and only to unwind them when these are not sustainable or fail. In this process, reducing the volume of defaults is not a goal in itself: much more important is the optimization of recoveries. With real estate making up such a high proportion of defaults, the foreseeable market trend on the German real-estate market plays an important role in our workout strategy. The "Guidelines for Constructive Cooperation When a Company is in Crisis", which we helped to develop as part of the *Finanzstandort Deutschland* (IFD) initiative, provides evidence of our customer orientation.

- We achieved all of the main **targets that we had set for 2006 under the Basel II project**. The Federal Financial Supervisory Authority BaFin carried out the first wave of certification of the Advanced Internal Rating Based (AIRB) approach for the loan portfolio between October 2006 and January 2007. Now that we have applied for authorization to use the Advanced Measurement Approach (AMA) for operational risks for the Bank under Basel II, the certification audit has started at Commerzbank – the first bank in Germany. A second part to the audit is due in the first half of 2007.

- The regulatory authority completed its **review of the internal market risk model for the trading book** in the first half of 2006. It confirmed the quality of the model by lowering the multiple used to calculate the equity required to a figure that compares very well with other big banks.

- As part of its medium-term planning Commerzbank has set up an **overall risk strategy that satisfies the requirements of MaRisk** with sub-strategies for all significant risks and subjected it to a test of its consistency with the overall business strategy. Besides the credit-risk strategy, we have laid down particular targets for the country-risk strategy and the strategies for market risk, operational risk and for all unquantifiable risks. In so doing, we have ensured that our front-office units are given limits allowing for growth and sufficient "breathing space". It is now their responsibility to exploit these rigorously.

- As a consequence of MaRisk and the Solvency Regulation (SolvV), and also of the recommendations of the Committee of European Banking Supervisors (CEBS) that are key to advanced banks, there are significantly higher ongoing demands on risk control for a bank of our size. We have therefore decided from the beginning of 2007 **to split Risk Control into two separate units: ZCE for credit risk and economic capital and ZMO for market and operational risk and overall risk strategy**.

- We have brought together all the most significant key risk data for the Bank for the first time in the Commerzbank Group's annual report and presented them in a **special Risk Management section in the Notes**. The aim is to make communication of risk more focussed, easier to understand and above all more appropriate for those reading it.

II. Risk-based overall Bank management

1) Risk-policy principles

Commerzbank's value-based and risk/return-oriented overall Bank management involves taking on identified risks and managing them professionally. Accordingly, the core tasks for Commerzbank risk management consist of identifying all the major risks and – as far as possible – precisely measuring these risks and managing the resulting risk positions.

Commerzbank defines risk as the danger of possible losses or profits foregone, which may be triggered by internal or external factors. Risk management always distinguishes between **quantifiable** – i.e. measurable – and **unquantifiable categories of risk**.

The Bank's Board of Managing Directors defines risk-policy guidelines as part of the annually reviewed **overall risk strategy** which it has established and which consists of various sub-strategies for the main categories of risk. The overall risk strategy is based on the business strategy, which is also established by the Board of Managing Directors, so ensuring that the strategic orientation is in step with its risk management.

Within the Board of Managing Directors, the **Chief Risk Officer (CRO)** is responsible for **controlling all of the quantifiable risks (especially credit, market, liquidity and operational risks)** of Commerzbank and also for working out and implementing its overall risk strategy. As part of his **responsibility for the credit function, the CRO** also assumes the management function for all credit risks.

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 **Board of Managing Directors as a whole** and the **Risk Committee of the Supervisory Board** are regularly informed about all of the major risks and the overall risk situation by means of structured risk reports. Events of material significance for the Bank's risk situation are reported to decision-makers on an *ad hoc* basis.

The central information and management tool for the Board of Managing Directors and the Risk Committee of the Supervisory Board is the Quarterly Risk Report (QRR) produced by Central Risk Control (ZRC), in which trends in all of the quantitative categories of risk and the return on risk-adjusted capital (RoRaC) are presented. There is also a comparison between budgeted and actual figures with the portfolio goals and limits that have been formulated; any countermeasures are addressed immediately.

We make sure that the **risk functions** are **well equipped with personnel** in qualitative and quantitative terms; we constantly examine their efficiency using modern HR management systems and we subject them to rigorous performance scrutiny.

The risk management system is subject to continuous development as determined by the market and the regulatory authorities. It makes a substantial contribution to optimizing the risk and return structure of the Bank as part of our value-based management.

2) Risk management organization

Responsibility for implementing the risk-policy guidelines laid down by the Board of Managing Directors throughout the Bank 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 overall risk situation. In addition to being responsible for Risk Control, the CRO is also in charge of the credit function units. In parallel with the three operating divisions, the Bank has three operative credit function units, each run by a **Chief Credit Officer (CCO)**.

We implemented or introduced extensive **organizational measures to raise the efficiency** of these operative credit function units in the course of 2006 (for example etec in Corporates and the establishment of a new operative credit unit in the Retail division as part of the Retail Credit project). We want to continue along this path with the creation of a clear method of measuring performance and an unambiguous responsibility for adherence to budget by consistently separating the white from the grey and black areas in monitoring loans made by the front office.

The **demands on Risk Control** in recent years have grown massively as a result of the quantitative management of parameters rolled out in all divisions, the high level of complexity, the mathematical/statistical modelling and validation required, and the mass of new regulatory demands (SolvV, MaRisk, etc.). With the ongoing high frequency of amendments and additions to the latter, demands will continue to grow: at the end of 2006 the regulators authorized the option to switch to the use of internal models for liquidity risk and move away from the old Principle II. Foreseeable developments include: a redefinition of the term equity (Basel III), closer attention to bulk and concentration risks (CEBS CP 11), stress tests (CEBS CP 12), and even, although this is not realistic until after 2010, regulatory recognition of economic capital models (Basel IV) and accompanying efforts to bring bank regulation closer into line with IFRS.

In light of the above, Risk Control will be split **into two separate staff departments** in 2007 along the lines of the different risk categories: **Credit Risk and Economic Capital Control (ZCE) and Risk Strategy/ Market and Operational Risk Control (ZMO)**.

The Board of Managing Directors has delegated tasks to specific committees under the CRO for the operative execution of risk management; these act independently within the competences specifically delegated to them and assist the Board of Managing Directors in making decisions on issues relevant to risk.

In view of the good experience to date the power of the **Credit Committee (KK)** to make decisions was raised depending on the rating class, to up to 5% of the Bank's equity in the case of the highest category; **"time-to-market" loan decisions are valuable to the Bank** and the four representatives on the KK can also make decisions outside their weekly meetings when required. In accordance with the powers delegated by the Board of Managing Directors the KK is also responsible for monitoring the Bank's loan portfolio, adhering to the credit-risk strategy, regularly checking the credit parameters under Basel II, delegating competences and observing the credit guidelines.

The **Country Risk Credit Committee (LKK)** has been set up as a special credit committee under the same rules as apply to the KK. It decides/votes on issues related to country risk management and discusses trends in country ratings and key risk figures.

The **Operational Risk Committee (ORC)** monitors changes in the level of losses incurred by the Bank and the ongoing development of the Basel II parameters for the internal op-risk model and is also responsible for enforcing the principles under Section 280 of the Solvency Regulation. The ORC checks the strategies and guidelines for treating unquantifiable risks and decides on them on behalf of the Board of Managing Directors.

The **Market Risk Committee (MRC)** lays down value at risk (VaR) and stress limits taking the Bank's risk capacity and expected business into account and ensures that they are monitored in a timely and risk/return-oriented manner. The MRC makes recommendations for action on behalf of the Board of Managing Directors and the Bank's trading units, based on suitable stress and scenario analyses and taking all relevant market parameters into account.

In all of the risk committees we give due attention to an appropriate delegation of competence with the aim of ensuring decisions are taken by people closely in touch with the markets. The Board of Managing Directors is always informed promptly of the Bank's risk situation by ensuring that meeting minutes are circulated.

3) Risk strategy

The risk strategy, which will in future be updated on an annual basis, determines how the Bank handles all quantifiable and unquantifiable risks, which are broken down in detail into sub-risk strategies.

The unquantifiable risks are subjected to qualitative monitoring in conformity with pillar II of the Basel Accord and MaRisk.

The individual quantitative risks are managed by setting target figures or fixing limits. Crucial figures for assisting the Bank in managing risk here are the **expected loss** (**EL** – this is determined for default and operational risks and is based on the relevant risk parameters under Basel II), **value-at-risk** (VaR, especially in the daily monitoring of market price risks), the **risk appetite** (for monitoring the influence of risk positioning on medium-term volatility in profits) and the **economic capital** (= **unexpected loss** [**UL**]). Economic capital is distinguished from risk appetite by its significantly higher confidence level; the loss that must not be exceeded is measured with a probability of 99.95% and has to be covered by the disposable capital available for risk coverage when calculating the risk-taking capability. This confidence level equates to an A+ rating from Standard & Poor's, Commerzbank's target rating. Economic capital covers default, market, investment, business and operational risks and also takes the correlations and diversification effects within and between the different risk categories into account. We believe it is mainly useful for checking risk-taking capability and managing concentration risks, and it will be gradually extended to the risk/return-oriented overall management of the Bank. The main feature in 2008, however, will be the **regulatory capital requirement under Basel II** and the ROE achieved on it; the Bank's units need to become better acquainted with this new risk-sensitive concept and be able to check their strategic orientation on this new basis.

4) Risk-taking capability

Calculation of the risk-taking capability based on economic capital is the second important pillar of overall Bank management, alongside integrated risk/return-oriented management based on expected loss and risk appetite.

For this, the **aggregate risk figure for the Bank as a whole** (measured as **economic capital**) is **set against the total capital available for covering risk**. 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.

In accordance with the Bank's guidelines, the capital available for covering risk must be 20% higher than the economic capital excluding diversification effects. Within the Bank's overall risk strategy, the risk buffer requirement has been translated into specific targets for individual portfolios. The Bank maintained all of the buffers set in the year under review at all times.

Commerzbank also applies a series of various stress tests simulating unfavourable economic and market scenarios and their effect on the Bank. The objective of this kind of observation is to ensure the Bank's risk-taking capability, even under situations of stress.

Stress test and scenario analyses in respect of the various categories of risk are also gaining in importance for the management of the Bank.

5) Compliance

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, investors, employees and the reputation of the Bank.

Supervisory and capital-market regulations and the Bank's internal rules are monitored centrally by **Group Compliance (ZGC)** with the aid of a monitoring system which covers both the Bank's proprietary trading and transactions by employees.

6) Internal auditing

Internal Auditing (ZRev) works on behalf of the Board of Managing Directors, free from instructions and external influence and as a **unit independent of business processes and with responsibility for the Group as a whole**. Internal Auditing also operates free from instructions in reporting and in evaluating the results of its audits.

The instrument employed by Internal Auditing is **risk-oriented audit planning**. It assesses the systems for risk management and control and also for general management and monitoring, thus helping to improve them. As a consequence of the Solvency Regulation and MaRisk, Internal Audit's auditing obligations have been significantly expanded.

III. Risk management

1) Default risks

Definition

The risk of losses or profits foregone due to defaults by counterparties and also the change in this risk. Apart from this traditional risk, default risk also covers country risk and issuer risk as well as counterparty risk and settlement risk arising from trading activities.

Credit-risk strategy

Building on the business and risk strategy, the Bank's credit-risk strategy sets the framework for the medium-term orientation of the loan portfolio. The overriding goals are:

- identifying value drivers and reflecting them in the Bank's business policy, and also reducing value destroyers;
- supporting the overall Bank's goal of maximizing return on capital while respecting its risk-taking capability;
- selecting new and follow-up business from a risk/return aspect.

The credit-risk strategy puts particular **focus on growth** in the business with private and business customers and the *Mittelstand* in Germany and in Central and Eastern Europe. With major companies and multinationals, our business focus is clearly on trading and investment banking products as part of the orientation of Corporates and Markets (ZCM). Following the integration of Eurohypo the commercial real-estate business, which is focused on the major conurbations throughout the world, forms another cornerstone of our business policy. Our increased focus on emerging markets should enable us to provide professional assistance to our target customers as their regional and foreign trading business undergoes rapid change owing to globalization. The limitation of concentration and bulk risks and portfolio-oriented management in terms of timely identification of risks plays a crucial role for all target groups and products.

In addition to the continuous monitoring process by Risk Control, there is regular reporting on adherence to the credit-risk strategy in the form of the quarterly risk report (QRR). The Board of Managing Directors is consequently able to see significant deviations from the credit-risk strategy promptly and initiate countermeasures in good time.

Internal rating system

Rating methods form an integral part of risk measurement and risk management and are thus a core competence and forward-looking competitive factor for our Bank. Regulatory requirements such as the Solvency Regulation encourage the development of state-of-the-art rating systems by offering the opportunity to take such processes into account when determining capital requirements. Introducing and continuously improving these rating systems is by no means just a regulatory necessity, it is also in the Bank's own interests: only by consciously taking measurable risks can we successfully operate our business over the long term.

Commerzbank has used the opportunity provided by the structural changes in German and international lending and the changed regulatory provisions under the new Basel capital requirements to introduce an efficient, state-of-the-art technical structure to its rating procedures. This gives the Bank an opportunity to operate a better form of credit-risk management by reducing the number of loan loss provisions and lowering the opportunity costs from missing out on transactions. Furthermore, putting the Bank's loan commitments into reliable rating classes and having the ability to compare rating classes on the basis of PD (probability of default) and allocate them within a uniform master scale provides the basis for actively managing the portfolio.

The increasing integration of ratings into the lending process and the significance of risk measurement for the management of the Bank as a whole place high demands on quality assurance. Besides checking the quality of the forecasts made using the Bank's internal ratings, risk management must pay particular attention to continuously monitoring credit-risk parameters and correctly applying and validating credit-risk models and the functions in the credit process.

Credit-approval powers

In integrating Eurohypo we have standardized our credit-approval powers. Depending on the rating and credit exposure, all major credit decisions are taken under a committee structure applying uniform principles. On all committees, the front office and the back office are equally represented with two representatives each and the credit officer from the back office responsible for the portfolio is always in the chair; the latter cannot be outvoted on risk-related issues. The central body with credit-approval powers is the Credit Committee, which is chaired by the CRO and is responsible for all major credit decisions within predefined limits or else submits them to the Board of Managing Directors as a whole for a decision; this ensures a uniform credit policy. For decisions that do not need to be submitted to the KK, each division of the Bank has a credit sub-committee chaired by its own CCO. These are responsible for case-by-case decisions and monitoring within the terms of the powers delegated to them, and also for risk-appropriate management of their division's loan portfolio, for keeping the KK and the divisions up to date by means of appropriate reports on current developments, and for predicting and immediately informing the KK of any discernible weaknesses in their portfolios. Smaller commitments may be approved by two loan officers; in what is known under MaRisk as "non-risk-relevant" business, we make use of the option to delegate credit-approval powers to a single officer in the front office under the terms of a traffic light system. If the risk parameters for commitments indicate a heightened risk, they are allocated to the amber phase; this automatically ensures the attention of another officer from the operative credit side.

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 (especially for managing bulk risk), portfolio management and monitoring country-risk and credit-risk strategy. The key result is the distribution of losses, which allows forecasts to be made on the probability of the possible extent of losses in the lending business. From this we calculate both the expected loss (EL) and the unexpected loss (UL).

There are a host of risk factors and parameters included in the credit-risk model that are closely linked to the parameters for Basel II. The risk of borrowers defaulting (probability of default, or PD) is derived from the rating systems; values have to be estimated for the forecast exposure at default (EaD), which are derived by aggregating the various types of credit (e.g. unused lines, guarantees, letters of credit, etc.) according to their statistically determined credit conversion factors or CCF. Collateral, guarantees and netting agreements are valued using their statistical parameters and the resultant unsecured exposures weighted according to historical recovery rates to produce a commitment's loss given default or LGD. Sector correlations and diversification effects are also taken into account. As part of the ongoing development of the model, we revised the input parameters for the risk calculations in 2006; we integrated the statistical procedures for estimating collateral proceeds and recovery rates implemented under the Basel II project into the model. Under Basel II the **capital requirement** each portfolio class is calibrated **based on EL**, which is the product of the three core parameters PD, EaD and LGD. It is obvious that managing credit risks in a modern big bank is nowadays no longer possible without the complex quantitative know-how of modelling experts.

Limiting concentration and bulk risks

The goal and benchmark in the targeted monitoring of credit risk is the risk/return-based target portfolio set down in the credit-risk strategy and the associated sub-portfolios of target groups and markets.

Concentrations of risk in bulks, countries, target groups and products are restricted by means of a traffic light system which takes the special characteristics of each segment into account. As a central element of risk policy, **bulk risk is managed** using the economic capital concept; the principal factors here are the granularity of the portfolio and the correlation assumptions in respect of segment-, sector- and country-specific factors of influence.

Bulk risks are defined as applying to borrower units requiring economic capital of at least €5m. Borrower units requiring more than €20m of economic capital are not wanted in a long-term perspective and are systematically reduced, with recourse to modern capital market instruments such as CDSs if necessary. The high value attributed to limiting bulk risks may be seen in the fact that the Board of Managing Directors laid down in its own internal rules in 2006 that unanimous resolutions are required for any board-level credit decisions involving deployment of economic capital in excess of €10m (based on final take).

The Bank's calculation of country risk involves both transfer risks and the event risks determined by the politics and economics specific to a region that have an effect on a country's individual assets. **Country-risk management** covers all the decisions, measures and processes which draw upon the information provided by quantifying risk and are intended to influence portfolio structure in order to achieve management goals. The newly created Country Risk Committee has been delegated primary responsibility for deciding on the strategy towards country risks and considering how to plan, manage and control them, and for fixing country limits. **Opportunities in emerging markets** are arising for all areas of business as a result of globalization, which is why we have thoroughly reviewed country risk management. Risk measurement/limitation and the rules for credit approval powers have been brought into line with the Basel II parameters EL and EaD and use of economic capital. These measures have laid the foundations for stronger participation than in the past in the opportunities presented by globalization through expanding our business into the emerging markets in a focused and risk-conscious manner.

Sectors continue to be managed with the aid of a traffic light system. The colours for the various sectors are worked out using key internal and external sector data taking into account the historical performance of the sectors, the quality of the current loan portfolio and a sector overview. We make targeted use of the Bank's research facilities for sector-oriented risk management.

Having rigorously reinforced the management of bulk risks in the lending area, we are now focusing on limiting bulk risk from investments and in the trading book.

Managing default risk arising from trading transactions

The management of default risk resulting from trading transactions is based on MaRisk. Monitoring covers counterparty risk, issuer risk, and all the settlement risks resulting from trading activities. In quantifying the risk from trading transactions we focus on a forward-looking presentation using mark-to-market or mtm, and dynamic add-ons such as simulation procedures to determine the range of volatility of mtm. The risk-mitigation effects of netting agreements are taken into consideration, as is the effect of collateral agreements.

A limit system is used to monitor whether daily utilization remains within the set framework. This system is directly linked into the trading systems and ensures that **credit exposure arising from trading activities is monitored around the clock**. The trading units establish whether free trading lines are available by means of a pre-deal limit check and may only carry out new deals to the extent that limits are free. Limit breaches are reported daily to management. In addition to this daily reporting, management is informed monthly about the largest off-balance-sheet transactions. Risk reporting also includes regular portfolio reports devoted to certain groups of counterparties and is complemented by an assessment 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.

In view of the high quality of our counterparty and underlying risk, **cases of default as a negative factor affecting the trading result again played an insignificant role** in 2006.

Business with non-banking financial institutions

Private equity finance and hedge funds take up a relatively small share of the Commerzbank portfolio. This area is nevertheless a focus for our risk monitoring and limitation as we expect the business and the associated risks to grow further over the next few years. In the case of **hedge funds** there is a uniform risk policy specially formulated for these customers. Careful due diligence investigations into our business partners, collateral agreements with margin requirements, specific stress tests and prompt reconfirmations are at the heart of this policy. The guidelines in the Corrigan Report provide important assistance in limiting risk.

We are an active player in underwriting **leveraged acquisition** financing for private equity funds, thanks to our competitive specialized finance ratings and good, in-depth analytical expertise. At the final take we concentrate on the less risky senior tranches and ensure that portfolio management aims for granularity. We carefully evaluate the in-depth business plan of each individual commitment using base-case and downside-case scenarios; we pay special attention to sustainable financing models and financial covenants.

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 (CDSs) and also offers its customers structured credit derivative products. Commerzbank draws upon the expertise gained in proprietary trading to make selective use of the instruments as a credit surrogate in the banking book, thus enabling it to tap extra potential revenue in the form of risk/return-optimized earnings. These instruments are also employed on the basis of publicly available information for hedging to systematically reduce risk. Commerzbank uses credit derivatives to selectively manage risk and to diversify the portfolio in line with its credit-risk strategy. We **only enter into credit derivative transactions with first-class counterparties**; hedge funds play an insignificant role.

2) Market price risks

Definition

Market price risks encompass the risks of losses from changes in market prices (interest rates, spreads, exchange rates, share prices, etc) or parameters influencing prices, such as volatility and correlations. In Commerzbank's definition, risks from equity investments in the banking book and equity event risks (modelling equity risk beyond VaR, e.g. to cover the insolvency of an issuer) also represent market risks. We also keep an eye on **market liquidity risk**, which covers cases where it is not possible for the Bank to liquidate or hedge risky positions in a timely manner and to the desired extent as a result of insufficient liquidity in the market.

Risk management and monitoring

We monitor market prices risks from centralized controlling units within ZMO that are independent of trading activities. The operational management of market price risks is the responsibility of the business concerned. The latter enter into market price risks within predefined limits and trading authorizations with the aim of generating income. Market risk is managed by means of a sophisticated system of limits, combined with proven and optimized methods for measuring risk.

Commerzbank takes account of economic capital required (risk-taking capability) and business expectations in establishing its **market-risk limits**, ensuring a risk/return-based management of market price risk. The extent to which the limits are used and the relevant P&L figures are reported daily to the Board of Managing Directors and the various heads of divisions.

Measuring market risk with our internal model

In line with market standards and regulatory requirements, Commerzbank calculates its market risks using value-at-risk. At Commerzbank AG, foreign branches, and the Luxembourg subsidiary CISAL we use an internal model to calculate the equity capital required to back general and specific market risks. We intend to apply for additional subsidiaries to be included in this internal model in the future.

The regulatory authorities confirmed the suitability of Commerzbank's internal market risk model on the occasion of an audit held during course of the year and significantly reduced the factor for backing market risks with equity, to a factor of 3.3.

Stress testing and scenario analysis

Since the value-at-risk concept provides a forecast for possible losses under "normal" market conditions, Commerzbank supplements this by calculating stress tests and scenario analyses for specific parameters to cover possible extreme scenarios.

Stress tests and scenario analyses are intended to simulate the impact of crises, extreme market conditions and major changes in correlations and volatilities.

As part of our daily reporting, stress tests are applied that are individually adapted to the risk factors in the various portfolios in each area of business. Stress tests performed across portfolios simulate the impact of historical and conceivable future crisis scenarios on the Bank. These are supplemented by specific monthly analyses for each investment category (interest-rate, equity, FX and credit spread scenarios). In the case of interest-rate risks in the banking book, the effects of both parallel shifts and changes in the steepness of the yield curve are simulated; with credit spread changes, various scenarios linked to the rating structure are tested. We also consider whether the effects have an impact on the profit and loss account or the revaluation reserve or whether they will only show up in the profit and loss account in later years (i.e. they present opportunity costs).

Changes in market risks

From a market risk point of view, the integration of Eurohypo in the year under review had only a relatively low influence on the overall risk, as the Eurohypo trading positions were of secondary importance compared to those of Commerzbank.

In the course of the year, market risks in the trading book – measured at a **confidence level of 99%** and a **holding period of 10 days** – were **reduced by €9.2m to a VaR of €30.0m**, mainly due to a reduction in proprietary trading positions held by Treasury.

Investment risks

Before new investments are acquired, opportunities and risks are analyzed by means of due diligence measures, while existing equity investments are managed on the basis of regular reports from the companies in question. At the same time, the market risk stemming from the Bank's listed equity investments is monitored daily – as with the calculation of trading positions – by ZMO and reported regularly, together with the risk from non-listed investments, to the Board of Managing Directors.

As larger investments are comparable from a risk point of view with bulk risks in the lending area, we pay special attention to the monitoring carried out by those responsible for investment and risk management in order both to limit the economic capital requirement for individual investments and to avoid any significant effect on the revaluation reserve or the Bank's profit and loss account.

Strategy and Controlling (ZKE) performs the independent back-office control function for all strategic and other investments.

3) Funding risks

Definition

Funding risk is the term for the risk of the Bank not being able to meet its current and future payment obligations as and when they fall due (liquidity risk). Ensuring that Commerzbank is solvent at all times, even in crisis situations, is the task of Group Treasury (ZGT). Measuring and monitoring across the Group is carried out by ZMO.

Managing funding risk is carried out beyond just the figures required by regulatory provisions (in the year under review, as required for Principle II); these are calculated by Accounting and Taxes (ZBS) on a differentiated system of limits provided by ZMO using the concepts of available net liquidity and stable funding. Both aim to manage liquidity efficiently management and avoid liquidity bottlenecks.

Using available net liquidity it is possible to determine future funding requirements based on cumulative liquidity available in the future, adjusted for the expected effects on liquidity of decisions relating to business policy and customer behaviour. Utilization limits are set and monitored under a basic scenario reflecting current market conditions, and also under stress scenarios.

Stable funding calculates the liquidity requirement for the Bank's core lending business and assets that cannot be liquidated within one year, and compares these to the liabilities available for a term longer than one year (including the stable base of customer deposits). The aim is to finance the Bank's illiquid assets and core business as far as possible with long term liabilities.

In addition, ZGT maintains liquidity portfolios in the leading currency centres. The sizes of the portfolios reflect the results of the stress scenario calculations.

BaFin allows the authorization of internal funding risk models under the Liquidity Regulation (LiqV) that will replace the old Principle II from 2007 onwards. Commerzbank is preparing systematically for this and intends to apply for approval of its model by the end of 2007.

4) Operational risks

Definition

We define **operational risk** as 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, this also includes legal risk, i.e. risks stemming from inadequate contractual agreements or changes in the legal framework.

Risk management and monitoring

The Operational Risk Committee is regularly informed about the risk situation. Responsibility for the implementation of measures at the operational level to reduce risk lies with the individual units of the Bank. To manage these risks the Bank has set up an independent central unit within ZMO, the responsibilities of which are clearly defined under to **Section 280 of the Solvency Regulation** for banks using the advanced approach under Basel II: "This unit is responsible for developing the strategy, principles and procedures for identifying, measuring, monitoring and reporting operational risks and developing processes for managing these, and is in charge of implementing and applying them."

Measuring operational risks with the AMA model

The stability, quality and information value of the mathematical-statistical model were improved further in the year under review and its depth was increased. The link to the external ORX database plays an important role in the adequate inclusion of unexpected losses in the model.

To enable us to estimate the financial risk in the event of infrequent major losses, we strengthened the scenario analysis. The example of Heros, the cash-transport company, which cost Commerzbank approx. €16m, shows that such extreme scenarios can become reality. The analyses are directed at pursuing measures to reduce risk. This led, in the Heros case, to us finding a more stable solution for the future by diversifying risk through the addition of two more cash-transport companies and an appropriate insurance policy.

The Bank introduced a bonus-malus system for incentivization and as an additional qualitative valuation tool for managing operational risks. This gives management incentives to reduce operational risks and improve risk management for the organizational units of the Bank. Owing to the measures taken, we largely succeeded in holding the level of the operational risk in the year under review despite integrating Eurohypo.

Legal risks

The modelling of operational risk also incorporates **legal risks**. These currently account for around 30% of operational risk. The management of legal risks 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, to devise solutions for reducing, restricting or avoiding such risks and to make the necessary provisions. In this connection, ZRA produces guidelines and standard contracts, which are implemented in close cooperation with business lines, branches and subsidiaries.

The largest legal proceedings against Commerzbank are presented to the Board of Managing Directors and Supervisory Board at regular intervals in the form of individual case analyses. A **growing readiness can be noted throughout the world** 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 constant additions to banks' catalogue of duties.

Personnel risks

In line with MaRisk, Commerzbank defines personnel risks under four categories:

- **Aptitude risk**: Employees and those standing in for them must have the required knowledge and experience appropriate to their duties, authority and responsibilities. Appropriate training measures should ensure that the level of employees' qualifications keeps up with the state of developments.

- **Motivation risk:** The pay and incentive systems must be designed such that they do not lead to conflicts of interest or disincentives, especially in the case of senior managers.

- **Risk of leaving:** The absence or departure of employees should not lead to lasting damage to the operating workflow. The criteria for appointment to all positions, especially those of managers, must be laid down.

- **Bottleneck risk**: The quantitative and qualitative staffing of a bank must reflect in particular its internal operating requirements, business activities, strategy and risk situation.

Responsibility for dealing with personnel risks lies with the Bank's management. Personnel risks will be reported by ZPA from the second quarter of 2007 as part of a newly developed process **(HR Cockpit)**.

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. The responsibilities of the different head-office departments and individual units are monitored in a central business contingency policy, with supplementary regulations for the IT and Organization departments.

Outsourcing

The Bank reinforced its measures for controlling its outsourcing activities in the year under review. The focus of our work in 2007 will be on the implementation of new requirements resulting from the revision of regulatory provisions and their codification in MaRisk. Particular emphasis will be put on actively tying this into the Bank's risk diversification and monitoring.

5) Business risk

Business risk encompasses the risk of losses due to negative deviations in income (especially commissions and interest income) and expenses from the budgeted figures. It is influenced by business strategy and the Bank's internal planning process, and also by changed overall conditions such as the market environment, customer behaviour and technological developments. As part of the ongoing development of the model, the intention is to model business risks through a complete economic cycle.

By reporting their business risk, which is also a component of economic capital, divisions and subsidiaries are encouraged to continuously improve their planning processes and the management of their operations. This helps to validate the financial planning of the Bank and facilitates the internal allocation of capital on the basis of risk and return.

6) Unquantifiable risks

To meet the Pillar 2 demands of the new Basel Framework, MaRisk requires a holistic view of risk and hence consideration of unquantifiable risks such as reputational risks. As adequate quantitative modelling of these risks is impossible, they are subject to a qualitative management and controlling process.

Strategic risk

Strategic risk represents the risk of negative trends in income on account of previous or future fundamental business-policy decisions, produced by investment decisions in various business lines or regions (such as internal/external growth or divestments).

Responsibility for the strategic management of Commerzbank lies with the Board of Managing Directors, with support provided by Strategy and Controlling (ZKE) in the case of strategic issues. Some business-policy decisions – e.g. the **acquisition and disposal of equity holdings exceeding 1% of the Bank's equity – also require the approval of the Risk Committee of the Supervisory Board**. All major investments are subjected to a thorough review as part of an investigation carried out by the **Investment Resources Committee (IRC)**. Based on constant observation of the German and international markets and competitive environment and the requirements imposed by the regulatory authorities and the capital markets, key changes and developments are continuously analyzed to determine any action that needs to be taken to ensure the Company's long-term success.

Reputational risk

By this we mean the risk of losses, declining income or a reduction in the Bank's market value on account of business transactions and other events that erode the confidence the public, rating agencies, investors and business associates place in the Bank.

In their daily activities the operational divisions, branches and subsidiaries bear direct responsibility for reputational risk arising from their particular business. Reputational risk can stem from other types of risk and even accentuate these. For this reason, all business-policy measures and activities are subjected to careful scrutiny. In particular, **Commerzbank avoids business-policy measures and transactions which entail significant tax or legal risks**, and also environmental risks. The responsibility of Central Communications (ZKK) for monitoring this ensures the Bank is aware of market perceptions at an early stage. Our communications department votes on all major credit decisions in respect of their reputational risks and there are also guidelines, for instance on the environmental sustainability of financing transactions.

Compliance risk

Compliance risk encompasses legal and 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. This relates to the prevention of money laundering, the protection of data and business confidentiality, investor protection and observing the provisions of the German Securities Trading Act.

Compliance implements compliance-related legal/regulatory requirements jointly with the specialist departments concerned. The Markets in Financial Instruments Directive (MiFID) should be mentioned at this point: this will be implemented within the Bank by November 2007. **MiFID sets new standards for securities trading** and affects virtually the whole length of the securities-trading value chain at Commerzbank.

MiFID affects adherence to market standards, best execution of customer orders, management of conflicts of interest and fair and appropriate investment advice to our customers. Compliance also monitors adherence to the internal standards the Bank has laid down for its employees, to ensure that they take no part in transactions that are aimed at evading laws, regulations or directives. Accordingly, the definition of the term "compliance risk" goes beyond legal provisions and also encompasses issues of integrity and ethics.

Supervisory and capital-market regulations and the Bank's internal rules are monitored centrally by Group Compliance (ZGC) with the aid of a sophisticated monitoring system which covers both the Bank's proprietary trading and transactions for employees. Compliance officers help to identify and resolve conflicts throughout the Bank, especially on the investment side. An organizational system of Chinese walls helps to ensure that confidential or price-sensitive information is not compromised and potential conflicts of interest are kept to an absolute minimum. Employees are made aware of compliance-relevant topics through extensive training sessions, e.g. on money laundering.

IV. Outlook

Basel II

The main feature of 2007 will be the certification of the most advanced Basel II approaches for operational risks (AMA) and credit risk (AIRB). Based on our initial internal calculations we expect that compared to Basel I, **under Basel II (which will become effective from January 1, 2008)** there will be a modest fall in the **regulatory capital adequacy requirement** for the Bank, even allowing for the new requirement to take account of operational risks in 2008. The Retail business and Commercial Real Estate will be the main factors behind this fall. It is pleasing to note that we do not foresee a noticeable rise in the capital adequacy requirement for any of the segments in the Group, although we cannot rule out strategic adjustments in sub-segments when it comes to implementing Basel II. For instance, from January 1, 2008 for the first time any **externally-confirmed free lines of credit (differentiated by type and level of risk) will have to be backed by regulatory capital**, so the issue of calculating appropriate commitment commissions will play a substantial role in the future. We see this development affecting the whole market, regardless of the Basel II approach selected.

We shall not be applying for AIRB certification for some individual specialist portfolios (e.g. operating foreign subsidiaries, non-banking financial institutions, renewable energy) until 2008 and shall value them for the time being using the standard credit approach. We shall be **developing an AIRB investment model** in 2007 for the risks arising from the Bank's investments, which we shall be submitting for certification in 2008; existing investments will be "grandfathered" until 2017.

Managing economic capital

We foresee risk management increasingly developing in the direction of strategic asset allocation and economic capital becoming more and more established as the "currency" for internal and external capital management; it has already become indispensable for monitoring risk-taking capability and bulk and concentration risks. We are confident that, in the long term it will be possible to use internal credit-risk models for regulatory capital adequacy requirements and view **ICAAP** (the Internal Capital Adequacy Assessment Process, required by Basel II) and **SREP** (the Supervisory Review and Evaluation Process) as a good basis for taking the next steps in development jointly with the regulatory authorities. We have created the internal conditions to achieve this.

Intensive Care

In developing an efficient intensive care function, we do not just see advantages in a lower provision for possible loan losses and better recoveries. The **workout skill has a substantial influence** on the Basel II parameters PD and LGD, and accordingly makes a significant contribution to a relatively favourable level of capital adequacy required under the AIRB approach. The three independent intensive care units within the three operative credit functions have been given clear performance hurdles related to their areas for 2007 with the aim of optimizing the intensive care result in a profit-centre-oriented way. High priority will be given to applying a cash-value, market-oriented approach to this.

Internal model for calculating liquidity risks

With the new Liquidity Regulation coming into force on January 1, 2007 banks will have the opportunity to use their own liquidity risk measurement and management procedures (i.e. their internal liquidity risk model) to calculate liquidity risks. Commerzbank will do all that is necessary by the end of 2007 to apply for the Available Net Liquidity concept (ANL), which it has used internally for years, to be approved as its liquidity risk model.

Interest-rate risk in the banking book

In times of flat and sometimes even inverted yield curves it is difficult to achieve an adequate return in Treasury or in Public Finance with interest-rate positions. We set great store on creating **uniform standards for measuring economic performance** and plan to subject these more than in the past to management and monitoring with the aid of limits and stop-loss triggers.

Training and promoting future leaders

The quality of risk management is a substantial factor in the profit and loss account and critical to success, making it a decisive competitive factor for the Bank. Rapidly changing regulatory and market-related provisions have increased the requirements in recent years, both in terms of breadth (all-round knowledge) and depth (specialist know-how), to a degree that has not been known in the past. This also requires change processes which continually add to the level of qualification and identify both weaknesses and potential strengths at the earliest possible stage. The aim must be to define qualitative and quantitative gaps in coverage in a timely manner and fill these with highly qualified staff. Looking ahead we can see an even **higher demand for "quants"**, i.e. employees with experience of risk modelling or who can acquire it based on their good existing mathematical and statistical skills. The proportion of these who are home-grown should clearly be in the majority and will be favoured by increased interchange between units of the Group. Achieving greater certainty in our planning and identifying and promoting top future leaders will in future be an explicit performance target for managers in risk management and to develop our human resources we intend to work more closely than before with leading universities. We see great advantages in obtaining a bachelor and/or master degree. in parallel with pursuing a career and intend to give our future managers support specifically to this end.

Corporate Communications

We are preparing for the increased significance of externally communicating about risk with supervision authorities, rating agencies and analysts which will result from Pillar 3 of the Basel capital regulations, the Solvency Regulation and the requirements of the CEBS Common Solvency Ratio Reporting (CoRep). **Accordingly, all IRB banks will for the first time have to publish extensive information in accordance with uniform standards on the methods they use and their parameters for sub-portfolios from the end of 2008.** We expect that there will be a massive need for explanations, which is already becoming noticeable on the part of external experts such as rating agencies and analysts.

That is why the risk function must in future communicate in a more focused and more clearly comprehensible manner in order to avoid incorrect conclusions and misinterpretations. Risk management and controlling at major banks will continue to be subject to massive development processes and the aim in future will increasingly be to **produce an optimum combination of modern, expert knowledge that is in touch with the market together with quantitative management of parameters**.

The risk functions of the future will increasingly have to bring their knowledge to bear not only in measuring risk and in reporting but also in managing the different types of risk, and thus will have an active influence on the Bank's risk/return-oriented management and decision processes. The intention is to seize any profitable business opportunities within the framework of a modern risk monitoring system. A close link between business and risk strategy and intensive communications (consulting) with the front office are key for this to be successful.

Management by anticipation

Basel II, the Solvency Regulation and MaRisk do not, of course, mean an end to further developments in risk management, since viewing risk has in the past been too one-sided in projecting the past forward into the future. This essential historical view needs to be supplemented by a significantly more forward-looking "management by anticipation"; in other words, continuously analyzing and forecasting external market factors and their effect on internal risk parameters in a professional way, which will then allow the results of stress tests and scenario analyses to be checked for their relevance to the market. From this point of view, it is important to value all portfolios consistently, taking account of risk, return and liquidity in a realistic and forward-looking manner. **The aim is an anticipatory selection of new business and portfolio management and an equally anticipatory management of capital**; that means a timely adjustment to the business we focus on when taking on or avoiding risks.

Risk management and control: a core competence for the benefit of all stakeholders

The new Solvency Regulation and the full implementation of MaRisk involve an **exceptionally high administrative input on the part of risk control and risk management** in order to do justice to the very complex demands on a lasting basis. This applies especially to banks like Commerzbank which are aiming for the most advanced Basel II approaches (IRBA for credit risks and AMA for OpRisk) in order that they can enjoy the lowest and most risk-appropriate regulatory capital adequacy requirement on a lasting basis. But in the long term the related significant investments in risk management and controlling will pay off, not only as a result of the more favourable capital adequacy requirement but also, among other benefits, because:

- they are the basis for risk/return-oriented portfolio management and performance measurement
- they improve the opportunities to limit risks through timely identification of issues
- they create scope for efficiency in handling standardized transactions
- they are essential to consistent risk-adjusted pricing, optimizing the selection of business and strategically developing business lines
- they **create value for all the Bank's stakeholders**; this has to be communicated in ways appropriate to those being addressed; specifically

for our customers

- The risk of measuring and managing products, even complex ones, is essential to being able to continuously provide modern credit and capital market products at fair market prices.

- Efficiently identifying upcoming risks and consistent rating communication to customers increases their survival chances in difficult times and reduces the number of insolvencies. The commitment that Commerzbank has given to communicate ratings to our customers has been mentioned in the rating brochure designed under our leadership as part of the IFD *Mittelstand* initiative. All IFD banks have now undertaken to make their ratings transparent to their customers. This makes customers more aware of their specific risk situation and encourages the market to heal itself.

- Professional intensive care helps to develop sustainable strategies for carrying on a business and thus makes it easier for customers to restructure their loans.

for our shareholders:

- Exploiting all the Bank's opportunities for doing business by using efficient risk systems (e.g. precise ratings).

- Optimizing returns through a risk/return-oriented focus as part of the internal allocation of capital.

- Limiting/reducing reductions in income in normal business conditions, and especially during periods of economic or sector weakness.

for our employees:

- Business strategies that are sustainable from a risk point of view prevent unexpected fluctuations in business strategy and hence **contribute to long-term job security**.

- In an innovative environment we offer our employees the opportunity to participate in developing the most up-to-date risk-management systems and apply these to the Bank's portfolio. The experience gathered in doing this is exciting and broadens their horizons, and also quite substantially improves their opportunities for personal development.

structure of commerzbank group

Board of Managing Directors

Corporate Divisions

Group Management

Staff departments

- Accounting and Taxes
- Credit Risk and Economic Capital Control
- Credit Risk Management Private and Business Customers
- Financial Controlling
- Global Credit Risk Management Commercial Real Estate and Public Finance
- Global Credit Risk Management Corporates & Markets
- Group Communications
- Group Compliance
- Human Resources
- Internal Auditing
- Legal Services
- Risk Strategy/Market and Operational Risk Control
- Strategy and Controlling

Banking departments

Retail Banking and Asset Management

- German Asset Management
- International Asset Management
- Private Banking
- Private and Business Customers
- Retail Credit
- comdirect bank AG

Corporate and Investment Banking

Mittelstand

- Corporate Banking
- Financial Institutions
- BRE Bank SA

Corporates & Markets

Commercial Real Estate, Public Finance and Treasury

- Commercial Real Estate
- Commerz Grundbesitzgesellschaft mbH
- CommerzLeasing und Immobilien AG
- Group Treasury
- Public Finance

Domestic and foreign branch network

Cooperation in bancassurance area

Services

Service departments

- Information Technology
- Organization
- Transaction Banking

Subsidiaries and participations in Germany and abroad

PROFIT AND LOSS ACCOUNT OF COMMERZBANK AKTIENGESELLSCHAFT FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2006

in € m				2006	2005
Interest income from					
a) lending and money-market transactions		8,410			7,234
b) fixed-income securities and government-inscribed debt		1,364			1,548
			9,774		8,782
Interest paid			–7,502		–6,337
				2,272	**2,445**
Current income from					
a) shares and other variable-yield securities			543		454
b) investments (subsidiaries, associated companies, and trade investments)			33		48
c) holdings in affiliated companies			260		115
				836	**617**
Income from profit-pooling and from partial or full profit-transfer agreements				**446**	**693**
Commissions received			1,832		1,691
Commissions paid			–215		–178
				1,617	**1,513**
Net income from financial transactions				**200**	**–23**
Other operating income				**185**	**148**
General operating expenses					
a) personnel expenses					
aa) wages and salaries		–1,762			–1,654
ab) compulsory social-security contributions, expenses for pensions and other employee benefits		–450			–438
of which: for pensions	–210				–193
			–2,212		–2,092
b) other administrative expenses			–1,203		–1,227
				–3,415	**–3,319**
Depreciation on and value adjustments to intangible assets and fixed assets				**–196**	**–199**
Other operating expenses				**–364**	**–145**
Write-downs of and value adjustments to claims and certain securities, and additions to provisions for possible loan losses				**–1,158**	**–1,302**
Income from additions to investments, holdings in affiliated companies and securities treated as fixed assets				**299**	**837**
Expenses from the transfer of losses				**–1**	**–1**
Result from ordinary activities before restructuring expenses and appropriation to fund for general banking risks				**721**	**1,264**
Appropriation to fund for general banking risks				–	–500
Restructuring expenses				–215	–30
Result from ordinary activities after restructuring expenses and appropriation to fund for general banking risks				**506**	**734**
Taxes on income			–8		–414
Other taxes			–5		8
				–13	**–406**
Net income for the year				**493**	**328**
Withdrawals from revenue reserves					
b) from reserve for the Bank's own shares			–		–33
d) from other revenue reserves			–12		–
				–12	**–33**
Allocation to revenue reserves					
b) to reserve for the Bank's own shares			12		–
d) to other revenue reserves			–		33
				12	**33**
Distributable profit				**493**	**328**

BALANCE SHEET OF COMMERZBANK AKTIENGESELLSCHAFT AS OF DECEMBER 31, 2006

Assets (in € m)				**31.12.2006**	**31.12.2005**
Cash reserve					
a) cash on hand			721		569
b) balances with central banks			2,858		4,058
including: with Deutsche Bundesbank		2,770			(3,916)
				3,579	**4,627**
Debt issued by public-sector borrowers, and bills of exchange rediscountable at central banks					
a) treasury bills and discountable treasury notes, as well as similar debt issues by public-sector borrowers			274		2,668
including: rediscountable at Deutsche Bundesbank		88			(1,682)
b) bills of exchange			–		392
including: rediscountable at Deutsche Bundesbank		–			(392)
				274	**3,060**
Claims on banks					
a) payable on demand			10,496		12,885
b) other claims			65,917		67,851
				76,413	**80,736**
Claims on customers					
including: secured by mortgages on real estate		19,654			(20,273)
communal loans		4,887			(5,313)
				111,074	**112,608**
Bonds and other fixed-income securities					
a) money-market instruments					
aa) issued by public-sector borrowers		166			20
including: rediscountable at Deutsche Bundesbank	88				(13)
ab) issued by other borrowers		2,088	2,254		3,016
including: rediscountable at Deutsche Bundesbank	140				(409)
					3,036
b) bonds and notes					
ba) issued by public-sector borrowers		12,160			14,157
including: rediscountable at Deutsche Bundesbank	9,877				(10,965)
bb) issued by other borrowers		24,453	36,613		23,848
including: rediscountable at Deutsche Bundesbank	11,698				(9,657)
					38,005
c) bonds and notes issued by Commerzbank			7,064		7,945
nominal amount €6,888m					
				45,931	**48,986**
Shares and other variable-yield securities				**7,523**	**7,186**
Subsidiaries, associated companies and trade investments (investments)				**623**	**1,326**
including: investment in banks		40			(728)
investment in financial-service institutions		0			(0)
Holdings in affiliated companies				**13,492**	**9,840**
including: in banks		705			(1,007)
in financial-service institutions		13			(13)
Assets held on a trust basis				**262**	**322**
including: loans at third-party risk		262			(322)
Intangible assets				**45**	**45**
Fixed assets				**494**	**612**
Bank's holding of its own shares accounting par value: €3.5m				**37**	**25**
Other assets				**12,007**	**10,384**
Deferred items					
a) difference arising from consolidation pursuant to Art. 250, (3) of the German Commercial Code – HGB			105		116
b) other deferred items			1,333		1,856
				1,438	**1,972**
			Total Assets	**273,192**	**281,729**

Liabilities and Shareholders' Equity (in € m)			31.12.2006	31.12.2005
Liabilities to banks				
a) payable on demand		20,949		19,269
b) with agreed periods or periods of notice		78,947		101,941
			99,896	**121,210**
Liabilities to customers				
a) savings deposits,				
aa) with agreed period of notice of three months	9,633			11,087
ab) with agreed period of notice of more than three months	468			525
		10,101		11,612
b) other liabilities				
ba) payable on demand	46,316			36,910
bb) with agreed periods or periods of notice	40,291			45,619
		86,607		82,529
			96,708	**94,141**
Securitized liabilities				
a) bonds and notes issued		28,607		23,977
b) other securitized liabilities		8,475		6,344
			37,082	**30,321**
including:				
ba) money-market instruments	7,792			(6,042)
bb) own acceptances and promissory notes outstanding	9			(75)
Liabilities on a trust basis			**262**	**322**
including: loans at third-party risk	262			(322)
Other liabilities			**13,362**	**13,645**
Deferred items				
a) difference arising from consolidation pursuant to Art. 340e, (2), 2 of the German Commercial Code – HGB		52		70
b) other deferred items		711		719
			763	**789**
Provisions				
a) provisions for pensions and similar commitments		1,391		1,351
b) provisions for taxation		188		137
c) other provisions		2,536		2,333
			4,115	**3,821**
Commerzbank Foundation			**39**	**33**
Subordinated liabilities			**8,782**	**5,046**
Profit-sharing certificates outstanding			**1,189**	**1,581**
including: maturing in less than two years	256			(647)
Fund for general banking risks			**705**	**705**
Capital and reserves				
a) subscribed capital (conditional capital €403m)		1,709		1,708
b) capital reserve		5,926		5,918
c) revenue reserves				
ca) legal reserve	3			3
cb) reserve for the Bank's own shares	37			25
cd) other revenue reserves	2,121			2,133
		2,161		2,161
d) distributable profit		493		328
			10,289	**10,115**
Total Liabilities and Shareholders' Equity			**273,192**	**281,729**
1. Contingent liabilities				
a) contingent liabilities from rediscounted bills of exchange credited to borrowers		3		2
b) liabilities from guarantees and indemnity agreements (see also Note 27)		24,632		23,202
			24,635	**23,204**
2. Other commitments				
c) irrevocable lending commitments		35,638		31,917
			35,638	**31,917**

notes

GENERAL INFORMATION

(1) Accounting principles

The annual financial statements of Commerzbank Aktiengesellschaft as of December 31, 2006, were prepared in accordance with the provisions of the German Commercial Code (*Handelsgesetzbuch* – HGB) in combination with the regulation on the accounting of banks (RechKredV) and with due regard to the provisions of the German Stock Corporation Act (*Aktiengesetz* – AktG).

The annual financial statements consist of the profit and loss account, the balance sheet and the notes. In addition, a management report has been included pursuant to Art. 289, HGB, which appears on pages 2 to 29.

Unless otherwise indicated, all the amounts are shown in millions of euros.

(2) Accounting policies

The cash reserve appears in nominal figures.

Debt issued by public-sector borrowers and bills of exchange rediscountable at central banks are shown in discounted form.

Claims on banks and claims on customers appear at their nominal values, with the loan-loss provisions that have been formed deducted. Differences between the acquisition cost and the nominal amount which have interest character are assigned to deferred items and recognized successively over their entire lifetime in interest income.

Bonds, notes and other fixed-income securities as well as shares and other variable-yield securities held for trading purposes are valued within the framework of a portfolio approach. Securities of the liquidity reserve appear – according to the rules for current assets, with the strict lower-of-cost-or-market principle applied – at the lower of acquisition cost or ascribed value. Securities held as fixed assets are treated in accordance with the diluted lower value principle.

In accordance with the rules for fixed assets, investments and holdings in affiliated companies are carried at cost. Where a permanent impairment of value seemed likely, we have made the relevant non-scheduled depreciation. Insofar as the reasons for the write-down no longer apply, we make a write-up amounting to no more than the amount written down.

We show expenses and income (write-ups) in net form – insofar as these stem from the portfolio held for trading purposes, they appear under Net income from financial transactions, while those from the liquidity portfolio are shown under Write-downs of and value adjustments to claims and certain securities, and additions to provisions for possible loan losses.

Securities-lending transactions are shown according to the principles of Art. 340b, (2), HGB, for genuine repurchase agreements. Lent securities remain as such in our balance sheet, whereas borrowed securities do not appear there.

Tangible fixed assets are carried at their cost of acquisition or production and, insofar as they are subject to wear and tear, they are regularly depreciated. For the underlying economic usefulness and depreciation rates, we consult the tables published by the fiscal authorities. Non-scheduled depreciation and write-offs are effected in the case of permanent impairments in value. Minor-value items are written off immediately in the year of acquisition.

We had made no use of the option to form a deferred tax item pursuant to Art. 274, (2), HGB, as of December 31, 2006.

Liabilities are shown in the balance sheet at the respective amounts to be repaid. The difference between the amount to be repaid and the amount paid out is recognized as a deferred item and appears on a pro-rata basis in the profit and loss account. We recognize long-dated discounted liabilities (zero-coupon bonds) at their present value.

Provisions for pensions are formed according to actuarial principles, applying a calculatory interest rate of 6% in a current value permissable for tax purposes and on the basis of the Heubeck guideline tables 2005 G. For measuring our obligations under early retirement and part-time schemes for older staff, we have recourse to methods permissible under tax rules. Provisions for taxes and other provisions are formed in accordance with reasonable commercial judgement. Provisions for contingent losses from pending transactions have been formed in the commercial balance sheet.

We provide for the risks associated with banking business by forming specific valuation allowances, country valuation allowances, global valuation allowances and provisions. We adopt a cautious provisioning approach, applying strict criteria. In addition, we have formed reserves pursuant to Art. 340f, HGB, and Art. 340g, HGB, to cover the special risks arising from banks' business activity.

Derivative financial instruments are used both to hedge balance-sheet items and for trading purposes. On the balance-sheet date, the derivative financial instruments are remeasured individually. However, to a reasonable extent, the results of remeasurement are netted against those for other transactions within the same valuation unit. If net expenses arise, a provision for contingent losses from pending transactions is formed.

The valuation of the trading portfolios is based on the risk-adjusted mark-to-market approach, taking into account a market price risk discount. The market risk to be deducted is calculated on the basis of a value-at-risk approach and is gauged such that an expected maximum loss arising from these trading books will not be exceeded with a high degree of probability within a defined period of time.

In the profit and loss account, we make use in the financial statements as of December 31, 2006, of the setting-off options pursuant to Art. 340c, (2), HGB and Art. 340f, (3), HGB.

In comparison to the previous year we have not undertaken any changes in accounting or valuation methods.

We have made adjustments in the order of presentation of the components in the year-end accounts in accordance with international usage. In analogy to the consolidated financial statements, the financial statements of Commerzbank AG for the first time show the profit and loss account before the balance sheet.

(3) Currency translation

Foreign currencies are translated into the reporting currency in accordance with the provisions of Art. 340h, HGB. We translate items in the balance sheet and the profit and loss account which are denominated in foreign currencies, as well as pending spot foreign-exchange transactions, at the middle spot rate on the balance-sheet date; forward foreign-exchange transactions are translated at the forward rate. Assets treated as fixed assets – investments and holdings in affiliated companies – which are not specially covered by either liabilities or forward transactions in the same currency are translated at the rate of the date of purchase. The financial statements of our branches abroad which are denominated in foreign currencies are translated into the reporting currency at the middle spot rate on the balance-sheet date. Pursuant to Art. 340h, (2), HGB, losses and gains from currency translation are reflected in the profit and loss account.

Currency translation rates (in units for €1)

Ft.	251.77000	HKD	10.24090	S$	2.02020
¥	156.93000	Rbl	34.68000	TWD	42.88000
Kc	27.48500	Rp.	11,844.44000	US$	1.31700
£	0.67150	Sfr.	1.60690	Zl	3.83100

NOTES TO THE PROFIT AND LOSS ACCOUNT

(4) Revenues, by geographical market

€ m	2006	2005
Germany	10,176	8,782
Europe (excl. Germany)	1,677	1,677
America	695	537
Asia	220	165
Africa	59	54
Total	**12,827**	**11,215**

The aggregate amount covers the following items of the profit and loss account: interest income, current income from shares and other variable-yield securities, investments, holdings in affiliated companies, commissions received, net income from financial transactions and other operating income.

(5) Auditors' fees

The auditors' fees (excluding turnover tax) of €6m, recognized as expenses in the 2006 financial year, break down as follows:

€1,000	2006	2005
Audit of financial statements	3,988	3,677
Provision of other certificates or assessments	1,996	1,099
Tax consulting services	2	33
Other services	196	560
Total	**6,182**	**5,369**

(6) Other operating income

Other operating income of €185m (previous year: €148m) mainly includes revenues from the reversal of provisions not related to lending and rental income.

(7) Other operating expenses

Other operating expenses of €364m (previous year: €145m) mainly include expenses from allocations to provisions not related to lending and also to rental and leasing charges for re-let premises.

(8) Administrative and agency services

The following major administration and agency services were performed for third parties:

- Custody account administration
- Agency services for insurance and home loan savings plans
- Portfolio management
- Fiduciary services
- Investment business
- Securities commission business

NOTES TO THE BALANCE SHEET

(9) Remaining lifetimes of claims and liabilities

€ m	31.12.2006	31.12.2005
Other claims on banks	**65,917**	**67,851**
with a remaining lifetime of		
less than three months	47,135	45,587
more than three months, but less than one year	14,160	18,631
more than one year, but less than five years	3,638	2,923
more than five years	984	710
Claims on customers	**111,074**	**112,608**
with indeterminate lifetime	9,124	9,848
with a remaining lifetime of		
less than three months	32,340	33,615
more than three months, but less than one year	8,650	9,603
more than one year, but less than five years	25,688	23,429
more than five years	35,272	36,113

Of the bonds, notes and other fixed-income securities in an amount of €45,931m (previous year: €48,986m), €9,406m will mature during the 2007 financial year.

€ m	31.12.2006	31.12.2005
Liabilities to banks		
with agreed lifetime or period of notice	**78,947**	**101,941**
with a remaining lifetime of		
less than three months	52,436	72,869
than three months, but less than one year	10,225	11,718
more than one year, but less than five years	5,219	5,537
more than five years	11,067	11,817
Savings deposits		
with agreed period of notice of more than three months	**468**	**525**
with a remaining lifetime of		
less than three months	41	42
more than three months, but less than one year	96	109
more than one year, but less than five years	269	286
more than five years	62	88
Other liabilities to customers		
with agreed lifetime or period of notice	**40,291**	**45,619**
with a remaining lifetime of		
less than three months	34,667	38,316
more than three months, but less than one year	1,895	2,727
more than one year, but less than five years	1,241	1,186
more than five years	2,488	3,390
Other securitized liabilities	**8,475**	**6,344**
with a remaining lifetime of		
less than three months	2,654	2,797
more than three months, but less than one year	5,510	3,469
more than one year, but less than five years	63	68
more than five years	248	10

Of the €28,607m of bonds and notes issued (previous year: €23,977m), €6,536m will fall due in the 2007 financial year.

(10) Marketable securities

	marketable		listed on a stock exchange		not listed	
€ m	**31.12.2006**	**31.12.2005**	**31.12.2006**	**31.12.2005**	**31.12.2006**	**31.12.2005**
Bonds, notes and other fixed-income securities	45,931	48,986	35,990	40,049	9,941	8,937
Shares and other variable-yield securities	5,692	6,570	5,338	6,241	354	329
Investments	582	1,260	523	1,044	59	216
Holdings in affiliated companies	11,441	8,014	–	–	11,441	8,014

Under shares and other variable-yield securities, different investment fund shares of €1,545m (previous year: €121m) are shown as a financial investment; these may be used solely to meet obligations arising from old-age pensions and part-time work schemes for older staff. During the financial year a further €1,424m were invested within the framework of a Contractual Trust Arrangement model (CTA).

(11) Relations with affiliated companies and equity investments

	Affiliated companies		Investments	
€ m	**31.12.2006**	**31.12.2005**	**31.12.2006**	**31.12.2005**
Claims on banks	33,690	5,832	295	8,640
Claims on customers	4,442	5,763	46	28
Bonds, notes and other fixed-income securities	4,066	1,247	281	1,036
Liabilities to banks	12,561	4,945	153	1,042
Liabilities to customers	4,774	212	35	25
Securitized liabilities	499	498	–	–
Liabilities on a trust basis at third-party risk	40	40	–	–

(12) Trust business

€ m	**31.12.2006**	**31.12.2005**
Claims on customers	262	322
Assets on a trust basis at third-party risk	**262**	**322**
Liabilities to banks	258	317
Liabilities to customers	4	5
Liabilities on a trust basis at third-party risk	**262**	**322**

(13) Changes in book value of fixed assets

€ m	Intangible assets	Fixed assets	Securities held as financial investments	Investments*)	Holdings in affiliated companies*)
Cost of acquisition/production as of 1.1.2006	**276**	**2,676**	**121**		
Changes in exchange rates	0	–3	–		
Additions in 2006	20	61	1,424		
Disposals in 2006	10	94	–		
Transfers	5	–5	–		
Cost of acquisition/production as of 31.12.2006	**291**	**2,635**	**1,545**		
Cumulative write-downs	246	2,141	–		
Additions in 2006	–	–	–		
Residual book values 31.12.2006	**45**	**494**	**1,545**	**623**	**13,492**
Residual book values 31.12.2005	**45**	**612**	**121**	**1,326**	**9,840**
Write-downs in 2006	25	171	–		

*) Use was made of the option to present an aggregate figure, pursuant to Art. 34, (3), RechKredV.

Of the land and buildings with an overall book value of €65m (previous year: €77m), the Bank uses premises of €53m (previous year: €64m) for its own purposes.

Office furniture and equipment of €429m (previous year: €535m) is included in fixed assets.

With reference to securities shown as financial investment we refer to our comments under note number 10.

(14) Other assets

Other assets of €12,007m (previous year: €10,384m) mainly comprise premiums paid for option contracts and interest-rate caps amounting to €9,206m (previous year: €7,903m) and claims arising from profit-transfer agreements with affiliated companies as well as payments in relation to security furnished.

(15) Subordinated assets

€ m	31.12.2006	31.12.2005
Claims on banks	76,413	80,736
of which: subordinated	871	472
Claims on customers	111,074	112,608
of which: subordinated	242	218
Bonds and notes		
a) of other issuers	24,453	23,848
of which: subordinated	309	228
b) own bonds	7,064	7,945
of which: subordinated	4	22
Shares and other variable-yield securities	7,523	7,186
of which: subordinated	88	56
Total	**1,514**	**996**

(16) Repurchase agreements

The book value of the securities pledged under repurchase agreements, which appear in the balance sheet, is €25,048m (previous year: €50,068m).

(17) The Bank's foreign-currency position

On the balance-sheet date, the aggregate amount of foreign-currency assets was €58,017m (previous year: €56,793m).

Foreign-currency liabilities amounted to €53,770m (previous year: €56,560m) on the balance-sheet date.

(18) Security pledged for own liabilities

The following assets were pledged as security for the above-mentioned liabilities:

€ m	31.12.2006	31.12.2005
Treasury bills	3	389
Claims on customers and banks	13,437	13,218
Securities	33,405	60,708
Total	**46,845**	**74,315**

Security was furnished in connection with genuine securities repurchase agreements to raise funds, for funds borrowed for fixed specific purposes and in connection with open-market transactions.

(19) Other liabilities

Other liabilities of €13,362m (previous year: €13,645m) mainly include premiums for option contracts and interest-rate caps amounting to €10,729m (previous year: €8,771m).

(20) Provisions

Other provisions were primarily formed for contingent losses from pending transactions of the trading portfolios, other administrative expenses, lending transactions and matters related to the personnel area.

Other provisions also include restructuring provisions of €279m (previous year: €81m).

(21) Subordinated liabilities

In the event of insolvency or winding-up, the subordinated liabilities of €8,782m (previous year: €5,046m) may only be repaid after the claims of all non-subordinate creditors have been met. Until such time, no repayment obligation or claims to interest payments exist.

The obligations arising from the bonds and notes are subordinated obligations of the issuer, which will be met on an equal basis with all the issuer's other subordinated liabilities.

In the financial year, interest paid on subordinated liabilities amounted to €401m (previous year: €306m).

As of December 31, 2006, the following fund-raising measures exceeded 10% of the aggregate amount for this item:

Code number	Currency	Amount in m	Interest rate	Maturity date	
WKN CB0.789	EURO	1,250	4.125%	13.09.2016	
WKN 002.155	EURO	1,000	5.012%	12.04.2036	hybrid bonds
WKN 002.156	GBP	800	5.905%	12.04.2036	hybrid bonds

The issuer cannot be obliged by creditors to make premature repayment. The conditions for subordinated obligations find application.

Conversion into capital or into another form of debt is not laid down in the contractual agreements.

(22) Profit-sharing certificates outstanding

Of the profit-sharing rights outstanding which appear in the balance sheet, €915m (previous year: €913m) count as liable equity funds as defined in Art. 10, (5a), KWG.

Repayments of the profit-sharing certificates are subordinate to the claims of other creditors, but take priority over distributions to shareholders.

If the distributable profit is not sufficient for a distribution to be made on the profit-sharing certificates, the distribution is reduced in accordance with the relevant conditions of the profit-sharing certificates.

31.12.2006 Volume in € m	Interest rate	Maturing on 31.12.	
320	6.38%	2010	Profit-sharing certificate including: €10m registered profit-sharing certificate WKN 803205
256	7.90%	2008	Profit-sharing certificate including: €5m registered profit-sharing certificate WKN 816120
255	EUR-12-month Libor +0.6%	2006	Profit-sharing certificate with warrants*) WKN 803625 *Warrant exercise period expired*
150	6.38%	2009	Profit-sharing certificate including: €12m registered profit-sharing certificate WKN 816406
100	7.00%	2009	Profit-sharing certificate WKN 816407
50	7.53%	2014	Registered profit-sharing certificate WKN 422785
25	7.56%	2014	Registered profit-sharing certificate WKN 422720
10	7.24%	2009	Registered profit-sharing certificate WKN 422714
10	7.50%	2009	Registered profit-sharing certificate WKN 423280
8	7.24%	2009	Registered profit-sharing certificate WKN 422721
5	7.52%	2009	Registered profit-sharing certificate WKN 423289
1,189			

*) Repayment on June 1, 2007

€ m	Profit-sharing rights outstanding **31.12.2005**	Matured in financial year	Profit-sharing rights outstanding **31.12.2006**
Total	**1,581**	**392**	**1,189**

(23) Equity

€ m		
Equity as of 31.12.2006		**10,289**
a) Subscribed capital		1,709
b) Capital reserve		5,926
c) Revenue reserves		2,161
Legal reserve	3	
Reserve for treasury shares	37	
Other revenue reserves	2,121	
d) Distributable profit		493

a) Subscribed capital

The subscribed capital of Commerzbank AG (share capital) of €1,708,638,206.60 was divided as of December 31, 2006, into 657,168,541 no-par-value shares (accounting par value per share: €2.60). The shares are issued in the form of bearer shares. No preferential rights or restrictions on the payment of dividends exist.

Capital Group Companies, Inc. (Los Angeles) has informed us that its share of voting rights in Commerzbank AG has exceeded 5% on September 7, 2006 and now amounts to 5.035%. In addition, Assicurazioni Generali S.p.A. owns a share of more than 5% of the voting rights in Commerzbank AG either directly or via its parent company Generali Group.

€	Subscribed capital
as of 31.12.2005	**1,707,712,648.20**
Issue of shares to employees	925,558.40
as of 31.12.2006	**1,708,638,206.60**

b) Capital reserve

In the capital reserve, premiums from the issue of Commerzbank AG shares are shown. Additional cash payments from the issue of conversion and option rights entitling holders to purchase Commerzbank AG shares are also recognized here.

€	Capital reserve
as of 31.12.2005	**5,917,988,232.87**
Issue of shares to employees	7,853,007.04
as of 31.12.2006	**5,925,841,239.91**

c) Revenue reserves

€ m	Total	Legal reserve	Reserve for treasury shares	Other revenue reserves
as of 31.12.2005	**2,161**	**3**	**25**	**2,133**
Changes in portfolio of treasury shares	–	–	12	–12
as of 31.12.2006	**2,161**	**3**	**37**	**2,121**

We draw attention to the comments under Note 26 with regard to the reserve for treasury shares.

(24) Authorized capital

Year of resolu-tion	Original authorized capital €m	Remaining authorized capital €	Expiring on	Pursuant to the Bank's Articles of Association
2004	225	225,000,000.00	April 30, 2009	Art. 4 (3)
2002	30	19,768,703.60	April 30, 2007	Art. 4 (4)
2004	225	225,000,000.00	April 30, 2009	Art. 4 (6)
2006	170	170,000,000.00	April 30, 2011	Art. 4 (7)
2006	200	200,000,000.00	April 30, 2011	Art. 4 (8)
2006	12	12,000,000.00	April 30, 2011	Art. 4 (9)
as of 31.12.2006	**862**	**851,768,703.60**		

Conditions for capital increases out of authorized capital result from the individual terms as follows (see Articles of Association of Commerzbank AG, as of August 23, 2006):

Art. 4 (3): The Board of Managing Directors is authorized, with the approval of the Supervisory Board, to increase the Company's share capital by April 30, 2009, through the issue of new no-par-value shares against cash, in either one or several tranches, but by a maximum amount of €225,000,000 (authorized capital 2004/I). On principle, shareholders are to be offered subscription rights; however, the Board of Managing Directors may, with the approval of the Supervisory Board, exclude shareholders' subscription rights to the extent necessary in order to offer to the holders of conversion or option rights, either already issued or still to be issued by Commerzbank Aktiengesellschaft or by companies in which Commerzbank Aktiengesellschaft directly or indirectly holds a majority interest (group companies as defined in Art. 18, (1), *Aktiengesetz*), subscription rights to the extent to which they would be entitled after they have exercised their conversion or option rights. In addition, any fractional amounts of shares may be excluded from shareholders' subscription rights.

Art. 4 (4): The Board of Managing Directors is authorized to increase, with the approval of the Supervisory Board, the share capital of the Bank by April 30, 2007, through the issue of new no-par-value shares against cash, in either one or several tranches, but by a maximum amount of altogether €19,768,703.60, thereby excluding the subscription rights of shareholders for the purpose of issuing these shares to the Bank's staff.

Art. 4 (6): The Board of Managing Directors is authorized, with the approval of the Supervisory Board, to increase the Company's share capital by April 30, 2009 through the issue of new no-par-value shares against cash or contributions in kind, in either one or several tranches, but by a maximum amount of €225,000,000 (authorized capital 2004/II). On principle, shareholders are to be offered subscription rights; however, the Board of Managing Directors may, with the approval of the Supervisory Board, exclude shareholders' subscription rights to the extent necessary to offer to the holders of conversion or option rights, either already issued or still to be issued by Commerzbank Aktiengesellschaft or by companies in which Commerzbank Aktiengesellschaft directly or indirectly holds a majority interest (group companies as defined in Art. 18, (1), *Aktiengesetz*), subscription rights to the extent to which they would be entitled after they have exercised their conversion or option rights. In addition, any fractional amounts of shares may be excluded from shareholders' subscription rights. Furthermore, the Board of Managing Directors may, with the approval of the Supervisory Board, exclude shareholders' subscription rights insofar as the capital increase is made against contributions in kind for the purpose of acquiring companies or interests in companies.

Art. 4 (7): The Board of Managing Directors is authorized, with the approval of the Supervisory Board, to increase the Company's share capital by April 30, 2011, through the issue of new no-par-value shares against cash, in either one or several tranches, but by a maximum amount of €170,000,000 (authorized capital 2006/I). The Board of Managing Directors may, with the approval of the Supervisory Board, exclude shareholders' subscription rights if the issue price of the new shares is not substantially lower than the market price of already listed shares offering the same conditions.

Art. 4 (8): The Board of Managing Directors is authorized, with the approval of the Supervisory Board, to increase the Company's share capital by April 30, 2011 through the issue of new no-par-value shares against cash or contributions in kind, in either one or several tranches, but by a maximum amount of €200,000,000 (authorized capital 2006/II).

On principle, shareholders are to be offered subscription rights; however, the Board of Managing Directors may, with the approval of the Supervisory Board, exclude shareholders' subscription rights to the extent necessary to offer to the holders of conversion or option rights, either already issued or still to be issued by Commerzbank Aktiengesellschaft or by companies in which Commerzbank Aktiengesellschaft directly or indirectly holds a majority interest (group companies as defined in Art. 18, (1), *Aktiengesetz*), subscription rights to the extent to which they would be entitled after they have exercised their conversion or option rights. In addition, any fractional amounts of shares may be excluded from shareholders' subscription rights. Furthermore, the Board of Managing Directors may, with the approval of the Supervisory Board, exclude shareholders' subscription rights insofar as the capital increase is made against contributions in kind for the purpose of acquiring companies or interests in companies.

Art. 4 (9): The Board of Managing Directors is authorized, with the approval of the Supervisory Board, to increase the Company's share capital by April 30, 2011 through the issue of new no-par-value shares against cash, in either one or several tranches, but by a maximum amount of €12,000,000 (authorized capital 2006/III), thereby excluding shareholders' subscription rights for the purpose of issuing shares to employees of Commerzbank Aktiengesellschaft and companies in which Commerzbank Aktiengesellschaft directly or indirectly holds a majority interest (group companies as defined in Art. 18, (1), *Aktiengesetz*).

In the financial year, authorized capital of €925,558.40 was used for the capital increase from the issue of shares to the Bank's staff.

Last years' Art. 4 (7) of the Articles of Association was deleted further to the decision of the Annual General Meeting dated May 17, 2006, since the authorized capital was practically fully utilized (€1.80 remaining) and thereby became redundant.

€	Remaining authorized capital **31.12.2005**	Added in financial year	Used in financial year	Expired in financial year	Remaining authorized capital **31.12.2006**
Total	**470,694,263.80**	**382,000,000.00**	**925,558.40**	**1.80**	**851,768,703.60**

(25) Conditional capital

€	Conditional capital **31.12.2005**	Added in financial year	Expired in financial year	Conditional capital **31.12.2006**	of which used conditional capital	of which available lines
Total	**403,000,000.00**	**–**	**–**	**403,000,000.00**	**–**	**403,000,000.00**

As resolved by the AGM of May 30, 2003, the Bank's share capital has been conditionally increased by up to €403m (Art. 4 (5) of the Articles of Association). Such conditional capital increase will only be effected to the extent that the holders or creditors of the convertible bonds, bonds with warrants or profit-sharing rights – carrying conversion or option rights – to be issued by May 30, 2008, by either Commerzbank Aktiengesellschaft or companies in which Commerzbank Aktiengesellschaft directly or indirectly holds a majority interest (group companies as defined in Art. 18 (1) of the German Companies Act – *Aktiengesetz*) exercise their conversion or option rights, or the holders or creditors of the convertible bonds or convertible profit-sharing rights to be issued by May 30, 2008 by either Commerzbank Aktiengesellschaft or companies in which Commerzbank Aktiengesellschaft directly or indirectly holds a majority interest (group companies as defined in Art. 18 (1) of the German Companies Act – *Aktiengesetz*) meet their obligation to exercise their conversion rights.

(26) Treasury shares

	Number of shares*) in units	Accounting par value in €1,000	Percentage of share capital
Portfolio on 31.12.2006	1,348,226	3,505	0.21
Largest total acquired during the financial year	3,368,985	8,759	0.51
Shares pledged by customers as collateral on 31.12.2006	3,187,556	8,288	0.49
Shares acquired during the financial year	151,049,562	392,729	–
Shares disposed of during the financial year	150,633,132	391,646	–

*) accounting par value per share €2.60

The AGM on May 17, 2006 authorized us, pursuant to Art. 71, (1), no. 7, AktG, to purchase and sell the Bank's shares for the purpose of securities trading. The authorization is valid until October 31, 2007. The aggregate amount of shares acquired for this purpose may not exceed 5% of the share capital of Commerzbank AG at the end of any given day.

Together with the Bank's own shares purchased for other reasons, which are held by Commerzbank Aktiengesellschaft or are attributable to it pursuant to Art. 71a et seq., *Aktiengesetz*, the shares purchased on the basis of this authorization may at no time exceed 10% of the share capital of Commerzbank Aktiengesellschaft.

The lowest price at which the Bank may buy one of its shares may not be more than 10% lower than the mean value for the share price (closing auction prices or similar successor prices for the Commerzbank share in XETRA trading or a similar successor system to the XETRA system on the Frankfurt Stock Exchange) on the last three trading days prior to the purchase; the highest price at which the Bank may buy one of its own shares may not be more than 10% higher than this amount.

The average purchase price in the past financial year was €27.36 (previous year: €21.31), and the average selling price €27.40 (previous year: €21.15). The surplus from the above mentioned turnover was booked as revenues for the financial year.

For the Commerzbank shares held in the Bank's portfolio at year-end, a reserve of €37m (previous year: €25m) was formed.

The AGM on May 17, 2006 also authorized us, pursuant to Art. 71, (1), no. 8, AktG, to purchase the Bank's shares, in one or in several tranches, for purposes other than securities trading. Together with the treasury shares purchased for other reasons, which are held by the Bank or are attributable to it pursuant to Art. 71a et seq., AktG, the shares purchased on the basis of this authorization may at no time exceed 10% of the share capital of Commerzbank AG.

The purchase shall be effected – as decided by the Board of Managing Directors – on the stock exchange, by means of a public offer to all shareholders or by means of an invitation to all shareholders to submit an offer to sell. The authorization is valid until October 31, 2007.

The Board of Managing Directors is authorized to use the acquired shares as follows:

aa) to sell them via the stock exchange or by means of a public offer to all shareholders;

bb) under certain additional conditions to sell them in ways other than via the stock exchange or by means of a public tender offer to all shareholders, provided that the repurchased shares are sold at a price that is not substantially lower than the market price of the shares of Commerzbank AG offering the same conditions at the time of sale;

cc) to sell them in ways other than via the stock exchange or by means of a public tender offer to all shareholders, where this is carried out for the purpose of acquiring companies or interests in companies;

dd) in the event of the shares being sold via the stock exchange or by means of a public tender offer to all shareholders, by granting subscription rights to the holders or creditors of convertible bonds or bonds with warrants or profit-sharing rights – with conversion or option rights – issued by Commerzbank AG or by companies in which Commerzbank AG directly or indirectly holds a majority interest to the extent of their entitlement to shares after they have exercised their conversion or option rights;

ee) to issue shares to employees of Commerzbank AG or of companies in which Commerzbank AG directly or indirectly holds a majority interest as defined in Art. 18, (1), *Aktiengesetz*);

ff) to redeem and cancel the shares without the need for a further AGM resolution.

Shareholders' subscription rights on own purchased shares are excluded in so far as the shares are subject to the aforementioned authorizations under lit. aa) to lit. ee).

We did not use this authorization in the 2006 financial year.

OTHER NOTES

(27) Contingent liabilities

€ m	31.12.2006	31.12.2005
Contingent liabilities from bills of exchange credited to borrowers	3	2
Liabilities from guarantees and indemnity agreements	24,632	23,202
of which: Credit guarantees	2,127	2,502
Other guarantees	17,035	14,048
Letters of credit	5,470	6,652
Total	**24,635**	**23,204**

(28) Other commitments

€ m	31.12.2006	31.12.2005
Irrevocable lending commitments	**35,638**	**31,917**
Book credits to customers	33,582	29,235
Book credits to banks	1,138	1,945
Credits by way of guarantee	761	569
Letters of credit	157	168

(29) Other financial commitments

On December 31, 2006, the existing commitments arising from rental and leasing agreements amounted to altogether €1,958m for subsequent years (previous year: €2,063m); €1,014m (previous year: €1,070m) of this relates to commitments to affiliated companies.

Payment commitments for equities, shares in private limited companies and other interests amounted to €0.4m (previous year: €1m) on the balance-sheet date.

Due to our participation in Liquiditäts-Konsortialbank mbH, Frankfurt, we are responsible for the payment of assessments of €38m (previous year: €38m) in accordance with Art. 26, GmbHG. In addition, a guarantee obligation of €135m (previous year: €135m) exists.

Under Art. 5, (10) of the statutes of the German banks' Deposit Insurance Fund, we have undertaken to indemnify the Association of German Banks for any possible losses incurred through measures to support banks in which we hold a majority interest.

(30) Letter of comfort

In respect of the subsidiaries listed below and included in the consolidated financial statements of our Bank, we ensure that, except in the case of political risks, they are able to meet their contractual liabilities.

Name	Registered office
AFÖG GmbH & Co. KG	Frankfurt am Main
BRE Bank Hipoteczny SA	Warsaw
BRE Bank SA	Warsaw
BRE Leasing Sp. z o.o.	Warsaw
Caisse Centrale de Réescompte, S.A.	Paris
CCR Actions	Paris
CCR Chevrillon-Philippe	Paris
CCR Gestion	Paris
comdirect bank Aktiengesellschaft	Quickborn
COMINVEST Asset Management GmbH	Frankfurt am Main
COMINVEST Asset Management Ltd.	Dublin
COMINVEST Asset Management S.A.	Luxembourg
Commerz (East Asia) Ltd.	Hong Kong
Commerz Asset Management Asia Pacific Pte Ltd.	Singapore
Commerz Equity Investments Ltd.	London
Commerz International Capital Management (Japan) Ltd.	Tokyo
Commerzbank (Eurasija) SAO	Moscow
Commerzbank (South East Asia) Ltd.	Singapore
Commerzbank (Switzerland) Ltd	Zurich
Commerzbank Asset Management Asia Ltd.	Singapore
Commerzbank Belgium S.A./N.V.	Brussels
Commerzbank Capital Markets Corporation	New York
Commerzbank Europe (Ireland)	Dublin
Commerzbank Europe Finance (Ireland) plc.	Dublin
Commerzbank International S.A.	Luxembourg
Commerzbank Overseas Finance N.V.	Curaçao
Commerzbank Zrt.	Budapest
CommerzLeasing und Immobilien AG	Düsseldorf
Erste Europäische Pfandbrief- und Kommunalkreditbank Aktiengesellschaft in Luxemburg	Luxembourg
Eurohypo Aktiengesellschaft	Eschborn
European Bank for Fund Services GmbH (ebase)	Haar near Munich
Gracechurch TL Ltd.	London
Hypothekenbank in Essen AG	Essen
Intermarket Bank AG	Vienna
OLEANDRA Grundstücks-Vermietungsgesellschaft mbH&Co., Objekt Jupiter KG	Düsseldorf
OLEANDRA Grundstücks-Vermietungsgesellschaft mbH&Co., Objekt Luna KG	Düsseldorf
OLEANDRA Grundstücks-Vermietungsgesellschaft mbH&Co., Objekt Neptun KG	Düsseldorf
OLEANDRA Grundstücks-Vermietungsgesellschaft mbH&Co., Objekt Pluto KG	Düsseldorf
OLEANDRA Grundstücks-Vermietungsgesellschaft mbH&Co., Objekt Uranus KG	Düsseldorf
OLEANDRA Grundstücks-Vermietungsgesellschaft mbH&Co., Objekt Venus KG	Düsseldorf
P.T. Bank Finconesia	Jakarta
Stampen S.A.	Brussels
Transfinance a.s.	Prague

(31) Forward transactions

€ m		Nominal amount			Fair value	
		Remaining lifetimes				
31.12.2006	under 1 year	1-5 years	more than 5 years	total	positive	negative
Foreign-currency-based forward transactions						
OTC products						
Foreign-exchange forward contracts	141,433	9,638	351	151,422	1,286	1,608
Interest-rate and currency swaps	36,097	87,391	59,841	183,329	2,374	1,751
Currency call options	14,600	6,203	2,467	23,270	461	–
Currency put options	16,359	7,003	503	23,865	–	400
Other foreign-exchange contracts	553	36	2,046	2,635	55	47
Products traded on a stock exchange						
Currency futures	19	–	–	19	0	0
Currency options	–	–	–	–	–	–
Total	**209,061**	**110,271**	**65,208**	**384,540**	**4,176**	**3,806**
Interest-based forward transactions						
OTC products						
Forward-rate agreements	128,599	1,253	–	129,852	40	45
Interest-rate swaps (same currency)	1,528,188	1,634,875	1,492,973	4,656,036	44,192	44,953
Interest-rate call options	14,006	38,233	31,885	84,124	1,951	–
Interest-rate put options	8,769	46,553	39,924	95,246	–	2,245
Structured interest-rate products	1,073	5,042	2,351	8,466	256	160
Products traded on a stock exchange						
Interest-rate futures	65,456	4,878	2,232	72,566	76	111
Interest-rate options	1,891	86	1,886	3,863	9	5
Total	**1,747,982**	**1,730,920**	**1,571,251**	**5,050,153**	**46,524**	**47,519**
Other forward transactions						
OTC products						
Structured equity/index products	8,791	13,450	4,476	26,717	998	2,091
Equity call options	10,521	17,287	1,176	28,984	4,073	–
Equity put options	12,698	17,628	950	31,276	–	4,336
Credit derivatives	41,324	86,636	10,978	138,938	871	1,019
Precious metal contracts	18	0	–	18	1	1
Other transactions	41	1	–	42	1	1
Products traded on a stock exchange						
Equity futures	5,498	5	–	5,503	57	35
Equity options	65,757	57,371	3,630	126,758	4,296	4,152
Other futures	130	16	–	146	2	4
Other options	26	20	–	46	3	3
Total	**144,804**	**192,414**	**21,210**	**358,428**	**10,302**	**11,642**
Total pending forward transactions						
OTC products	1,963,070	1,971,229	1,649,921	5,584,220	56,559	58,657
Products traded on a stock exchange	138,777	62,376	7,748	208,901	4,443	4,310
Total	**2,101,847**	**2,033,605**	**1,657,669**	**5,793,121**	**61,002**	**62,967**

The fair values of derivative financial instruments are derived, among other things, from interest rates and indices, as well as equity prices and currency rates. Various mark-to-market measurement methods are used to calculate the fair values of the derivatives which we show. Both the choice of measurement method and the selected influential parameters depend upon the individual product.

The fair values of forwards and swaps are calculated by means of the net present value method, taking into account discount factors worked out from the interest-rate curve of the relevant trading currency.

Plain vanilla and digital options are priced using the Black-Scholes model. In the case of exotic options, such as those with a path-dependent payoff, pricing models based on tree-building or the Monte Carlo methods are applied. For the volatilities used in measuring options, volatility surfaces are calculated from volatilities quoted in the market, wherever these are available. If it is not possible to calculate such volatilities, because – for example – not enough issues are quoted in the market, the historical volatility is calculated instead. Monte Carlo simulation is also used for structured transactions.

(32) The Bank's staff

On average, we employed 23,195 people (previous year: 23,467) last year, who were deployed as follows:

		total		male		female	
		FT	WF	FT	WF	FT	WF
AG in Germany	**2006**	19,411	21,245	9,609	10,516	9,802	10,729
	2005	19,662	21,491	9,772	10,681	9,890	10,810
AG abroad	**2006**	1,896	1,950	1,270	1,307	626	643
	2005	1,923	1,976	1,288	1,324	635	652
AG total	**2006**	21,307	23,195	10,879	11,823	10,428	11,372
	2005	21,585	23,467	11,060	12,005	10,525	11,462

The figures for full-time staff (FT) include part-time personnel with the time actually worked. The average time worked by part-time staff is 60% (previous year: 60%). The figures for the workforce (WF) also cover all part-time staff. Trainees are not included in the employee figures.

		total	male	female
Trainees	**2006**	1,255	502	753
	2005	1,147	459	688

(33) Remuneration and loans to board members

A detailed description of the principles of the remuneration system for the members of the Board of Managing Directors and members of the Supervisory Board is provided in the remuneration report. This forms part of the management report.

The total remuneration for the members of the Board of Managing Directors and the Supervisory Board under German commercial law and accounting provisions as at the respective year-ends is as follows:

	31.12.2006	31.12.2005
	€1,000	€1,000
Board of Managing Directors	23,069	15,368
Supervisory Board	1,977	1,616

The total remuneration for the Board of Managing Directors includes remuneration in kind granted within the standard scope (essentially remuneration in kind from vehicle use and insurance, taxes and social security contributions related to remuneration in kind) which for tax purposes has to be treated as benefits in money's worth.

The following table shows the remuneration in the form of basic salary, variable remuneration, pay-outs from long-term performance plans (LTPs) and other remuneration of the individual members of the Board of Managing Directors. The variable remuneration 2006 is shown subject to the annual financial statements of Commerzbank AG for the financial year being approved in their present form.

		Cash remuneration			**Other**[3]	**Total**
Amounts in €1,000		Basic salary	Variable remuneration[2]	Payment for the LTPs 2002 and 2003		
Klaus-Peter Müller	**2006**	760	2,736	900	80	4,476
	2005	760	2,280	0	86	3,126
Martin Blessing	**2006**	480	1,695	450	77	2,702
	2005	480	1,500	0	69	2,049
Wolfgang Hartmann	**2006**	480	1,350	450	109	2,389
	2005	480	1,500	0	134	2,114
Dr. Achim Kassow	**2006**	480	1,600	–	44	2,124
	2005	480	1,500	–	123	2,103
Bernd Knobloch[1]	**2006**	360	1,125	–	35	1,520
	2005	–	–	–	–	–
Klaus M. Patig	**2006**	480	1,500	0	65	2,045
	2005	480	1,500	0	60	2,040
Michael Reuther[1]	**2006**	120	375	–	2,885	3,380
	2005	–	–	–	–	–
Dr. Eric Strutz	**2006**	480	1,650	196	42	2,368
	2005	480	1,500	0	42	2,022
Nicholas Teller	**2006**	480	1,800	250	78	2,608
	2005	480	1,500	0	58	2,038
Total	**2006**	**4,120**	**13,831**	**2,246**	**3,415**	**23,612**
	2005[4]	**3,640**	**11,280**	**0**	**572**	**15,492**

1) Pro rata for the period since being appointed.
2) 2006 payable in 2007; less remuneration already received for performing board functions at consolidated companies (€543,000; previous year: €483,000).
3) "Other" includes payment in kind in the year under review (€546,000) and, for Mr. Reuther, an amount of €2,869,000 paid to him as special remuneration for payments he had to forego from his previous employer arising from restricted equity units and bonuses when he joined the Board.
4) The totals for 2005 do not include amounts for the member of the Board of Managing Directors Andreas de Maizière who left the Board in 2005 (pro rata fixed pay of €280,000 and payments in kind of €79,000).

The active members of the Board of Managing Directors had and have participated in the 2002-2006 long-term performance plans (LTPs) which are represent a share-based form of remuneration. In order to take part in the various plans, the members of the Board of Managing Directors on the basis of their individual decisions have invested in up to 2,500 shares of Commerzbank AG and the Chairman in up to 5,000 shares of Commerzbank AG per plan at current market prices.

The following table shows the number of shares (corresponding to a "virtual" option per share) per individual active member of the Board and per respective current LTP, as well as the fair values at the time the share-based payment was granted and the fair values as of the valuation date, December 31, 2006. Provisions for the LTPs 2004 to 2006 amounting to €2.0m have been formed for possible future payment liabilities to members of the Board on the basis of the fair values as of December 31, 2006. The allocation affecting profit and loss was €0.9m for all plans in the 2006 financial year.

Long-term performance plans

	2004			2005		
	Number of participating shares	Attributable fair value in € when the shares were granted	pro-rated on 31.12.2006	Number of participating shares	Attributable fair value in € when the shares were granted	pro-rated on 31.12.2006
Klaus-Peter Müller	5,000	120,900.00	419,500.00	5,000	137,300.00	186,200.00
Martin Blessing	2,500	60,450.00	209,750.00	2,500	68,650.00	93,100.00
Wolfgang Hartmann	2,500	60,450.00	209,750.00	2,500	68,650.00	93,100.00
Dr. Achim Kassow	–	–	–	2,500	68,650.00	93,100.00
Bernd Knobloch	–	–	–	–	–	–
Dr. Eric Strutz	2,500	60,450.00	209,750.00	2,500	68,650.00	93,100.00
Nicholas Teller	2,500	60,450.00	209,750.00	2,500	68,650.00	93,100.00

	2006		
	Number of participating shares	Attributable fair value in € when the shares were granted	pro-rated on 31.12.2006
Klaus-Peter Müller	5,000	174,550.00	24,550.00
Martin Blessing	2,500	87,275.00	12,275.00
Wolfgang Hartmann	2,500	87,275.00	12,275.00
Dr. Achim Kassow	2,500	87,275.00	12,275.00
Bernd Knobloch	2,500	87,275.00	12,275.00
Dr. Eric Strutz	2,500	87,275.00	12,275.00
Nicholas Teller	2,500	87,275.00	12,275.00

The potential remuneration stemming from participation in the LTPs 2004 to 2006 could deviate considerably from the figures shown in the table above or could even be completely eliminated, because the final pay-out amounts are not fixed until the end of the term of each LTP. The term of all plans initially amounts to three years. In so far as they are not in the money, they are initially prolonged by one year in each case. If no payment is made at that date, the plans are prolonged by a further year. After maximally five years all the plans are terminated either by a payment or through expiry.

The second pay-out for the LTP 2002 and the first pay-out for the LTP 2003, which were based on the values of the first quarter of 2006, resulted in a payment obligation for the amounts achieved under the terms of the plans. This pay-out was made in June 2006 in cash. These plans ended with a payment of €80.00 per share contributed for the LTP 2002 and €100.00 per share contributed for the LTP 2003.

The table below lists the payments to members of the Board of Managing Directors (€2,246 thousand in total) who participated in these plans regardless of their current board positions. The payments are contained in the total remuneration amount above.

Long-term performance plans

	2002		2003	
	Number of participating shares	Amount in €	Number of participating shares	Amount in €
Klaus-Peter Müller	5,000	400,000.00	5,000	500,000.00
Martin Blessing	2,500	200,000.00	2,500	250,000.00
Wolfgang Hartmann	2,500	200,000.00	2,500	250,000.00
Dr. Eric Strutz	1,200	96,000.00	1,000	100,000.00
Nicholas Teller	–	–	2,500	250,000.00

Payments to former members of the Board of Managing Directors and their surviving dependents amounted to €5,413 thousand in the 2006 financial year (previous year: €7,756 thousand).

For present and former members of the Board of Managing Directors or their surviving dependents the Bank has established a retirement benefit plan: assets to hedge this were transferred to Commerzbank Pensions-Trust e.V. as part of a contractual trust arrangement in the 2006 financial year.

As of December 31, 2006, the defined-benefit obligations for active board members totalled €16.4m and those for former members of the Board of Managing Directors or their surviving dependents, €50.9m. These are incorporated into the balance sheet of Commerzbank AG.

Remuneration for the members of the Supervisory Board is regulated in Art. 15 of the Articles of Association of Commerzbank AG. The members of our Supervisory Board will receive total remuneration of €1,661 thousand for the 2006 financial year (previous year: €1,393 thousand), provided that the AGM of Commerzbank AG resolves that a dividend of €0.75 be paid per no par-value share. The basic and remuneration and remuneration for serving on committees amounts to €1,426 thousand (previous year: €1,116 thousand). Altogether a total of €235 thousand (previous year: €277 thousand) was paid in attendance fees for participation in the meetings of the Supervisory Board and its four committees (Presiding, Audit, Risk and Social Welfare Committees) which met in the year under review. VAT of €316 thousand (previous year: €223 thousand) to be paid on the overall remuneration of the members of the Supervisory Board is refunded by Commerzbank AG.

All told, the Board of Managing Directors and Supervisory Board held no more than 1% of the issued shares and option rights of Commerzbank Aktiengesellschaft on December 31, 2006.

On the balance-sheet date, the aggregate amount of advances and loans granted, as well as contingent liabilities, was as follows:

	31.12.2006	31.12.2005
	€1,000	€1,000
Board of Managing Directors	1,261	1,559
Supervisory Board	1,413	1,504

Members of the Board of Managing Directors have been granted cash advances and loans with lifetimes ranging between until further notice and a due date of 2018 and at interest rates ranging between 3.00% and 12.00%. Collateral security is provided on a normal market scale, wherever necessary through mortgages and pledging of security holdings. The overall figure (€1,261 thousand) includes rental guarantees of €23 thousand, provided without a commission fee being charged; this is in line with the Bank's general terms and conditions for members of staff.

The loans and advances to members of the Supervisory Board – including those to employee representatives on this body – were granted with lifetimes ranging between until further notice and a due date of 2031 and at interest rates ranging between 4.88% and 6.70%. In line with market conditions, some loans were granted without collateral security, against mortgages or against the assignment of credit balances and life insurances.

(34) Corporate Governance Code

We have issued our declaration of compliance with the German Corporate Governance Code pursuant to Art. 161, German Stock Corporation Act – AktG and made it available on November 2, 2006, to shareholders on the internet (www.commerzbank.com).

The management report of the consolidated financial statements contains the 2006 corporate governance report.

(35) Seats on supervisory boards and similar bodies

Members of the Board of Managing Directors of Commerzbank AG

Information pursuant to Art. 285, no. 10, of the German Commercial Code (HGB)
As of December 31, 2006

a) Seats on mandatory supervisory boards

b) Seats on similar bodies

Klaus-Peter Müller

a) Linde AG*)

Steigenberger Hotels AG

within Commerzbank Group:

Eurohypo AG
Chairman

b) Assicurazioni Generali S.p.A.*)

KfW Kreditanstalt für Wiederaufbau

Liquiditäts-Konsortialbank GmbH

Parker Hannifin Corporation*)

within Commerzbank Group:

Commerzbank International S.A.
Chairman

Martin Blessing

a) AMB Generali Holding AG*)

Heidelberger Druckmaschinen AG*)

ThyssenKrupp Services AG

within Commerzbank Group:

Commerzbank Inlandsbanken Holding AG

CommerzLeasing und Immobilien AG
Deputy Chairman

b) **within Commerzbank Group:**

BRE Bank SA
Deputy Chairman

Wolfgang Hartmann

a) Vaillant GmbH

within Commerzbank Group:

Commerz Grundbesitz-Investmentgesellschaft mbH
1st Deputy Chairman

Eurohypo AG

Hypothekenbank in Essen AG

b) **within Commerzbank Group:**

Commerz Grundbesitz-gesellschaft mbH
Deputy Chairman

Dr. Achim Kassow

a) ThyssenKrupp Steel AG

Volksfürsorge Deutsche Sachversicherung AG

within Commerzbank Group:

comdirect bank AG
Chairman

cominvest Asset Management GmbH
Chairman

Commerz Grundbesitz-Investmentgesellschaft mbH
Chairman

Eurohypo AG

b) **within Commerzbank Group:**

BRE Bank SA

Commerzbank (Switzerland) Ltd
Chairman

Commerz Grundbesitz-gesellschaft mbH
Chairman

COMMERZ PARTNER Beratungs-gesellschaft für Vorsorge- und Finanzprodukte mbH
Chairman

Bernd Knobloch

a) **within Commerzbank Group:**

CommerzLeasing und Immobilien AG
Chairman

b) **within Commerzbank Group:**

Eurohypo Investment Banking Ltd.

Klaus M. Patig

a) MAN Ferrostaal AG

b) Korea Exchange Bank
Non-standing director

within Commerzbank Group:

Commerzbank Capital Markets Corporation

Commerz Securities (Japan) Company Ltd.
Chairman

Michael Reuther

a) **within Commerzbank Group:**

Hypothekenbank in Essen AG

b) **within Commerzbank Group:**

Erste Europäische Pfandbrief- und Kommunalkreditbank AG

*) listed company outside group (pursuant to no. 5.4.5, German Corporate Governance Code)

Dr. Eric Strutz

a) ABB AG

RWE Power AG

within Commerzbank Group:

comdirect bank AG

cominvest
Asset Management GmbH

Commerzbank Auslandsbanken
Holding AG
Chairman

Commerzbank Inlandsbanken
Holding AG
Chairman

Hypothekenbank in Essen AG
Chairman

b) Mediobanca – Banca di Credito
Finanziario S.p.A.*)

within Commerzbank Group:

Commerzbank International S.A.

Erste Europäische Pfandbrief-
und Kommunalkreditbank AG

Nicholas Teller

a) Deutsche Schiffsbank AG
Chairman

EUREX Clearing AG

EUREX Frankfurt AG

within Commerzbank Group:

Commerzbank Auslandsbanken
Holding AG

b) Air Berlin PLC
Non-executive director

EUREX Zürich AG

within Commerzbank Group:

BRE Bank SA

Commerzbank Capital
Markets Corporation
Chairman

Members of the Supervisory Board of Commerzbank AG

a) Seats on other mandatory supervisory boards

b) Seats on similar bodies

Dr. h.c. Martin Kohlhaussen

a) Bayer AG

Heraeus Holding GmbH
(until June 10, 2006)

HOCHTIEF AG
Chairman

Schering AG
(until September 13, 2006)

ThyssenKrupp AG

b) Verlagsgruppe
Georg von Holtzbrinck GmbH
(until May 24, 2006)

Uwe Tschäge

–

Hans-Hermann Altenschmidt

b) BVV Versorgungskasse

BVV Unterstützungskasse

Dott. Sergio Balbinot

a) Deutsche Vermögensberatung AG
(since March 29, 2006)

within group:

Aachener und Münchener
Lebensversicherung AG

Aachener und Münchener
Versicherung AG

AMB Generali Holding AG

b) **within group:**

Banco Vitalicio de España,
C.A. de Seguros y Réaseguros

Europ Assistance Holding

Generali Asia N.V.

Generali China Life
Insurance Co. Ltd.
Deputy Chairman

Generali España, Holding de
Entidades de Seguros, S.A.
Deputy Chairman

Generali Finance B.V.

Generali France S.A.
Deputy Chairman

Generali Holding Vienna AG
Deputy Chairman

Generali Investments SpA
(since March 22, 2006)

Generali (Schweiz) Holding

La Estrella S.A.

Migdal Insurance Co. Ltd.

Migdal Insurance Holdings Ltd.

Participatie Maatschappij
Graafschap Holland N.V.

Transocean Holding Corporation

Herbert Bludau-Hoffmann

–

Astrid Evers

–

Uwe Foullong

a) DBV-Winterthur Holding AG

DBV-Winterthur
Lebensversicherung AG

Daniel Hampel

–

Dr.-Ing. Otto Happel

a) GEA Group AG
(until May 4, 2006)

*) listed company outside group (pursuant to no. 5.4.5, German Corporate Governance Code)

Dr. jur. Heiner Hasford

a) Europäische Reiseversicherung AG
Chairman

Nürnberger Beteiligungs-AG*)

WMF Württembergische Metallwarenfabrik AG*)
(until November 24, 2006)

within group:

D.A.S. Deutscher Automobil Schutz – Allgemeine Rechtsschutz-Versicherungs-AG

ERGO Versicherungsgruppe AG

VICTORIA Lebensversicherung AG

VICTORIA Versicherung AG

b) **within group:**

American Re Corporation

Sonja Kasischke

–

Wolfgang Kirsch

b) COLLEGIUM GLASHÜTTEN Zentrum für Kommunikation GmbH

Commerz Business Consulting GmbH (formerly: Commerz Business Consulting AG)
Chairman

Werner Malkhoff

–

Prof. h.c. (CHN) Dr. rer. oec. Ulrich Middelmann

a) E.ON Ruhrgas AG

LANXESS AG*)

LANXESS Deutschland GmbH

RAG AG

RAG Beteiligungs-AG
(since September 14, 2006)

within group:

ThyssenKrupp Elevator AG
(since October 26, 2006)

ThyssenKrupp Stainless AG
Chairman

ThyssenKrupp Steel AG
Chairman

ThyssenKrupp Technologies AG
Chairman
(until September 30, 2006)

ThyssenKrupp Reinsurance AG
Chairman
(since December 1, 2006)

b) Hoberg & Driesch GmbH
Chairman

within group:

Grupo ThyssenKrupp S.A.
(until September 30, 2006)

ThyssenKrupp Acciai Speciali Terni S.p.A.

ThyssenKrupp (China) Ltd.

ThyssenKrupp Risk and Insurance Services GmbH
Chairman
(since December 1, 2006)

Klaus Müller-Gebel

a) comdirect bank AG
Deputy Chairman

Deutsche Schiffsbank AG

Eurohypo AG

Dr. Sabine Reiner

–

Dr. Erhard Schipporeit

a) Degussa AG

Deutsche Börse AG

E.ON IS GmbH

E.ON Ruhrgas AG

SAP AG

Talanx AG

b) E.ON Audit Services GmbH
Chairman

E.ON Risk Consulting GmbH
Chairman

E.ON UK plc

E.ON US Investments Corp.

HDI V.a.G.

Prof. Dr. Jürgen F. Strube

a) Allianz Deutschland AG
(since October 20, 2006)

Allianz Lebensversicherungs AG
(until October 19, 2006)

BASF AG
Chairman

Bayerische Motorenwerke AG

Bertelsmann AG
Deputy Chairman

Fuchs Petrolub AG
Chairman

Hapag-Lloyd AG

Linde AG

Dr. Klaus Sturany

a) Hannover Rückversicherung AG*)

Heidelberger Druckmaschinen AG*)

RAG AG

RAG Beteiligungs AG
(since September 14, 2006)

within group:

RWE Energy AG

RWE Power AG

RWE Systems AG
Chairman

b) Österreichische Industrieholding AG

within group:

RWE Npower Holdings plc

RWE Thames Water Plc
(until December 1, 2006)

*) listed company outside group (pursuant to no. 5.4.5, German Corporate Governance Code)

Dr.-Ing. E.h. Heinrich Weiss

a) Deutsche Bahn AG

HOCHTIEF AG*)
(until May 10, 2006)

Voith AG

within group:

SMS Demag AG
Chairman

b) Thyssen-Bornemisza Group

Bombardier Inc.*)

within group:

Concast AG (until Feb. 2006)
Vice-President

Former members of the Supervisory Board

Dr.-Ing. Ekkehard D. Schulz

a) AXA Konzern AG*)

Bayer AG*)

Deutsche Bahn AG
(until June 30, 2006)

MAN AG*)
Chairman

RAG AG
further Deputy Chairman

RAG Beteiligungs-AG
further Deputy Chairman
(since September 14, 2006)

RWE AG*) (since April 13, 2006)

TUI AG*) (until May 10, 2006)

within group:

ThyssenKrupp Automotive AG
Chairman

ThyssenKrupp Elevator AG
Chairman

ThyssenKrupp Services AG
Chairman

ThyssenKrupp Steel
Beteiligungen AG

b) **within group:**

ThyssenKrupp Budd Company

Employees of Commerzbank AG

Information pursuant to Art. 340a, (4), no. 1, of the German Commercial Code (HGB)
As of December 31, 2006

Frank Annuscheit

comdirect bank AG

Markus Beumer

cominvest
Asset Management GmbH

Commerz Grundbesitz-
Investmentgesellschaft mbH

CommerzLeasing und
Immobilien AG

Manfred Breuer

Schumag AG

Martin Fischedick

Borgers AG

Bernd Grossmann

Textilgruppe Hof AG

Herbert Huber

Saarländische Investitions-
kreditbank AG

René Kaselitz

cominvest
Asset Management GmbH

CommerzLeasing und
Immobilien AG

Andreas Kleffel

Adolf Ahlers AG

Klaus Kubbetat

Goodyear Dunlop Tires
Germany GmbH

Pensor AG

Michael Mandel

cominvest
Asset Management GmbH

Commerz Grundbesitz-
Investmentgesellschaft mbH

Erhard Modrejewski

Braunschweiger
Baugenossenschaft eG

Jörg Schauerhammer

Herlitz AG

Herlitz PBS AG

Michael Schmid

CommerzLeasing und
Immobilien AG

Dr. Armin Schuler

ae group ag

Arno Walter

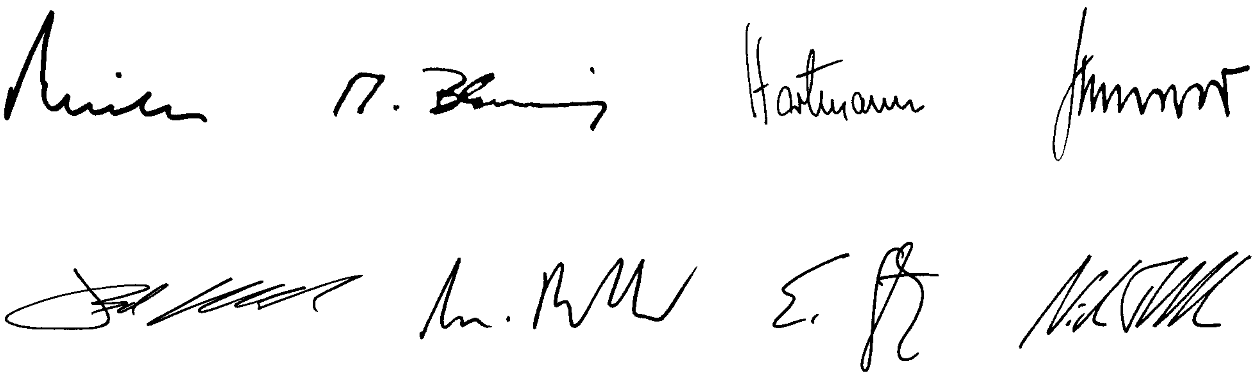
ConCardis GmbH

*) listed company outside group (pursuant to no. 5.4.5, German Corporate Governance Code)

(36) Holdings in consolidated companies

A full list of all holdings of Commerzbank AG is published as part of the notes in the electronic Federal Gazette *(elektronischer Bundesanzeiger)* and can also be accessed in the electronic company register. It can furthermore be found under our internet address: www.commerzbank.com/InvestorRelations/Financial reports.

Frankfurt am Main, March 6, 2007
The Board of Managing Directors



boards of commerzbank aktiengesellschaft

Supervisory Board

Dr. Walter Seipp
Honorary Chairman

Dr. h.c. Martin Kohlhaussen
Chairman

Uwe Tschäge*)
Deputy Chairman

Hans-Hermann Altenschmidt*)
Bank employee
Commerzbank AG

Dott. Sergio Balbinot
Managing Director
Assicurazioni Generali S.p.A.

Herbert Bludau-Hoffmann*)
Dipl.-Volkswirt
ver.di National Administration
Financial Services

Astrid Evers*)
Bank employee
Commerzbank AG

Uwe Foullong*)
Member of the
ver.di National Executive
Committee

Daniel Hampel*)
Bank employee
Commerzbank AG

Dr.-Ing. Otto Happel
Manager
Luserve AG

Dr. jur. Heiner Hasford
Member of the Board of
Managing Directors
Münchener Rückversicherungs-
Gesellschaft AG

Sonja Kasischke*)
Bank employee
Commerzbank AG

Wolfgang Kirsch*)
Bank employee
Commerzbank AG

Werner Malkhoff*)
Bank employee
Commerzbank AG

Prof. h.c. (CHN) Dr. rer. oec.
Ulrich Middelmann
Deputy Chairman of the
Board of Managing Directors
ThyssenKrupp AG
(since April 1, 2006)

Klaus Müller-Gebel
Lawyer

Dr. Sabine Reiner*)
Trade Union Specialist
Economic Policy
ver.di National Administration

Dr. Erhard Schipporeit
Consultant
(until January 31, 2007)

Dr.-Ing. Ekkehard D. Schulz
Chairman of the
Board of Managing Directors
ThyssenKrupp AG
(until March 31, 2006)

Prof. Dr. Jürgen F. Strube
Chairman of the
Supervisory Board
BASF Aktiengesellschaft

Dr. Klaus Sturany
Member of the Board of
Managing Directors
RWE Aktiengesellschaft

Dr.-Ing. E.h. Heinrich Weiss
Chairman
SMS GmbH

*) elected by the Bank's employees

Board of Managing Directors

Klaus-Peter Müller
Chairman

Martin Blessing

Wolfgang Hartmann

Dr. Achim Kassow

Bernd Knobloch
(since April 1, 2006)

Klaus M. Patig
(until January 31, 2007)

Michael Reuther
(since October 1, 2006)

Dr. Eric Strutz

Nicholas Teller

auditors' report

We have audited the annual financial statements, comprising the profit and loss account, the balance sheet and the notes to the financial statements, together with the bookkeeping system, and the management report of Commerzbank Aktiengesellschaft, Frankfurt am Main for the business year from January 1, 2006 to December 31, 2006. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Art. 317 of the German Commercial Code (*Handelsgesetzbuch* – HGB) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany – IDW) and additionally observed the International Standards on Auditing. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with (German) principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

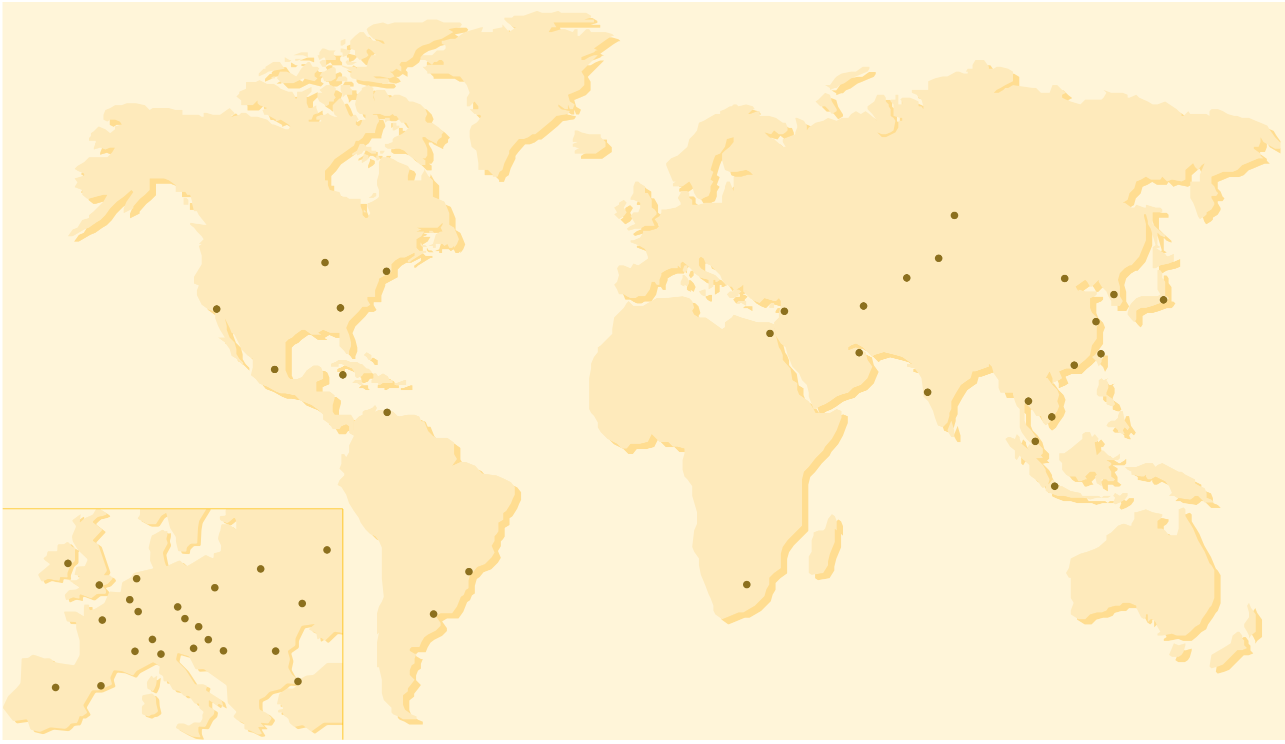
In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with (German) principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, March 7, 2007

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Rausch	Koch
(Wirtschaftsprüfer)	(Wirtschaftsprüfer)
(German public auditor)	(German public auditor)

commerzbank worldwide



Major foreign holdings

BRE Bank SA, Warsaw
Caisse Centrale de Réescompte, S.A., Paris
cominvest Asset Management S.A., Luxembourg
Commerzbank Capital Markets Corporation, New York
Commerzbank (Eurasija) SAO, Moscow
Commerzbank Europe (Ireland), Dublin
Commerzbank International S.A., Luxembourg
Commerzbank (South East Asia) Ltd., Singapore
Commerzbank (Switzerland) Ltd, Zurich/Geneva
Commerzbank Zrt., Budapest
Commerz (East Asia) Ltd., Hong Kong
Erste Europäische Pfandbrief- und Kommunalkreditbank AG, Luxembourg
P. T. Bank Finconesia, Jakarta

Foreign branches

Amsterdam · Atlanta (agency) · Barcelona · Bratislava · Brno (office) · Brussels · Chicago · Grand Cayman · Hong Kong · Johannesburg · London · Los Angeles · Madrid · Milan · New York · Paris · Prague · Shanghai · Singapore · Tokyo

Representative offices

Almaty · Bahrain · Bangkok · Beijing · Beirut · Belgrade · Brussels · Bucharest · Buenos Aires · Cairo · Caracas · Ho Chi Minh City · Istanbul · Jakarta · Kiev · Mexico City · Minsk · Moscow · Mumbai · Novosibirsk · São Paulo · Seoul · Taipei · Tashkent · Tehran · Zagreb

Head office
Commerzbank Aktiengesellschaft
Kaiserplatz
Frankfurt am Main
Postal address:
60261 Frankfurt
Telephone (+49 69) 136-20
Fax (+49 69) 28 53 89
info@commerzbank.com
www.commerzbank.com

The Group annual report (in accordance with the International Financial Reporting Standards) appears in German and English, also in an abridged version.

COMMERZBANK

/ www.commerzbank.com /