COMMERZBANK

Disclosure Report 2010

Disclosure in accordance with the German Solvency Regulation as at December 31, 2010

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Contents

3 Introduction

6 Equity capital

- 6 Capital structure
- 8 Characteristics of equity instruments
- 11 Capital requirements

15 Risk-oriented overall bank management

- 15 Risk management organization
- 15 Risk strategy and risk management
- 16 Risk-taking capability and stress testing

18 Specific risk management

- 18 Default risk
  - 18 Credit risk strategy
  - 19 Risk quantification
  - 29 Risk management
  - 33 Summary of default risks
  - 36 Default risks arising from derivative positions
  - 38 Investments in the banking book
  - 41 Securitizations
- 47 Intensive care
- 53 Market risk
  - 53 Market risk strategy
  - 53 Risk quantification
  - 56 Risk management
  - 56 Interest rate risk in the banking book
- 57 Liquidity risk
  - 57 Liquidity risk strategy
  - 58 Risk quantification
  - 59 Risk management
- 60 Operational risk
  - 60 OpRisk strategy
  - 61 Risk quantification
  - 62 Risk management
- 63 Other risks

64 Appendix

- 64 Consolidation matrix and material Group entities
- 69 List of tables
- 70 List of abbreviations

Due to rounding, numbers and percentages presented throughout this report may not add up precisely to the totals provided.

Introduction

Commerzbank Aktiengesellschaft is Germany's second largest bank, one of its leading banks for private and corporate customers and a major financial institution within Europe. In rolling out our new brand across the whole of Germany in June 2010, we are making a clear mark as the new Commerzbank. Our customers have around 1,200 branches at their disposal, the densest network of any private-sector bank in Germany. Today, the new Commerzbank serves a total of more than 15 million private and corporate customers worldwide, of which around 11 million are in Germany. Commerzbank aims to continue strengthening its position as market leader in the private and corporate customer segments in Germany.

The focus of our activities is on the four segments Private Customers, Mittelstandsbank, Corporates & Markets, and Central & Eastern Europe, which – as our core bank – are at the heart of the new Commerzbank. These are supplemented by asset based lending in the Real Estate, Public and Ship Finance as well as Real Estate Asset Management areas of the Asset Based Finance segment, in addition to portfolios that do not form part of core business in the Portfolio Restructuring Unit segment. Each of the segments is managed by a member of the Board of Managing Directors.

All staff and management functions are contained in Group Management: Group Development & Strategy, Group Communications, Group Legal, Group Treasury, Group Human Resources, Group Integration, Group Finance, Group Finance Architecture, Group Compliance, Group Audit and the central risk functions. The support functions are provided by Group Services. These include Group Information Technology, Group Organisation, Group Banking and Market Operations, Group Security and Group Support. The responsibilities of the Board of Managing Directors are also clearly defined for these functional units. For external reporting purposes the staff, management and support functions are combined in the division Others and Consolidation.

On the domestic market, Commerzbank Aktiengesellschaft manages a nationwide branch network serving all customer groups from its headquarters in Frankfurt am Main. Its major German subsidiaries are Eurohypo AG, comdirect bank AG, Commerz Real AG and Deutsche Schiffsbank AG. Outside of Germany, the Bank has 8 significant subsidiaries, 25 operational foreign branches and 32 representative offices in 50 countries and is represented in all major financial centres such as London, New York, Tokyo, Hong Kong and Singapore. However, the focus of the Bank's international activities is in Europe.

At year-end 2010, Commerzbank Group employed 59,101 members of staff.

A comprehensive review of the Commerzbank Group may be found in the 2010 Annual Report.

Objectives of the disclosure report

In this report Commerzbank Aktiengesellschaft as the ultimate parent company of the regulated banking group as defined by section 10a.1 sentence 1 of the German Banking Act (Kreditwesengesetz KWG) is complying with the disclosure requirements of section 26a.1 KWG in conjunction with sections 319 to 337 of the German Solvency Regulation (Solvabilitätsverordnung SolvV) as at the reporting date December 31, 2010.

This report is intended to give the reader a detailed insight into Commerzbank's current risk profile and risk management. In particular, it contains information on:

- Commerzbank Group's structure from both a regulatory and accounting perspective
- The Group’s capital structure
- Commerzbank Group's general risk management system
- The Group's risk management in respect of specific types of risk.

The report may also be seen as complementary to the 2010 Annual Report, as it – in contrast to the annual report - primarily focuses on the supervisory perspective.

Scope

The basis for this disclosure report is the group of companies consolidated for regulatory purposes. The companies consolidated for regulatory purposes only include those carrying out banking and other financial business. Pursuant to section 10a KWG, the consolidated group consists of a domestic parent company and its affiliated companies. The aim of regulatory consolidation is to prevent multiple use of capital that in fact exists only once by subsidiary companies in the financial sector. The companies consolidated under IFRS, by contrast, comprise all the companies controlled by the ultimate parent company.

In accordance with the materiality principle set out in section 26a.2 KWG in conjunction with section 320.1 SolvV, this disclosure relates to the largest entities within Commerzbank Group. This enables the disclosure report to focus on the information that is most material. Compared to the previous year the number of material entities reduced from 21 to 15. Due to the sale of investments Allianz Dresdner Bauspar AG, KB Channel Island Holdings Ltd. Group, KBPB Ltd. Group as well as Reuschel & Co. Kommanditgesellschaft do not any more belong to the regulatory group of consolidated companies. Dresdner Bank Luxembourg S.A. was merged into Commerzbank International S.A. and Dresdner Bank ZAO into Commerzbank Eurasija SAO. Both are thus not any more classified as material companies. Dresdner Bank Brasil S.A. and Dresdner Kleinwort Holdings LLC are excluded from the disclosure for materiality reasons. Commerz Markets LLC entered the disclosure 2010.

For the purposes of determining the remit of this report, materiality is defined such that the entities included in the report must cover at least 95% of default, market and operational risks on a cumulative basis, in each case measured in relation to the capital requirement for the group of companies consolidated for regulatory purposes. The contribution to the Commerzbank Group's total capital requirement is measured at sub-group level for the entities included. The companies included in this disclosure report account for approximately 99% of Commerzbank Group’s total capital requirement. Details relating to the type

of consolidation of the various units in Commerzbank Group as well as the business activities of the units included are shown in the Appendix.

The information in this disclosure report generally relates to the 15 group companies listed above. Where this is not the case (e.g. with regard to the capital structure), it is explicitly stated. As of the 2010 disclosure report we are also providing prior-year figures for selected indicators. However the group of consolidated companies has not been restated retroactively for the prior year figures.

With the exception of Commerz Finanz GmbH (former Dresdner-Cetelem Kreditbank GmbH) the companies included in the disclosure report are all fully consolidated, both for regulatory purposes and under IFRS. As a qualified minority participation Commerz Finanz GmbH is consolidated pro rata for regulatory purposes. For accounting purposes, it is consolidated at equity.

Waiver rule pursuant to section 2a.1 KWG

The waiver rule pursuant to section 2a.1 KWG allows subsidiary companies in a banking group to be exempted from the requirements relating to capital adequacy, large loan exposures and internal control systems at single-entity level provided that both the parent and the subsidiary company have their registered office in Germany.

This rule is based on the assumption that the subsidiary is closely integrated within the group structure. This is assumed to be the case if the parent company has a "controlling interest" in the subsidiary company[1]. In addition, the company being exempted must be closely integrated into the group-wide risk management and controlling processes of the parent company.

Eurohypo AG and comdirect bank AG are fully integrated into the internal processes and risk management of Commerzbank Aktiengesellschaft as the ultimate parent company of the banking group. This applies in particular to the methods used, risk management, monitoring of operations, management and reporting. The opportunity granted under the waiver rule pursuant to section 2a.1 KWG was used to exempt the two companies at single-entity level from the above requirements.

Pursuant to section 2a.6 KWG, parent companies within the group of companies consolidated for regulatory purposes that have their registered office in Germany are also entitled to this exemption. The opportunity this offered for Commerzbank Aktiengesellschaft as the ultimate parent company of Commerzbank Group to be exempted from the requirements at single-entity level has been utilized. Commerzbank Aktiengesellschaft is integrated in Commerzbank Group's management system and there are no legal or other obstacles to the transfer of capital to Commerzbank Aktiengesellschaft.

Application of the waiver rule has been reported to the Bundesbank and BaFin together with evidence of compliance with the requirements. In the spring of 2010 we again demonstrated and provided documentation on the fulfilment of the waiver criteria by Commerzbank Aktiengesellschaft, Eurohypo AG and comdirect bank AG.

[1] A "controlling interest" exists in accordance with section 2a.1.1 KWG if the parent company either holds a majority of the subsidiary's voting rights or has the right to appoint the majority of its management.

Equity capital

Capital structure

Equity as reported in the financial statements is based on the specifications of the applicable accounting standards. In the case of the Commerzbank Group these are the International Financial Reporting Standards (IFRS). Capital for regulatory purposes, by contrast, is determined in accordance with the regulations of the KWG. Equity capital is relevant for determining the adequacy of regulatory capital. It serves as a cushion against risks taken (especially default risk, operational risk and market risks) and thus has a guarantee and confidence-building function for bank creditors. It also safeguards the institutions' ability to do business on an ongoing basis.

Capital is composed of core capital (Tier 1) as defined in section 10.2a KWG, supplementary capital (Tier 2) as defined in section 10.2b KWG and Tier 3 capital as defined in section 10.2c KWG. Core capital and supplementary capital together comprise the liable equity capital available to cover risks. The supplementary capital may not exceed the core capital. In the Commerzbank Group core capital, the qualitatively highest-ranking component of capital mainly consists of subscribed capital, reserves and silent participations. Supplementary capital primarily includes long-term subordinated liabilities as defined in section 10.2b.5 KWG. Tier 3 capital, viewed as a lower-quality component of capital, consists of short-term subordinated liabilities. Tier 3 capital may only be used to back market risks.

Modified capital consists of total liable capital (core capital plus supplementary capital) and Tier 3 capital minus the deduction items.

Table 1: Equity structure

Equity position | €m	31.12.2010	31.12.2009
Total core capital pursuant to sec. 10.2a KWG (total Tier 1)	**31,727**	**29,520**
Core capital without hybrid instruments/additional Tier 1 (core Tier 1)	26,728	24,524
Subscribed capital	3,047	3,071
Capital reserve and retained earnings (incl. minority interests and year-end-result)	11,168	9,008
Other core capital - silent participation (SoFFin)	16,428	16,428
Items 100 % deducted from Tier 1 capital pursuant to sec. 10.2a KWG (such as negative revaluation reserve, goodwill, intangible assets)	−2,892	−2,983
50% deduction from Tier 1 capital pursuant to sec. 10.6.and 6a KWG (deductible investments in financial sector, allowance loss, securitization positions not risk weighted)	−1,023	−1,000
Other capital[1]	4,999	4,996
thereof unlimited and without incentive to redeem	1,841	1,804
thereof limited or with incentive to redeem	3,158	3,192
Total supplementary capital pursuant to sec. 10.2b KWG (Tier 2)	**9,130**	**11,893**
Capital pursuant to sec. 10.5 KWG (former: profit sharing certificates)	674	2,405
Long-term subordinated liabilities pursuant to sec. 10.5a KWG	9,328	10,338
Revaluation reserve / unrealized profits from securities positions	148	148
50% deduction from Tier 2 capital pursuant to sec. 10.2b.2, 10.6.and 6a KWG	−1,020	−998
thereof impairment losses and expected losses pursuant to sec. 10.6a.1 KWG	−374	−291
Total Tier 3 capital pursuant to sec. 10.2c KWG	**0**	**24**
Modified available capital	**40,857**	**41,437**

[1] Core capital pursuant to KWG (old) and not adhering to new requirements but allowable until 2040 to a limited extend (grandfathering pursuant to section 64m.1 KWG).

For Commerzbank as a banking group as defined in section 10a KWG the capital relevant to the determination of regulatory capital is based on the consolidated financial statements under IFRS. To reconcile the requirements for regulatory capital with the slightly different amounts reported in the financial statements, capital as determined under IFRS was adjusted with the aid of so-called prudential filters. The prudential filters are used in accordance with the Consolidated Financial Statements Reconciliation Regulation.[1]

[1] The Consolidated Financial Statements Reconciliation Regulation (Konzernabschlussüberleitungsverordnung) dated July 22, 2009.

Table 2: Reconciliation of reported equity with eligible capital

31.12.2010 €m	Core capital/ equity	Supplementary/ subordinated capital	Total
Reported in balance sheet	28,658	12,910	41,568
Revaluation reserve	1,731		1,731
Cash flow hedge reserve	1,005		1,005
Non-controlling interests not to be shown in core capital (incl. revaluation reserve, cash flow hedge reserve), changes in consolidated companies and goodwill	−1,775		−1,775
Other capital subject to a 15% limit	3,158		3,158
Other capital subject to a 35% limit	1,841		1,841
Reclassification from silent participations to other capital	−750		−750
Parts of subordinated capital not eligible due to limited residual term		−1,918	−1,918
Latent revaluation reserves for securities		148	148
Other differences	−2,141	−2,010	−4,151
Eligible equity	**31,727**	**9,130**	**40,857**

In contrast to the materiality principle that applies in general in this disclosure report, where information is presented in respect of the 15 largest units within the Commerzbank Group, the capital structure table shows the equity capital of all of the companies consolidated for regulatory purposes. This is in order to provide an overview of the entire capital available within the Group. These own funds form the basis for determining the level of capital adequacy reported to the Bundesbank.

Characteristics of equity instruments

Own funds raised externally are described as equity instruments. Commerzbank Group uses various instruments to raise and manage its capital.

In contrast to the equity structure table, the following tables do not take account of the impact of the revaluation effects resulting from the purchase price allocation at the time of the Dresdner Bank integration on the individual equity instruments.[1]

Equity instruments are accounted for at amortized cost. Premiums and discounts are recognized under net interest income over the lifetime of the instrument.

[1] Details on revaluation effects may be found in the 2009 Annual Report.

Subscribed capital

The subscribed capital (share capital) of Commerzbank Aktiengesellschaft consists of no-par-value shares, each with an accounting par value of €2.60. The shares are issued in bearer form. Subscribed capital stood at €3,072m before deducting treasury shares and €3,047m after deduction of treasury shares as at the reporting date of December 31, 2010. There are no preferential rights or restrictions on the payment of dividends at Commerzbank Aktiengesellschaft. All shares in issue are fully paid up.

Other core capital – silent participations (SoFFin)

The Financial Market Stabilization Fund (SoFFin) provided Commerzbank with silent participations of €8.2bn each as at December 31, 2008 and June 4, 2009. Details regarding the conditions of the silent participations may be found in the 2010 Annual Report on page 281. No interest was incurred in 2010 as the conditions for the payment of interest were not met. Silent participations totalled €16.4bn at year-end 2010. The terms of the silent participations are unlimited.

Other capital

Hybrid financial instruments (other capital) are a hybrid between debt and equity, enabling investors to find an optimal balance between the desire to take on risk and the desire to bind the company's management.

At the end of 2010, the following material hybrid equity instruments were in issue:

Table 3: Material instruments of other capital

Issue date	€m	m currency		Issuer	Interest rate %	Maturity	Callable on
2006	1,000	1,000	EUR	Commerzbank Capital Funding Trust I	5.012	unlimited	12.4.2016
2006	1,000	1,000	EUR	Commerzbank AG	6.932	unlimited	31.12.2016
2006	929	800	GBP	Commerzbank Capital Funding Trust II	5.905	unlimited	12.4.2018
2009	750	750	EUR	Commerzbank AG	9.000	unlimited	8.6.2014
1999	748	1,000	USD	Dresdner Capital LLC I	8.151	2031	30.6.2029
2003	600	600	EUR	Eurohypo Capital Funding Trust I	6.445	unlimited	23.5.2013
2006	300	300	EUR	Commerzbank Capital Funding Trust III	2.524	unlimited	18.12.2012
2005	300	300	EUR	Eurohypo Capital Funding Trust II	3.486	unlimited	8.3.2011

Long-term subordinated liabilities

The long-term subordinated liabilities are Tier 2 capital as defined by section 10.5a KWG. The claims of creditors to repayment of these liabilities are subordinate to those of other creditors. The issuer cannot be obliged to repay the liability before the maturity date. In the event of insolvency or winding-up, subordinated liabilities may only be repaid after the claims of all senior creditors have been met. Commerzbank has call options on some of its subordinated liabilities.

At end-2010, the following material long-term subordinated liabilities were outstanding:

Table 4: Material long-term subordinated liabilities

Issue date	€m	m currency		Issuer	Interest rate %	Maturity
2006	1250	1250	EUR	Commerzbank AG	4.125	2016
2007	750	750	EUR	Commerzbank AG	5.625	2017
2007	600	600	EUR	Commerzbank AG	1.815[1]	2017
2001	500	500	EUR	Commerzbank AG	6.125	2011
2008	500	500	EUR	Commerzbank AG	6.250	2014
2009	374	500	USD	Commerzbank AG	7.250	2015
2001	250	250	EUR	Commerzbank AG	6.100	2011
2003	250	250	EUR	Eurohypo AG	5.000	2016
2009	250	250	EUR	Commerzbank AG	5.000	2017
2003	220	220	EUR	Eurohypo AG	5.000	2014
2006	225	300	CAD	Commerzbank AG	4.500	2016
1999	174	150	GBP	Commerzbank AG	6.625	2019
2002	150	150	EUR	Eurohypo AG	5.750	2012

[1] Floating interest rate.

Capital pursuant to section 10.5 KWG

Capital pursuant to section 10.5 KWG forms part of the Bank's liable equity. This component of capital participates in losses in full. The claim for redemption of capital may not be due in less than two years time. Interest payments are made only if the issuing institution achieves a distributable profit. The claims of holders to the repayment of principal are subordinate to those of other creditors.

At end-2010, the following material capital instruments pursuant to section 10.5 KWG were in circulation:

Table 5: Material capital pursuant to section 10.5 KWG

Issue date	€m	m currency		Issuer	Interest rate %	Maturity
2006	750	750	EUR	Commerzbank AG	5,386	2015

Restrictions on or significant obstacles to the transfer of funds or equity over and above those contained in German law or EU directives currently exist within Commerzbank Group only to a limited extent with respect to Commerzbank Europe (Ireland), where capital transfers to entities belonging to the Group are subject to prior consent by the Irish supervisory authority.

Capital requirements

Capital requirements and the resulting total/core capital ratios are calculated for all entities that are not exempted from calculating capital at single-entity level under the waiver rule pursuant to section 2a.1 and 6 KWG. The institutions subject to the waiver, as explained above, are Commerzbank Aktiengesellschaft, Eurohypo AG and comdirect bank AG, although Eurohypo AG as a separate sub-group is required to report for the Eurohypo Group. In addition, Commerz Real AG as financial company and Commerz Markets LLC as non-regulated company are exempted from calculating their capital ratios.

Capital ratios of material Group entities

The capital requirements and capital ratios are shown in the table at sub-group level.

Table 6: Capital ratios of material Group entities

Company	Capital requirements €m	Overall capital ratio %	Core capital ratio %
Eurohypo AG	4,981	14.2	10.4
BRE Bank S.A.	1,135	15.9	10.4
Deutsche Schiffsbank AG	679	13.5	9.5
Commerzbank International S.A.	184	41.6	20.8
Commerzbank Europe (Irland)	160	18.7	18.7
Commerz Finanz GmbH	140	14.6	14.6
Public Joint Stock Company "Bank Forum"	130	28.4	20.3
Erste Europäische Pfandbrief- und Kommunalkreditbank Aktiengesellschaft in Luxemburg	73	38.8	35.2
Commerzbank Zrt.	50	13.6	11.2
Commerzbank (Eurasija) SAO	50	53.5	45.4

The above table shows that all relevant entities are currently reporting an adequate overall and core capital base. The total capital ratio gives the ratio of total eligible capital to the sum of the capital requirements for default, market and operational risks multiplied by 12.5. The core capital ratio relates the core capital for solvency purposes to the sum of the capital requirements for default, market and operational risks multiplied by 12.5.

The capital requirement for the entire Commerzbank Group amounts to €21,400m, representing a total capital ratio of 15.3% and a core capital ratio of 11.9%.

There were significant changes in capital requirements and capital ratios for some units compared with 2009:

- Capital requirements of BRE Bank S.A. increased by approximately 3.6% compared to the previous year. At the same time, additional equity instruments (Tier 1) of around Polish zloty 2bn (around €500m) were issued causing the available equity to rise. The total capital ratio increased from 11.5% to 15.9% (core capital ratio from 6.6% to 10.4%).
- Last year Dresdner Bank S.A. was merged into Commerzbank International S.A., whereby RWA as well as available capital increased. Alongside Commerzbank International S.A. reduced its loan volume in 2010 and transferred a part of its loan book to the subsidiary in Luxemburg. Subsequently the total capital ratio rose from 25.4% to 41.6% (core capital ratio from 12.8% to 20.8%).
- The Public Joint Stock Company "Bank Forum" raised fresh equity of Ukrainian approximately hryvnia 3.593m (approximately €330m) in 2010. The total capital ratio rose from 16.7% to 28.4% (core capital ratio from 9.0% to 20.3%).
- On the one hand, the improvement of the capital ratios at Commerzbank (Eurasija) SAO is due to a reduction of RWA. On the other hand, the merger with Dresdner Bank ZAO led to an increase of eligible capital. Furthermore, the calculation method of the total capital ratio was changed according to Basel II methodology. The total capital ratio rose from 28.9% to 53.5% (core capital ratio from 25.3% to 45.4%).

There was no under-capitalization of subsidiaries subject to the deduction method during the period under review.

Capital requirements by risk type

The capital requirements set out here relate to the 15 material consolidated units included in the disclosure report and the figures are the same with regard to content as in the capital adequacy reports submitted to the Deutsche Bundesbank under Pillar 1.

The regulatory capital adequacy requirement is shown for each risk type, broken down into the different calculation approaches.

Table 7: Capital requirements by risk type

€m	31.12.2010	31.12.2009
Default risks	**18,416**	**19,476**
Standardized Approach to Credit Risk (SACR)	**4,542**	**5,964**
Central governments	41	37
Regional governments and local authorities	14	11
Other public sector bodies	73	89
International organisation (as defined by SolvV)	0	0
Banks	193	415
Multilateral development banks	0	0
Companies	2,573	3,549
Exposures secured by real estate property	318	353
Retail banking	686	733
Debt instruments backed by banks	10	13
Investment fund shares	117	56
Other exposures	282	208
Overdue exposures	234	499
Advanced approach (IRBA)	**13,295**	**12,905**
Central governments	338	190
Banks	2,378	1,838
Companies	9,101	9,608
Retail banking	1,304	1,102
Other non-loan based assets	173	166
Securitization risks	**394**	**400**
Securitized positions (SACR)	0	0
Securitized positions (IRBA)	394	400
Investment risks	**185**	**207**
Market risks	**1,055**	**1,095**
Standardized Approach	**77**	**51**
currency risk	58	34
interest rate risk	18	17
equity risk	0	0
commodity price risk	0	0
option risk	0	0
Internal model approach	**979**	**1,044**
Operational risks	**1,731**	**1,517**
Basic Indicator Approach (BIA)	**34**	**30**
Advanced Measurement Approach (AMA)	**1,697**	**1,487**
Total	**21,202**	**22,088**

Around 87% of the Group's overall capital requirement relates to default risk positions as defined in section 9 SolvV. Default risks include balance sheet, off-balance sheet and derivative positions, as well as advance payment risk positions. Of the total capital requirement for default risks, €1.5bn relates to the trading book. Since the Solvency Regulation came into force Commerzbank has used the Advanced Internal Ratings Based Approach (advanced IRBA) to determine regulatory capital. Commerzbank has applied the partial use option permitted by the Solvency Regulation. Accordingly capital requirements are currently still calculated under the rules of the Standardized Approach to Credit Risk (SACR) for a small part of the portfolios. Assets affected include qualified revolving retail banking assets, such as overdraft facilities and credit card receivables. There is only an insignificant amount of processing risks (< €1m) as defined in section 15 SolvV within Commerzbank Group; accordingly no capital charge is shown for them.

Commerzbank Group and accordingly the group companies included in the disclosure report are, as IRBA banks as defined in section 71.4 SolvV, generally obliged to value investments in accordance with the IRBA rules. For investments entered into prior to January 1, 2008, Commerzbank has opted to apply grandfathering. These investment positions are temporarily excluded from the IRBA and treated in accordance with the SACR rules with a risk weighting of 100%. The SolvV also allows items to be permanently exempted from the IRBA. Since December 31, 2009 Commerzbank applies the partial use option pursuant to section 70.1 no. 9b SolvV and is using the SACR permanently to all IRBA investment positions which are not under the above-mentioned temporary grandfathering option.

Securitized positions in the banking book as well as counterparty risk positions from market value hedges in connection with securitizations also fall under the category of default risk positions subject to a capital requirement. Commerzbank treats these positions according to the IRBA rules for securitized positions. Capital deduction items of securitizations directly reduce the liable equity and thus are not included in the capital requirements.

In addition to default risk adequate capital must also be set aside for market risk positions pursuant to section 2.3 SolvV. As a result of the takeover of Dresdner Bank and in consultation with the German Federal Financial Supervisory Authority (BaFin), Commerzbank is temporarily using two parallel market risk models which have both been approved by the supervisory authority for determining its regulatory capital requirements pursuant to section 313ff. SolvV. This affects both the equity price and interest rate-related risk positions in the trading book. The standardized approaches are applied for smaller units in the Commerzbank Group and for total currency and commodity positions in accordance with the partial use option.

Capital amounting to approx. €1.7bn has to be set aside for operational risks of the 15 material reportable entities. Commerzbank uses an advanced measurement approach (AMA) pursuant to section 278 SolvV throughout the Group to quantify operational risks. The integration of Dresdner Bank involved the merger of systems, processes and data in the operational risk areas and the development of a new common model for calculating the capital requirement for operational risk which was adjusted for the requirements of the new Commerzbank. Until it has been certified by the regulatory authorities, the capital requirement for both regulatory and internal reporting purposes will still be calculated separately for Commerzbank and Dresdner Bank and reported as a total.

Risk-oriented overall bank management

Commerzbank defines risk as the danger of possible losses or profits foregone due to internal or external factors. Risk management normally distinguishes between quantifiable risks – those to which a value can normally be attached in financial statements or in regulatory capital requirements – and non-quantifiable risks such as reputational and compliance risks.

Risk management organization

Risk management is an essential component of all Commerzbank business processes and is designed to support corporate management. Risks are identified, measured and then managed and monitored in line with the Bank's risk tolerance.

Details on the risk management organization at Commerzbank may be found in the Group Risk Report within the 2010 Annual Report.

Risk strategy and risk management

The risk strategy defines the strategic guidelines for the development in Commerzbank's investment portfolios, based on the business strategy. Risk-taking capability and liquidity are ensured by setting concrete limits for the risk resources capital and liquidity reserve available to the Group.

The scope of the risk strategy is described by the so-called "risk tolerance". Extreme scenarios such as the default of a core economy such as Germany, France or the USA or a collapse in the basic repo functionality of the ECB fall outside the risk strategy management.

The overall risk strategy covers all material quantifiable and unquantifiable risks. It is detailed further in the form of sub-risk strategies for individual risk types, which are then specified and operationalized through policies, regulations and instructions/guidelines. The annual risk inventory process ensures that all risks material to the Group (both quantifiable and unquantifiable) are identified. The estimate of materiality is based on whether occurrence of a risk could have a major direct or indirect impact on the Group's risk bearing capability.

As part of the planning process, the Board of Managing Directors considers stress scenarios to decide the extent to which the Group's risk-taking capability should be utilized. The Board sets the risk appetite at Group level by consciously defining a capital framework as part of the available risk capital. In a second step, this capital framework is broken down and limited for each risk category and allocated to the relevant units/areas as a result of the planning process. Compliance with limits and guidelines is monitored during the year and action taken if required.

Risk-taking capability and stress testing

The risk-taking capability analysis is a key part of overall bank management and Commerzbank's Internal Capital Adequacy Assessment Process (ICAAP). The purpose is to ensure that sufficient capital is held for the risk profile of Commerzbank Group. The risk-taking capability approach follows a strict economic view of the Group's assets and liabilities.

Risk-taking capability is monitored at Commerzbank using a gone concern approach which seeks primarily to protect unsubordinated lenders. This objective should be met even in the event of extraordinarily high losses from an unlikely extreme event. The approach assumes a gone concern scenario that reflects the latest statutory and regulatory developments. The risk-taking capability concept was enhanced in 2010. Resulting methodological adjustments are retroactively included in the figures as at December 31, 2009.

When determining the economically required capital, allowance is made for potential unexpected fluctuations in value. Where such fluctuations exceed forecasts, they represent the actual risk to be covered by the available economic capital (capital available for risk coverage). The quantification of capital available for risk coverage reflects a nuanced consideration of the accounting values of assets and liabilities under economic value adjustment of certain items in the balance sheet.

The capital requirement for the risks taken is quantified using the internal economic capital model. When setting the economic capital requirement, allowance is made for all types of risk at Commerzbank Group classified as material in the annual risk inventory. The economic risk approach therefore also includes types of risk not contained in the regulatory requirements for bank capital adequacy, and also reflects the effect of portfolio-specific interactions. The confidence level in the economic capital model of 99.95% at year-end 2010 is in line with the underlying gone concern assumptions and ensures a consistent risk-taking capability approach.

Risk-taking capability is monitored and managed at Commerzbank Group level. Since December 2010 risk-taking capability has been assessed by means of the utilization level of the capital available for risk coverage (previously, economic capital ratios were used). Under this approach, risk-taking capability is taken to be assured as long as utilization is below 100%. The utilization level as at December 31, 2010 was 56.8%. The utilization level remained well below 100% at all times during the reporting period.

In order to monitor the risk-taking capability even under the assumption of adverse changes in the economic environment, macroeconomic stress scenarios are used. The underlying macroeconomic scenarios, which are updated at least every quarter, describe an unusual but plausible negative economic development and are applied across all risk types. In the scenario calculations, the input parameters for the calculation of economic capital required are simulated to reflect the forecast macroeconomic situation. In addition to the amount of capital required, the income statement is also stressed using the macroeconomic scenarios and then, based on this, changes in the capital available for risk coverage are simulated. Risk-taking capability under stress also is assessed on the basis of the utilization level of the capital available for risk coverage. The utilization level under the stressed scenario was well below 100% throughout the reporting period. We will keep on enhancing our risk-taking capability and stress testing concept.

Table 8: Risk-taking capability in Commerzbank Group

Risk-taking capability Commerzbank Group | €bn	31.12.2010	31.12.2009[2]
Capital available for risk coverage	**36**	**39**
Economically required capital	**20**	**19**
thereof for credit risk	14	14
thereof for market risk	6	5
thereof for operational risk	3	2
thereof for business risk	2	1
thereof diversification between risk types	−4	−3
Utilization level[1]	**56.8%**	**49.6%**

[1] Utilization level = economically required capital/capital available for risk coverage.
[2] Figures as at 2009 adjusted based on current methodology.

In agreement with BaFin and Deutsche Bundesbank further adjustments to the risk taking capability concept were implemented starting month-end January 2011, with the intention of modelling an even more realistic gone-concern-scenario. This concerns the following changes:

- Modified consideration of hidden charges/reserves
- Additional inclusion of credit spread induced fluctuations in value in required economic capital arising out of securities within the IFRS loans and receivables (LaR) category
- Modified consideration of economic risks and hidden charges/reserves arising out of pension obligations
- Update of the risk buffer for non-quantifiable risks as a result of the risk inventory carried out in the fourth quarter of 2010
- Adjustment of the confidence level from 99.95% to 99.91% when calculating economically required capital.

Specific risk management

Default risk

Default risk refers to the risk of losses due to defaults by counterparties and changes in this risk. In addition to credit default risk and risk from third-party debtors, Commerzbank also includes under default risk issuer and counterparty risk as well as country and transfer risk.

Credit risk strategy

The credit risk strategy is risk sub-strategy derived from the overall risk strategy. It is the central point of reference for proactive and anticipatory credit risk management. The primary objective behind the credit risk strategy and the monitoring of the strategy throughout the year is to secure the Group's profitability targets on a sustained basis, taking account of its risk-taking capability. To this end, the credit risk strategy details and operationalizes the quantitative and qualitative guidelines established at the Group level. As quantitative guidelines, the expected loss (EL) and credit quality (risk density) are managed using plan and orientation data. Furthermore, unexpected losses, bulk risks and concentrations of credit risk are measured and actively managed using an internal credit value at risk (CVaR) model. All of the aforementioned management parameters are an integral part of the credit process and, in particular, of the credit authority regulations.

Deviations from planned figures and the general development of default risk are reported to the Board of Managing Directors on a monthly basis by the independent Risk Controlling unit. As part of this reporting task, Risk Controlling regularly formulates recommendations for action and proposals in order to safeguard the desired target risk structure of the portfolio.

Risk quantification

Default risks are mainly quantified by means of a credit portfolio model used throughout the Group in combination with internally developed rating systems. Risk measurement is based on the risk parameters probability of default (PD), exposure at default (EaD) and loss given default (LGD), which are based on internal models and estimates. The expected and unexpected loss is calculated for each individual default risk with these parameters as a key risk management variable. The expected loss measures the potential loss of a credit portfolio which can be expected within a single year on the basis of historical loss data. The unexpected loss reflects the default risk over and above the expected loss and is backed by regulatory (and economic) capital.

Credit portfolio model

Using a credit portfolio model enables the Bank to estimate the probability of possible losses in the lending business and so provide key data for managing and monitoring risk. The credit portfolio model uses a wide range of data and parameters that are closely linked to the parameters for Basel II. These are, first, the transaction and customer data containing precise information on the amount of the commitment, the credit rating and the customer's business sector and, second, pure model parameters which provide information on the correlations and, accordingly, the potential diversification effects between various sectors and countries.

There are a host of risk models, some of which have already become standard in the market. The model currently in production is an in-house model which, like the CreditMetrics or Moody's KMV model, is based on the asset value approach. A Monte Carlo simulation simulates the goodwill of borrowers and borrowing entities and derives changes to a borrower's creditworthiness and default risk from the relevant realizations. The model's high degree of flexibility allows it to adequately track complex portfolio risks such as the risk arising from structured credit products. But the risk-mitigating effects of the Bank's own securitization positions can also be measured with the aid of the credit portfolio model.

Rating architecture

A vital part of Commerzbank's rating architecture is the use of "single point of methodology" rating processes for each rating class. This uniform process architecture not only facilitates risk management and monitoring but also prevents rating arbitrage within Commerzbank Group. The rating processes are in turn embedded in rating systems which – in addition to the conventional methods of creditworthiness and risk assessment – comprise all of the processes of data collection, calculating ratings and monitoring and management.

The use of rating procedures is an essential component of risk evaluation in Commerzbank Group, irrespective of regulatory requirements. The results of the rating analyses are therefore used in the front- and back-office credit decision processes, in the internal processes to determine loan loss provisions under IFRS and in the internal measurement of CVaR and risk-taking capability. Rating processes which have already been approved were further refined and improved in 2010. The main aim of these refinements was to achieve more accurate risk forecasts and improved management tools.

The table below shows the rating procedure used under the IRBA as of the reporting date and the main elements in each case.

Table 9: IRBA rating procedure

Asset class	Scope	Procedure	Hard facts	Soft facts	Over-ruling
Fin. Institutions	Banks	RFI-BANK	▪	▪	▪
Sovereigns	Countries	R-SCR	▪	▪	▪
Sovereigns	Municipalities/federal states	R-LRG	▪		▪
Corporate	Corporate customers	COSCO/R-CORP	▪	▪	▪
Corporate	Financial Institutions (NBFI)	NBFI	▪	▪	▪
Retail	Private customers	CORES	▪		
Spec. lending	Commercial real estate	RS-CRE	▪[1]	▪	▪
Spec. lending	Structured finance	RS-CFD	▪	▪	▪
Spec. lending	Ship financing	DSB Darling	▪	▪	▪
Spec. lending	ABS transactions (sponsors)	IAA	▪		

[1] Possibility to adjust the calculated parameters by analyst.

Hard facts refers to system-based information where there is no leeway for interpretation, e.g. data from companies' financial statements, a private individual's income or the age of the documents being used.

Soft facts refers to areas of analysis where the rating analyst needs to make an assessment and where there is therefore scope for discretion on a case-by-case basis, e.g. an assessment of management or the product quality of the customer being rated. Overruling is a later stage of analysis when there is a further opportunity for the analyst to assess particular issues based on his or her personal judgement. The system result can be modified upwards or downwards, with the reason for the decision being documented. Overruling can be used in particular whenever there are sharp fluctuations (e.g. on the markets) such that an assessment of a company's situation based on the analysis of backward-looking or static information (e.g. financial statements) is not sufficient to give a forward-looking probability of default. Because of the degree of freedom this gives in the rating process, overruling is subject to strict prerequisites and regular monitoring to prevent misuse.

Apart from the Retail Class, the above procedures are already applied uniformly throughout Commerzbank (i.e. including the former Dresdner Bank). Commerzbank's master scale (see 2010 Annual Report, page 300) allocates a non-overlapping range of probabilities of default that are stable over time to each rating class. The probabilities of default allocated to the ratings remain stable across all portfolios and over time in order to ensure comparability. As a guide the internal ratings are shown next to the ranges of external ratings. As the default rates observed with external ratings fluctuate over time, it is not possible to translate directly between the internal and external ratings systems.

At the reporting date, Commerzbank reported more than three-quarter of its loan portfolio using the IRBA procedure and had received the relevant authorization from the supervisory authorities. This means that for these loans and receivables the internal credit rating plus internal estimates of collateral recovery are what determine the regulatory capital requirement. For loans and receivables that are not covered by the procedures approved by the supervisory authorities for the IRBA approach the Basel standardized approach for credit risk (SACR) applies, under which fixed risk weightings are used, based primarily on external estimates of the borrower's credit rating. Commerzbank has set out a timetable for the gradual migration of the SACR portfolio to the IRBA approach, which is compliant with the regulatory implementation dates pursuant to section 56.1 SolvV and the related levels of coverage in the various portfolios.

Table 10: EaD/RWA coverage Group

%	EaD-coverage Group[1]	RWA-coverage Group[1]
31.12.2009	80	72
31.12.2010	84	75

[1] IRBA exit threshold of 92% must be met by December 31, 2012 in accordance with the German Solvency Regulation.

The IRBA coverage ratios increased to 84% (on the basis of EaD) or 75% (based on RWAs) by the end of 2010. This was primarily the result of final measures for the harmonization of Commerzbank and Dresdner Bank in the IRBA approvals procedure (in the areas of project financing and NBFI) and the extension of existing approvals in the areas of corporates and banks.

According to the current schedule, the remaining gap between the coverage ratio and the exit threshold of 92% will be closed by the end of 2012 at the latest, primarily by means of IRBA approval of BRE Bank and also the entire private customer lending business of Commerzbank (including Dresdner Bank) and Eurohypo (approval reviews can only be carried out after the completion of the process integration and technical customer migration) and also reviews of a number of remaining marginal portfolios of Commerzbank and other entities.

Risk parameters

Beyond the default risk rating, correctly assessing the severity of the loss is essential for reliable and holistic risk assessment. The severity of a loss is determined firstly by the exposure at default (EaD) and secondly by the loss given default (LGD).

When forecasting EaD unused lines and contingent liabilities are included via credit conversion factors (CCFs). The CCF gives the probability of drawdown in the event of a default within the next twelve months depending on the transaction and the customer.

LGD is mainly determined by the expected proceeds from the sale of collateral and unsecured portions of loans. Proceeds from collateral are modelled via recovery rates representing an appropriate discount on the previously established market value. The recovery rate depends on the characteristics of the collateral, e.g. when modelling for real estate the collateral is differentiated by property type and location. To determine the recovery rate on unsecured portions of loans the focus is primarily on the characteristics of the customer and the transaction.

The statistical estimates of the CCF and LGD models are based on internal empirical loss data and Commerzbank uses expert knowledge, in particular from the back office and workout departments, to identify relevant factors and check the plausibility of results.

In doing so Commerzbank uses a database of internal credit defaults since 1997. New defaults are recorded continuously and are made available for statistical analysis once processing is complete. The data capture process also involves a large number of manual and automatic checking procedures to ensure the quality of the data.

Both internal as well as regulatory requirements are taken into account when developing statistical models for estimating EaD and LGD. Discussions with experts with the relevant experience in dealing with cases of defaulting customers play an important role in establishing the plausibility of the results. In areas with a small number of historical default or collateral realization cases the empirical analyses are supplemented with expert estimates. All of the models are regularly validated and recalibrated on the basis of the new findings. Empirically-based LGD and EaD parameters are used in all important internal processes at Commerzbank. The models were verified by the Bundesbank and BaFin as part of the inspection prior to the grant of authorization for the advanced IRBA.

Finally, combining the above components yields an assessment of the expected loss (EL= EaD*PD*LGD) and the loss density or risk density, which is the ratio of EL to EaD in bp. Both the percentage probability of borrower default (client rating) and the risk density of a loan commitment (credit rating) are assigned to rating classes by using an internal master scale.

Validation

Pursuant to section 147ff. SolvV rating systems are subject as procedures for estimating risks to regular validation and calibration of parameters. Risk Control, which is independent of the front-office units, is responsible for preparing the validation reports for each rating procedure, which are approved by the Strategic Risk Committee. Regular monitoring of procedures is a further element of system control. Internal Audit carries out an annual review of the rating procedures by inspecting the validation and monitoring measures being used and checking the methods and processes.

A distinction is made in the validation procedure between quantitative and qualitative reviews of the rating procedures. A fundamental validation concept setting out a standardized inspection process for all rating procedures is the basis for an annual procedure-specific specification sheet. Internal historic data series are used for the validation measures. These may be supplemented by the purchase of data from external providers (e.g. when analyzing shadow rating procedures). This extensive database makes it possible to assess the stability of the model over time as well as the quality of the rating procedure, for which discriminatory power is a supplementary indicator.

Quantitative validation involves comparing the forecasts for the risk parameters determined in the rating procedures with the outturn at the end of the forecast period/validation cycle. The quality of the forecasts is assessed using statistical methods. For instance, Gini coefficients, concordance indices and hit rates are used to assess the discriminatory power and various statistical tests are carried out to review the calibration. The results of these back tests are evaluated using a traffic-light system. If standards that have been set are missed by a significant margin, the procedure concerned must be revised once the cause of the failure has been clearly established.

Qualitative validation, also called a “use test”, is carried out in conjunction with the users of the rating procedure and looks at process-related issues in particular.

Asset Quality Reviews set up in back office also guarantee that the quality of the data used for parameter-based risk management is consistently reliable. Monthly reporting of rating coverage to the Board of Managing Directors ensures that the portfolios are valued using up-to-date and valid rating analyses, so that there is a stable foundation for the management measures based on the reports. In addition, this complies with the obligation to review ratings on an annual basis.

Each of Commerzbank’s approved IRBA rating procedure is validated at least once a year in accordance with internal directives as well as SolvV requirements. The validation comprises a quantitative test of the calibration and predictive power as well as a qualitative evaluation of the risk estimation. The validations processed in 2010 led to a recalibration of the PD-model for private customers (CORES) and structured finance (RS-CFD). Additionally, the calibration of the PD procedure for corporates (COSCO/R-CORP) was updated due to minor methodical adjustments.

The parameters used to forecast the exposure at default (EaD) as well as the loss given default (LGD) have been partly updated due to a more extensive historical data base. This led to adjustments of the respective parameters for corporates (COSCO/R-CORP), private customers (CORES), commercial real estate (RS-CRE), municipalities and federal states (R-LRG) and structured finance (RS-CFD). The effect of these recalibrations and parameter adjustments will show in parts only in the course of 2011. We expect a release of RWA in the single-digit billion range.

Commerzbank Group's IRBA loan portfolio

The IRBA portfolio of all Commerzbank Group companies included in this disclosure report is shown below, broken down into the relevant IRBA asset classes. The structure of the rating classes is equivalent to the Commerzbank internal PD master scale. For better clearness all classes have been combined into five main classes. Rating class 6 covers borrowers in default according to regulatory definitions, with the regulatory definition of default also being used for internal purposes. The risk parameters PD and LGD are calculated as exposure-weighted averages; the same also applies to the average risk weighting.

The IRBA exposure (EaD) is the exposure as defined in section 99 SolvV. It represents the expected amount of the IRBA position that is exposed to a risk of loss. The position value of off-balance sheet default risk exposures is calculated by weighting using a conversion factor.

Commerzbank AG, Eurohypo AG, comdirect bank AG, Commerz Finanz GmbH and Deutsche Schiffsbank AG use the advanced IRBA and may accordingly also use internal estimates for credit conversion factors (CCFs) for regulatory purposes. CCFs are required for off-balance sheet transactions to assess the probable exposure to commitments that have not yet been drawn down in the event of a possible default.

Only the portfolios subject to the IRBA that are rated with a rating procedure approved by the supervisory authority are shown. Items in the asset class investments and other non-loan-related assets are not listed. The latter assets amounting to €2.2bn do not have any credit-related risks and are therefore irrelevant for the management of default risks. Securitization exposures under the IRBA are shown separately in the section on securitizations within this chapter.

The exposures shown in this section mainly differ from the exposures in our Annual Report 2010 due to the following:

- There are differences in definitions for derivative items between the exposures reported in the annual report and those used for regulatory purposes in this report.
- There are some transactions that are not included in the figure for risk-weighted assets (RWA) for regulatory purposes but are included in the EaD figures in the annual report and risk report respectively.
- The figures reported in this disclosure report relate to the 15 entities within Commerzbank Group considered material for the disclosure, while the figures in the annual report relate to all companies that have to be consolidated under IFRS.

The IRBA exposures (on- and off-balance) are as follows:

Table 11: IRBA exposures (EaD) by rating class – on-balance and off-balance

					Retail business				
	EaD €m	Central govern-ments	Banks	Compa-nies	IRBA mortgage exposure	Other retail lending	Qualified revolv. IRBA-positions	**Total 2010**	Total 2009
Investment Grade (0-0.68%)									
Rating 1 (0,00-0,08%)	EAD	27,129	60,881	20,402	4,411	1,372	67	**114,261**	125,683
	LGD in %	12.7	34.3	38.4	17.8	30.3	56.2	**29.2**	22.8
	PD in %	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**	0.0
	RW in %	3.7	13.3	8.0	2.1	4.1	1.4	**9.5**	9.9
Rating 2 (0.08-0.68%)	EAD	15,270	38,513	92,568	28,345	7,149	608	**182,453**	171,753
	LGD in %	12.8	39.6	37.9	15.5	43.3	61.7	**33.0**	31.2
	PD in %	0.2	0.2	0.3	0.3	0.4	0.2	**0.3**	0.3
	RW in %	11.3	38.4	47.9	9.4	26.8	4.9	**35.9**	34.3
Non-Investment Grade (0.68-99.99%)									
Rating 3 (0.68-3.10%)	EAD	3,333	6,832	49,939	10,712	4,524	289	**75,629**	61,607
	LGD in %	15.6	35.9	37.2	17.6	42.5	62.9	**33.8**	34.8
	PD in %	1.2	1.4	1.5	1.5	1.6	1.8	**1.5**	1.4
	RW in %	30.5	75.0	89.4	29.8	52.7	32.4	**74.6**	77.4
Rating 4 (3.10-9.35%)	EAD	446	745	11,152	3,852	2,049	61	**18,305**	21,327
	LGD in %	14.1	39.0	34.8	18.2	37.1	61.0	**31.3**	30.4
	PD in %	5.5	4.7	5.1	4.5	4.7	5.0	**4.9**	5.0
	RW in %	50.5	118.6	124.7	57.6	57.7	73.5	**100.9**	96.0
Rating 5 (9.35-99.99%)	EAD	790	690	5,200	1,535	608	61	**8,884**	15,661
	LGD in %	6.7	22.9	29.7	18.8	38.7	64.3	**26.1**	25.1
	PD in %	28.1	27.0	27.0	19.5	18.5	17.8	**25.2**	20.2
	RW in %	32.8	112.5	144.6	103.8	83.5	147.8	**120.9**	115.3
Default (100%)									
Rating 6 (100%)	EAD	5	488	13,585	1,536	458	24	**16,096**	15,477
	LGD in %	2.3	78.5	37.9	30.7	59.5	85.4	**39.1**	39.9
	PD in %	100.0	100.0	100.0	100.0	100.0	100.0	**100.0**	100.0
	RW in %	0.0	0.2	12.7	13.4	0.0	0.0	**12.0**	10.4
Total									
	EAD	46,974	108,148	192,846	50,390	16,159	1,110	**415,628**	411,507
	LGD in %	12.8	36.5	37.4	16.9	41.5	62.3	**32.1**	29.2
	PD in %	0.7	0.8	8.6	4.5	4.7	4.0	**5.0**	5.1
	RW in %	9.0	27.4	59.0	19.8	37.4	23.4	**39.4**	38.7

The next two tables below show the off-balance sheet IRBA exposures:

Table 12: IRBA exposures (EaD) of off-balance sheet positions by rating class - unutilized lending commitments

Unutilized lending commitments | €m		Central govern-ments	Banks	Compa-nies	Retail business: IRBA mortgage exposure	Retail business: Other retail lending	Retail business: Qualified revolv. IRBA-positions	**Total 2010**	Total 2009
Investment Grade (0-0.68%)									
Rating 1 (0,00-0,08%)	Total sum	2,176	802	5,135	141	625	76	**8,955**	9,574
	Average EaD	34	42	40	0	0	0	**36**	25
	Average CCF (%)	49	50	46	98	78	85	**50**	39
Rating 2 (0.08-0.68%)	Total sum	743	1,827	45,493	402	2,620	776	**51,860**	51,175
	Average EaD	14	23	43	0	2	0	**39**	35
	Average CCF (%)	46	48	49	98	61	77	**50**	41
Non-Investment Grade (0.68-99.99%)									
Rating 3 (0.68-3.10%)	Total sum	255	364	13,196	196	1,509	238	**15,759**	15,913
	Average EaD	14	10	22	0	1	0	**19**	23
	Average CCF (%)	44	46	52	94	54	45	**53**	53
Rating 4 (3.10-9.35%)	Total sum	47	55	1,815	70	310	11	**2,308**	3,531
	Average EaD	9	2	16	0	0	0	**13**	7
	Average CCF (%)	45	45	53	97	60	52	**55**	45
Non-Investment Grade (0.68-99.99%)									
Rating 5 (9.35-99.99%)	Total sum	72	70	659	13	61	10	**885**	1,658
	Average EaD	4	4	10	0	0	0	**8**	13
	Average CCF (%)	45	46	49	95	59	74	**50**	40
Default (100%)									
Rating 6 (100%)	Total sum	0	0	919	3	56	0	**978**	587
	Average EaD	0	0	37	0	14	0	**35**	15
	Average CCF (%)	0	45	66	82	46	85	**65**	51
Total									
	Total sum	3,293	3,118	67,217	825	5,181	1,111	**80,746**	82,438
	Average EaD	27	32	38	0	1	0	**33**	29
	Average CCF (%)	48	49	50	97	61	70	**51**	43

Table 13: IRBA exposures (EaD) of off-balance sheet positions by rating class – other unutilized non-derivative off-balance sheet assets[1]

Unutilized non-derivative off-balance sheet assets | €m		Central governments	Banks	Companies	Retail business: IRBA mortgage exposure	Retail business: Other retail lending	Retail business: Qualified revolv. IRBA-positions	**Total 2010**	Total 2009
Investment Grade (0-0.68%)									
Rating 1 (0,00-0,08%)	Total sum	1,984	994	2,224	1	16	0	**5,219**	2,655
	Average EaD	8	17	33	0	18	0	**19**	27
	Average CCF (%)	31	56	46	42	67	0	**44**	42
Rating 2 (0.08-0.68%)	Total sum	2,873	3,234	15,163	6	240	0	**21,516**	20,771
	Average EaD	9	10	7	0	0	0	**8**	12
	Average CCF (%)	35	42	45	47	49	0	**43**	48
Non-Investment Grade (0.68-99.99%)									
Rating 3 (0.68-3.10%)	Total sum	1,050	2,982	4,793	10	192	0	**9,027**	5,600
	Average EaD	5	6	3	0	0	0	**4**	6
	Average CCF (%)	33	31	43	48	47	0	**38**	43
Rating 4 (3.10-9.35%)	Total sum	394	784	843	3	57	0	**2,083**	1,855
	Average EaD	2	2	10	0	0	0	**5**	4
	Average CCF (%)	30	31	50	35	44	0	**39**	47
Non-Investment Grade (0.68-99.99%)									
Rating 5 (9.35-99.99%)	Total sum	792	474	316	0	15	0	**1,598**	1,394
	Average EaD	21	9	5	0	0	0	**14**	10
	Average CCF (%)	24	23	49	39	41	0	**29**	40
Default (100%)									
Rating 6 (100%)	Total sum	13	4	567	1	15	0	**600**	424
	Average EaD	1	1	2	0	0	0	**2**	3
	Average CCF (%)	22	52	60	30	41	0	**58**	57
Total									
	Total sum	7,106	8,473	23,906	22	535	0	**40,042**	32,698
	Average EaD	9	10	9	0	2	0	**9**	12
	Average CCF (%)	32	40	45	44	49	0	**42**	46

[1] Securities lending and repurchase transactions are not included. IRBA positions in the investments asset class do not as a rule have any off-balance sheet components and so are not relevant to the disclosure of loan commitments and commitment-weighted exposures.

Commerzbank Group's SACR loan portfolio

The portfolios currently excluded from the IRBA are measured in accordance with SACR rules as permitted under the partial use provisions. In contrast to the IRBA, the SACR is mainly based on a flat risk weighting or on external ratings. Commerzbank has nominated the rating agencies Standard & Poor's Ratings Services, Moody's Investors Service and Fitch Ratings to provide the external ratings. This covers items in the SACR asset classes sovereigns, banks, corporates and securitizations.

For a great deal of non-security positions there do not exist any position-specific external ratings. In these cases it is possible to transfer issue ratings subject to specific requirements to be taken into consideration. To determine the external credit rating to use, Commerzbank has implemented a binding algorithm in accordance with section 43 ff SolvV.

External ratings and general risk weightings, respectively, are allocated in accordance with the following procedure:

- A **definite ISIN** can be allocated to the position: The process is based on the rules of section 44.3 and 4 SolvV for the credit assessment of rated SACR positions. A long-term rating for the issue is attributed to the asset via the ISIN. If there is no long-term rating for the issue, a short-term rating may only be attributed via the ISIN in the case of claims on companies. If there is no short-term rating available either, the asset is treated as if it does not have an ISIN.
- The position **does not have an ISIN**: The process is based on section 45.2 and 3 SolvV for the external credit assessment of unrated SACR positions. In this case comparable exposures are used to derive a credit assessment. Comparable exposures are defined as issues by the same issuer, which have an unsecured long-term foreign-currency rating. The ratings of all senior- or pari passu-ranking comparable exposures with an SACR weighting higher than 100 are transferred to the exposure being assessed. If the rating cannot be transferred, either pari passu-ranking comparable exposures with an SACR risk weighting < 100% or lower-ranking comparable exposures will be selected or no issue rating will be allocated to the asset. In the latter case the allocation of the general SACR risk weighting follows the SolvV specifications.

The risk weightings determined via external ratings or a flat weighting and the allocation of the exposures to these risk weightings are shown below. The table shows the SACR exposures (EaD) before and after credit risk mitigation techniques (CRMT) in accordance with section 8 SolvV.

Table 14: Exposures in the Standardized Approach to Credit Risk

Risk weightings	Exposure (EaD) before CRMT		Exposure (EaD) after CRMT	
€m	**2010**	**2009**	**2010**	**2009**
0%	91,044	89,977	103,815	105,016
10%	350	984	350	984
20%	17,449	24,445	16,815	25,708
35%	3,851	7,868	6,855	7,868
50%	6,697	9,038	5,767	7,502
70%	0	0	85	0
75%	15,259	12,990	11,439	12,218
100%	47,211	60,303	38,348	50,065
150%	1,715	4,016	1,266	3,640
Other risk weightings	3,053	4,027	3,053	4,027
Total	**186,630**	**213,646**	**187,792**	**217,028**

To mitigate credit risk under the SACR, Commerzbank Group takes financial collateral and guarantees into account; these will be referred to again later. Security in the form of land charges also reduces the risk weighting.

To determine the SACR exposure before credit risk mitigation techniques, the SACR assessment basis before credit mitigation is multiplied by the respective SACR conversion factor pursuant to section 50 SolvV. In accordance with section 48 SolvV the exposure after credit risk mitigation techniques is equal to the product of the SACR assessment basis after credit risk mitigation pursuant to section 49.1 and the SACR conversion factor for each exposure pursuant to section 50 SolvV. For the SACR assessment basis, in contrast to the IRBA, the valuation allowances recognized on the positions are deducted. The "other risk weightings" row shows the exposures deriving from SACR investment units for which an average risk weighting has been determined by the investment company.

The substitution principle under the SACR for guarantees, i.e. the borrower's risk weighting is replaced by that of the guarantor, means a transfer of the guaranteed amount from the borrower's risk weighting class to the guarantor's. However, this shift only takes place if the risk weighting of the guarantor is lower than that of the borrower. This is the reason why the exposure before CRMT for assets guaranteed by central governments is less than after CRMT. This can be seen in the table under the 0% risk weighting.

Overdue positions are shown with a risk weighting of 150%. Depending on the valuation allowances recognized on them (SLLP, Port LLP impaired) or the collateral, this may lead the asset to shift to a lower risk weighting class.

No deductions from capital were made for SACR positions as at December 31, 2010.

Risk management

The risk parameters exposure at default (EaD), expected loss (EL), risk density (EL/EaD) and economically required capital for credit risks (CVaR with a confidence level of 99.95% as at December 31, 2010 and a holding period of one year) are used to manage and limit default risks.

Limit systems

Based on risk-taking capability, limits are placed on the capital consumption at Group level across all types of risks by means of a capital framework set by the Board of Managing Directors. Based hereon the capital limits for the segments are derived. The segment-specific capital limits are translated into budgeted EL figures in order to operationalize the management of counterparty default risk. The capital requirement and expected loss management parameters used throughout the Group are additionally supplemented by specific indices for particular sub-portfolios.

The aim of the limitation process is to establish operational guidelines in such a way as to encourage the segments of the Group to operate in line with the strategic parameters laid down by Commerzbank Group while rationing the greatest justifiable degree of freedom. In addition to the segment specific budgeted EL figures, the limitation of cluster, concentration and country risk is of key importance.

Limiting bulk and concentration risks

The financial market crisis has demonstrated that defaults of individual major market players may present considerable risks for the stability of the financial system. In order to recognize and limit these risks at an early stage, risk concentrations of particular large corporate customers as well as within countries, customer groups and products are limited by means of active management taking account of segment-specific features. In this context, the methodology of bulk risk management underwent a change at the beginning of 2011.

Until the end of 2010, the management of bulk risks was based on the economic capital concept. The main parameters at this were portfolio granularity and correlation assumptions in respect of segment-, sector- and country-specific factors.

Bulk risks were identified on the basis of threshold values relating to economically required capital CVaR, EaD and LaD and categorized as red bulks (authority level: Board of Managing Directors) and yellow bulks (authority level: Credit Committee). At the beginning of 2011 the previous method of categorizing bulk risks based on statisti-cally modelled parameters (EaD, LaD and CVaR) was replaced by a standardized definition on "all-in" basis. The "all-in" concept covers all credit lines of a customer approved by the bank in their full amount irrespective of the extent to which the credit line has been utilized to date. Furthermore, it is independent of statistically modelled parameters and thus gives a better indication of the maximum potential loss arising out of credit risk in respect of the individual customer in question than the previous criteria.

Bulks above a defined maximum threshold are permanently regarded as undesirable and are systematically reduced.

Country risk management

The Group's country risk calculation considers both the transfer risk and the region-specific event risk as defined by political and economic events that could potentially have an effect on a country's economic entities. Country risk management comprises all decisions, measures and processes that aim to influence the country portfolio structure with a view to attain business, risk and return targets. Country risk is primarily managed and limited through the EL on country level. Country exposures which are significant for Commerzbank as a result of their size as well as exposures in countries in which Commerzbank holds significant investments in comparison with the GDP of those countries are handled by the Strategic Risk Committee on a separate basis.

Risk mitigation

At Commerzbank risk mitigation takes the form of guarantees, collateral and netting. In line with the IRBA process procedures for offsetting collateral instruments, including in particular financial collateral, guarantees, credit derivatives, life insurances, mortgage liens in the land register and other real collateral have been recognized.

In the IRBA the Bank takes account of credit risk mitigating effects arising from the receipt of eligible guarantees (guarantees/sureties, credit default swaps, comparable claims on third parties) by using the risk parameters (PD and LGD) of the guarantor; under the SACR, it uses the risk weightings laid down by the supervisory authority.

As part of the assessment of their declaration of liability, all guarantors are in principle subject to a review of their creditworthiness and rating in accordance with the sector and business to which they belong. The aim of the creditworthiness check is to establish a guarantor's maximum payment ability.

In accordance with the Solvency Regulation, the quality of the collateral received is subject to a rigorous review and continuously monitored. This includes in particular establishing the legal enforceability of the collateral and ensuring that it is valued regularly and appropriately managed. Above a certain threshold, the recoverability of the collateral instruments is reviewed on a regular basis during the term of a loan as part of the regular credit processing depending on the collateral type, usually annually, but at shorter intervals for critical exposures. Positive correlations between the creditworthiness of the borrower and the value of the collateral or guarantee are established in the lending process and collateral instruments so affected are not offset.

Processing of standard collateral (pledges of liquid assets and securities, company guarantees by individuals and individual transfers of title) is the responsibility of specialist teams in sales; processing of non-standard collateral items is undertaken by the Collateral Management Offices with the assistance of service units in the risk function.

The Bank has laid down general principles for the use of collateral and has in addition drawn up standards which apply throughout the Group on the valuation and administration of collateral as well as a range of collateral-specific directives (guidelines, manuals, descriptions of processes, IT instructions, legally validated model contracts). The standards set up to hedge or mitigate the risks (of loans), which also take account of the regulatory requirements of the SolvV, include amongst others:

- Legal and operational standards for documentation and data as well as valuation standards (each commitment to be analyzed at least once a year)
- Standardization and updating of the collateral valuation are ensured by laying down valuation processes, prescribing standardized valuation methods, parameters and defined discounts for collateral, a clear allocation of responsibilities for the processing and valuation process, as well as requirements for revaluations at regular intervals
- Other standards for taking account of certain risks, e.g. operational risks, correlation and concentration risks, maturity date and duration risks, market risks (e.g. due to currency fluctuations), country risks, legal risks and risks of changes in the law, environmental risks and risks of insufficient insurance cover.

In the bulk of its subsidiaries Commerzbank Group uses the internal model method (IMM) pursuant to section 223 SolvV for derivative default risk positions. Representing the expected future exposure, the credit equivalent amounts are determined by simulating various market scenarios, taking netting and collateral into account.

For securities repurchase, lending and comparable transactions involving securities or goods, the net assessment basis is determined in accordance with section 215.1 SolvV, taking into account any offsetting agreement in accordance with section 209 SolvV and the application of section 215.5 SolvV and section 155 ff. SolvV. Account is taken of guarantees/credit derivatives via the substitution approach. The double-default procedure as defined in section 86.3 SolvV is applied.

The table below shows the credit risk mitigation effects of financial collateral, guarantees, credit derivatives, mortgage liens and life insurances under the SACR. The effectively secured exposures, i.e. taking into account all the "haircuts" applicable to the collateral item are classified here by SACR asset class. In taking financial collateral into account as a technique for mitigating credit risk, Commerzbank generally uses the comprehensive method as defined in sections 186 to 203 SolvV. This stipulates that the assessment basis for calculating the default risk positions is reduced by the value of the financial security. For smaller entities, the simple method pursuant to section 185 SolvV is used in parallel.

Table 15: Collateralized SACR exposures

Asset class €m	Financial collateral	Guaran-tees	Credit derivatives	Mortgage liens	Life insurances	Total 2010	Total 2009
Companies	2,420	7,340	322	3,252	20	13,355	15,573
Retail banking	671	183	0	6,742	67	7,664	8,212
Banks	687	140	0	0	0	827	814
Regional governments and local authorities	0	0	0	0	0	0	809
Other public-sector bodies	6	325	0	0	1	332	287
Central governments	52	34	0	0	0	86	8
Overdue items	34	231	0	415	34	713	566
Total 2010	**3,870**	**8,254**	**322**	**10,409**	**122**	**22,977**	
Total 2009	**4,429**	**9,756**	**438**	**11,647**	**0**		**26,269**

The secured positions shown under mortgage liens are the exposures that are allocated to the SACR asset class "Exposures secured by mortgage liens". For the purpose of making the positions comparable with the figures shown under the IRBA, this asset class is not presented separately and the exposures secured by mortgage liens are instead classified by the respective asset class of the borrowers.

Besides the collateral that is offset under the SACR, some physical and other collateral is only eligible for recognition under the IRBA. In the table below financial collateral and IRBA collateral are shown separately from the guarantees.

Table 16: Total collateralized IRBA exposure (EaD) – financial and other collateral/guarantees[1]

Asset class €m	Financial collateral	Guaran-tees	Credit derivatives	Life insurances	Other IRBA collateral[2]	Total 2010	Total 2009
Companies	4,595	7,933	2,497	117	43,759	58,902	63,383
Retail banking: sub-class IRBA exposures secured by mortgage liens	779	12	0	219	35,630	36,639	39,128
Retail banking: other IRBA exposures[1]	852	205	0	0	3,103	4,159	3,045
Banks	846	1,919	9	0	130	2,905	3,415
Central governments	865	1,551	30	0	59	2,505	852
Total 2010	**7,937**	**11,620**	**2,536**	**337**	**82,680**	**105,110**	
Total 2009	**10,658**	**15,615**	**4,049**	**0**	**79,501**		**109,824**

[1] For reasons of materiality, Commerzbank does not report secured investment positions.
[2] Exposures secured by mortgage liens on residential and commercial real estate do not form an asset class of their own under the IRBA. They are therefore subsumed within other IRBA collateral. Mortgage liens in the land register are also included in this category.

The calculation of collateral is based on the fair values weighted with recovery rates. These recovery rates are based on empirical data and are a component of the LGD models. By definition, the rates cannot exceed 100%; accordingly the figures shown are generally lower than the fair values. By contrast, under the IRBA the so-called PD substitution approach to offset guarantees and credit derivatives is used – both subsumed as guarantees in SolvV. The protection is therefore not reflected in the LGD as is the case with financial and other IRBA collateral but via the substitution of the debtor's PD with that of the guarantor.

Summary of default risks

This section provides an overview of the default risks applying to our total portfolio, representing an assessment basis of €659bn. For balance sheet positions we distinguish between the lending business and securities. Off-balance sheet positions, e.g. loan commitments and guarantees, other non-derivative off-balance sheet assets and derivative instruments are reported separately.

The sum of SACR and IRBA assessment basis as defined in sections 49 and 100 SolvV is shown. The IRBA assessment basis for loans is the amount drawn down by the customer. If valuation allowances have been recognized on the exposure to the customer, these are not deducted – in contrast to the volume of assets determined in accordance with IFRS accounting standards. Off-balance sheet positions relate to the amount committed to but not yet drawn down by the customer. There is no weighting with the conversion factor. For securities the IRBA assessment basis is the higher of purchase price and the sum of the carrying amount plus the default risk-related write-downs. For derivative positions the credit equivalent amount as defined in section 17 in combination with section 18 ff. SolvV is reported. The SACR assessment basis is calculated using the IFRS carrying value of the positions accounting for the write-downs of the last approved annual financial statement. The assessment basis includes all positions subject to credit risk regardless of whether the positions are held in the banking or the trading book.

Positions that are effectively securitized are not included in the tables below. In accordance with section 232 SolvV, positions are considered to be effectively securitized if there has been an effective transfer of risk. This applies regardless of whether these are traditionally or synthetically securitized positions. Securitization positions arising from Group companies included in the disclosure report acting as investors or sponsors are also not reported. Owing to their special significance, these are shown in a separate chapter on securitizations.

Other non-loan-related assets, largely tangible assets that do not contain any credit default risk, and positions included under the SACR other positions class are also not listed in the tables below. They only show positions with inherent credit risks.

The country cluster shown in the table correspond to the geographical classification of the assessment basis used internally.

Table 17: Assessment basis by country cluster (independent of segment)

	On-balance assets		Off-balance assets				
€m	**Loans**	**Securities**	**Commitments**	**Derivatives**	**Non-derivative**	**Total 2010**	**Total 2009**
Germany	219,487	33,587	67,123	12,241	19,909	352,347	380,361
Western Europe (without Germany)	75,790	42,399	20,273	24,168	6,828	169,457	188,276
Central- and Eastern Europe	37,093	4,286	4,979	696	2,082	49,137	46,746
thereof Poland	23,864	1,247	2,869	327	481	28,789	
North and South America	30,014	8,814	9,585	5,466	2,483	56,361	61,004
thereof USA	18,894	4,643	8,484	4,339	1,334	37,694	
Asia	12,676	2,073	1,706	1,278	4,602	22,336	23,734
Other	5,784	1,183	794	727	1,330	9,818	10,859
Total 2010	**380,843**	**92,342**	**104,460**	**44,576**	**37,234**	**659,455**	
Total 2009	**412,356**	**105,898**	**113,462**	**41,515**	**37,749**		**710,980**

The breakdown by sector is based on a system used internally by the Bundesbank. To make it easier to understand, the assessment basis has been broken down by sectors with a volume of more than €10bn. Sectors with a volume below this level were aggregated under the “Other” item.

Table 18: Assessment basis by sector

	On-balance assets		Off-balance assets				
€m	Loans	Securities	Commitments	Derivatives	Non-derivative	Total 2010	Total 2009
Banking and insurance	73,596	41,301	11,371	33,925	11,515	171,709	208,290
Public sector, defence and social security	45,631	48,107	2,880	2,100	58	98,776	98,320
Real estate, renting and business activities	77,155	45	10,233	3,087	2,533	93,052	98,769
Manufacturing industry	40,915	107	33,373	2,417	13,933	90,745	91,764
Private households	68,853	0	15,920	47	269	85,088	86,651
Transport and communications	27,879	1,043	7,669	1,186	1,229	39,007	41,958
Trade, maintenance and repair of motor vehicles and consumer goods	11,695	55	10,003	459	2,648	24,859	26,205
Energy and water supply	7,441	507	5,783	632	1,319	15,682	18,014
Other public and personal service activities	7,135	156	1,717	169	900	10,077	12,359
Other	20,543	1,021	5,511	555	2,830	30,460	28,650
Total 2010	**380,843**	**92,342**	**104,460**	**44,576**	**37,234**	**659,455**	
Total 2009	**412,356**	**105,898**	**113,462**	**41,515**	**37,749**		**710,980**

The breakdown by maturity highlights the focus on relatively long-term financing transactions or overnight receivables. Overnight receivables include call and overnight transactions and credit lines that can be terminated at any time.

Table 19: Assessment basis by maturity

	On-balance assets		Off-balance assets				
€m	Loans	Securities	Commitments	Derivatives	Non-derivative	Total 2010	Total 2009
daily maturity	48,644	62	51,981	2,338	11,791	114,817	126,086
> 1 day up to 3 months	48,064	2,133	2,955	3,640	9,276	66,069	58,032
> 3 months up to 1 year	31,378	8,956	11,877	4,998	8,164	65,372	72,882
> 1 year up to 5 years	119,240	31,247	35,163	14,847	6,809	207,306	204,882
> 5 years	133,517	49,944	2,486	18,753	1,193	205,893	249,098
Total 2010	**380,843**	**92,342**	**104,460**	**44,576**	**37,234**	**659,455**	
Total 2009	**412,356**	**105,898**	**113,462**	**41,515**	**37,749**		**710,980**

Default risks arising from derivative positions

In addition to market risk derivative positions give rise to default risk when a claim arises against the counterparty in the form of positive fair values.

The derivative positions shown in the tables below do not include securitization positions as defined in the SolvV as these are shown in chapter Securitizations. In particular, this means that interest-rate and currency swap or credit derivative transactions entered into with securitization special-purpose vehicles are not included.

Table 20: Positive replacement values by risk type before/after netting/collateral

Risk type	Replacement values	
€m	**2010**	**2009**
Interest rate risk	308,774	284,009
Exchange rate risk	19,266	17,222
Equity risk	3,140	7,261
Precious metal risk	198	125
Commodity price risk	388	545
Credit derivatives	3,523	10,528
Collateral	22,391	19,714
Replacement values before netting/collateral	**357,680**	**339,404**
- Nettable value	324,841	284,510
- Eligible collateral	9,958	12,572
Replacement values after netting/collateral	**22,881**	**42,321**

The positive fair values listed in the table are the cost which would be incurred by the Bank to replace the contracts concluded originally with business with the same financial value. From the Bank's point of view, a positive fair value thus indicates the maximum potential counterparty-specific default risk. Positive market values are construed as a replacement expense in the regulatory sense. The amounts shown in the table reflect the positive replacement values before taking into account related collateral and before exercising offsetting agreements. The replacement values are broken down by type of risk in the contracts involved. The collateral furnished for derivative positions are shown as a separate type of risk as they cannot be allocated to other specific types of risk.

The fair values arising from equity risk relate to the derivative default risk positions pursuant to section 11 SolvV and do not take account of the rules for embedded derivatives pursuant to IAS 39. OTC derivatives (including derivatives settled via central counterparties) are included in this disclosure, listed derivatives are not included as they are settled via central counterparties on a daily basis.

In order to reduce both the economic and the regulatory credit risk arising from these instruments, Commerzbank concludes master agreements (bilateral netting agreements, such as the 1992 ISDA Master Agreement Multi-Currency Cross-Border or German Master Agreement for Financial Futures) with the business partners. By means of such bilateral netting agreements, the positive and negative fair values of the derivatives contracts included under a master agreement can be offset against one another and the future regulatory risk add-ons for these products can be reduced. Through this netting process, the credit risk is limited to a single net claim on the party to the contract (close-out netting).

These risk-mitigating techniques are used for both regulatory reports and the internal measurement and monitoring of credit commitments only if considered enforceable in the jurisdiction in question, should the counterparty become insolvent. The Bank obtains legal opinions from various international law firms in order to verify enforceability.

Similar to the master agreements are the collateral agreements (e.g. Collateral annex for financial futures contracts, Credit support annex), which the Bank concludes with its business partners to secure the residual net claim or liability after netting (receipt or provision of collateral). As a rule, this collateral management reduces credit risk by means of prompt – mostly daily or weekly – measurement and adjustment of the customer commitment. The – mostly cash – collateral and netting opportunities shown in the aforementioned table reduce the exposure to counterparties to €23bn (2009: €42bn).

The basis for determining the offset amounts for the default risk from derivative positions are not the positive fair values but instead the credit equivalent amounts. Commerzbank uses the internal model method (IMM) to determine derivative default risk assessment basis pursuant to section 223 SolvV and the market valuation method pursuant to section 18 SolvV.

The approach to risk quantification under the IMM is generally based on a risk simulation which generates future market scenarios and values portfolios on the strength of these scenarios. Netting and collateral agreements are taken into account in this calculation.

The credit equivalent amounts for counterparty default risk for derivative positions – including exchange-traded derivatives – used to calculate the (net) assessment basis amounted to €33,101m at the end of 2010 using the market valuation method (2009: €36,296m) and €14,517m (2009: €13,775m) using the internal model method. Credit equivalent amounts are effectively equal to the exposures of default risk positions on the balance sheet as a credit conversion factor of 100% is applied to derivative positions. Transactions with central counterparties are not shown here as their assessment basis is zero and there is accordingly no capital requirement.

The credit derivatives portfolio of Commerzbank Group

All operational units, branches and subsidiaries are in principle entitled, provided they comply with all formalities, to use credit derivatives to hedge credit risks in loan portfolios (i.e. to buy protection). This gives the units the opportunity to hedge credit risks with a credit derivative without having to sell or assign the loan.

Table 21: Breakdown of credit derivative business in the banking and/or trading book

Type of credit derivative	Banking book		Trading book	
Nominal value | €m	**Buy position**	**Sell position**	**Buy position**	**Sell position**
Credit Default Swap	11,443	190	73,025	79,014
Total Return Swap	0	62	3,662	0
Total 2010	**11,443**	**252**	**76,687**	**79,014**
Total 2009	**16,457**	**1,445**	**262,726**	**257,793**

Contractual agreements that oblige Commerzbank to provide additional collateral to its counterparties in the event of a downgrading of its own rating are covered in the Credit Support Annexes established as part of the netting master agreements for the OTC derivatives business.

The counterparty ratings (S&P, Moody's and Fitch) are automatically uploaded on a daily basis via interfaces with Reuters/Telerate/Bloomberg into the collateral management system, which can simulate downgrade scenarios if required. This makes it possible to carry out an advance analysis of the potential effects on the collateral levels.

Investments in the banking book

Investment risks or shareholder risks are potential losses arising from the provision of equity capital to investments as a result of a fall in their value. They can be caused by general market fluctuations or company-specific factors.

Following the integration of Dresdner Bank, Commerzbank's portfolio of holdings is broken down in accordance with its significance to business policy, as follows:

The bulk of the investments held as financial assets (banking book) and all holdings in consolidated companies are designed to further the Bank's business objectives by supporting business lines/segments in the Bank (segment-supporting investments) or by having a strategic management or service function for the Group as a whole (other strategic investments).

In addition there are also miscellaneous non-strategic investments. A divestment concept is applied here, the aim of which is to optimize Commerzbank's market value, capital position and P&L in appropriate market conditions.

Responsibilities and organization

The investment risks are managed centrally as part of the ongoing management and monitoring of Commerzbank's holdings by Group Development & Strategy and locally by the segments. The central department concentrates mainly on monitoring the non-strategic investments. However, the strategic investments that form part of the Bank's core business are controlled on a decentralized basis by the Commerzbank segments responsible for them. The strategic investments are mainly majority holdings.

Valuation and accounting policies

Investments and shares in the banking book comprise equity instruments classified as available for sale (AfS) and those reported in the financial statements as fully consolidated or using the equity method are also included. Therefore all equity instruments not held in the trading portfolio are accounted for in this category.

Investments classified as AfS are reported at their fair value if it is available. Differences between historic costs and fair value are reported as equity capital without P&L effects. Not listed or listed but not traded equity instruments are reported at their historic costs if their fair value is not reliably determinable.

Listed investments are continuously monitored with regard to their market price performance. External analysts' opinions and share price forecasts (consensus forecasts) are included in the risk assessment. In addition, the listed holdings are monitored through impairment tests carried out at least quarterly by Group Finance in accordance with the impairment policy and tested for any significant qualitative or quantitative indicators (trigger events) of impairment. As soon as there are any indications of significant or lasting impairment, unrealized losses are written down.

Risks arising from unlisted holdings are subject to regular monitoring involving a database-supported year-end valuation, a monitoring of trigger events to each balance sheet reporting date and special monitoring of investments classified as critical. Various valuation methods (e.g. capitalized earnings value, net asset value, and liquidation value) are used to quantify the risks, depending on the book value, status (e.g. active, inactive or in liquidation) and type of business activity (e.g. operational, property holding company or holding) of the investment. If the intention is to sell the investment, it will be written down, if necessary, to a lower expected selling price; appreciation in value would be reported as revaluation reserve without P&L effects. With companies valued using the equity method, the valuation is equal to the proportionate IFRS equity capital.

It should be noted at this point that the investments discussed in this section are those as defined in section 25.13 SolvV. This means that only equity investments that are not consolidated for regulatory purposes but relate to the companies covered by this report are shown. The definition of an investment in the SolvV is wider than the usual accounting definition. For example, shares in limited companies (GmbHs), profit-sharing certificates with equity characteristics, promissory notes and derivative positions whose underlying is an investment position have to be classified as investments for regulatory purposes. Classical forms of investment nevertheless make up the majority of this SolvV asset class.

Table 22: Valuations of investment instruments

Investment group	Book value (IFRS)		Fair value		Market value (listed positions)	
€m	2010	2009	2010	2009	2010	2009
Segment-supporting investments	**558**	**789**	**562**	**786**	**8**	**22**
thereof listed positions	3	22	8	19	8	22
thereof unlisted positions	555	767	555	767	-	-
Other strategic investments	**32**	**58**	**32**	**58**	-	-
Other investments	**860**	**795**	**573**	**876**	**428**	**601**
thereof listed positions	506	521	428	601	428	601
thereof unlisted positions	354	274	145	274	-	-
Funds and certificates	**858**	**938**	**858**	**938**	**13**	-
Investments total	**2,308**	**2,581**	**2,026**	**2,658**	**449**	**623**

The table shows the book value and fair value of the investment instruments under IFRS as reported in the financial statements for the investment groups relevant to the Group's objectives and strategy. For listed positions the market value is given as well. For listed investments book value under IFRS equals historic costs. Differences between book value under IFRS and fair value of listed positions result from the revaluation reserve.

For unlisted companies book values under IFRS are used as fair value. Special purpose vehicles (SPVs) are not shown as they are not investments pursuant to regulatory definitions.

The positions shown under "Other strategic investments" and "Funds and certificates" are unlisted positions. All unlisted positions are classified as adequately diversified investment portfolios.

Shares in investment funds are allocated to the investment group funds and certificates if the precise composition of the investment fund is not known and an average risk weighting supplied by the investment company is not used for capital adequacy purposes. Only shares in investment funds that invest wholly or partly in investment instruments are relevant. Shares in investment funds that are solely invested in fixed-income securities (e.g. bond funds) are not reported here.

The entities included in this disclosure report hold about 50 listed investments. The approximately 640 unlisted and segment-supporting companies and the approximately 110 other investments mainly belong to Commerz Real AG and Commerzbank Aktiengesellschaft.

The other investments include debit differences pursuant to section 10a.6 KWG in conjunction with section 64h.3 KWG to the amount of the proportionate goodwill of €209m.

Table 23: Realized and unrealized profits/losses on investment instruments

		Unrealized revaluation profit/loss		
€m	Realized profit/loss from sale/liquidation	Total	thereof accounted for in Tier 1-capital	thereof accounted for in Tier 2-capital
2010	71	118	0	60
2009	21	220	0	99

The table shows the realized gains/losses from sales and winding up[1] of investments over the reporting period.

The unrealized gains and losses comprise changes in the value of investments in the revaluation reserve that are not recognized through profit or loss. Over the past year Group companies considered material for the disclosure sold investments held in the banking book for a total gain of €71m. The gains consist of disposal proceeds over and above the IFRS book values. Write-downs and write-ups recognized through profit or loss in 2010 are not considered as realized gains or losses. Set against these is a deferred revaluation profit totalling €118m. Out of the unrealized revaluation profit, contributions of €60m of the 15 material companies are recognized in Tier 2 capital at Group level.

Securitizations

Securitization process

In the securitization business Commerzbank acts in the three roles provided for in regulatory legislation, namely as originator, sponsor and investor.

- **Originator:** Parts of the Bank's own loan portfolio are placed selectively on the capital markets through securitization transactions. This occurs both by means of synthetic as well as true-sale securitization transactions. The aims of these transactions basically is to manage regulatory and economic risk and capital, and in the case of true-sale securitizations there is also a funding aspect. The activity as originator, i.e. the structuring of securitization transactions on the basis of the Group's own asset portfolios is focused on the Group units Commerzbank Aktiengesellschaft and Eurohypo AG. The table below shows the Commerzbank Group's securitization transactions that are currently in circulation in the capital markets and that the Bank uses to free up regulatory capital:

[1] Winding up refers to the cessation of operations of a company in which an investment is held.

Table 24: Securitization transactions with regulatory capital relief

Securitization programme[2]	Type[1]	Securitization pool	Maturity	Issue currency	Current volume €m
CoCo Finance 2006-1	S	Companies	2016	EUR	4,500
Cosmo Finance 2007-1	S	Companies	2027	EUR	2,000
Cosmo Finance 2008-1	S	Companies	2022	EUR	1,500
CB MezzCAP	T	Companies	2036	EUR	172
TS Co. mit One	T	Companies	2013	EUR	57
Total Commerzbank AG					**8,229**
Provide Gems 2002-1	S	RMBS	2048	EUR	238
Semper Finance 2006-1	S	CMBS	2048	EUR	707
Semper Finance 2007-1	S	CMBS	2046	EUR	525
Glastonbury Finance	T	CMBS	2047	GBP	404
Opera White Tower	T	CMBS	2016	EUR	511
Opera Finance Uni-Invest	T	CMBS	2012	EUR	662
Opera Finance MEPC	T	CMBS	2014	GBP	546
Opera France One	T	CMBS	2016	EUR	376
Opera Germany 1	T	CMBS	2015	EUR	146
Opera Germany 2	T	CMBS	2014	EUR	560
Opera Germany 3	T	CMBS	2022	EUR	520
Total Eurohypo					**5,195**
Total Group					**13,424**

[1] S = synthetic, T = true-sale
[2] Securitization of own asset portfolio

Other own securitization transactions which are not eligible to free up regulatory capital are Rügen Eins (initial volume of receivables €1.6bn) and TS Lago One (initial volume of receivables €15bn). In connection with securitization transactions (synthetic and true-sale) where Commerzbank acts as originator, Commerzbank has cooperated with the rating agencies Standard & Poor’s, Moody’s and Fitch. The securitized assets belong to the Bank and derive from its lending business with the Mittelstand and large customers, as well as retail mortgage lending. In the case of Eurohypo's originator transactions, the underlying securitized assets are generally commercial real estate loans and private residential mortgages.

- **Sponsor**: The securitization of the receivables portfolios of Commerzbank's customers is a key component of the structured finance product range. By securitizing their own portfolios of receivables, i.e. selling their receivables on a non-recourse basis, Commerzbank's customers are able to tap alternative sources of funding on the capital markets. The receivables portfolios generally derive from customers' working capital receivables, such as trade receivables due from small and medium-sized enterprises (SMEs) and retail customers or from car, machine and equipment leasing. The purchases of receivables are funded by the issue of short-term commercial paper (CP) under the Bank's asset-backed commercial paper (ABCP) programme conducted through its conduits. The commercial papers issued are rated by the rating agencies Standard & Poor’s, Moody’s and Fitch. As sponsor the Bank is responsible for structuring and, as a rule, for purchasing and refinancing the transactions for customers. In the reporting period three new customer transactions were securitized via the Silver Tower conduit. Transactions refinanced via the Kaiserplatz conduit continued to be managed as

part of normal business activity. According to plan the volume of securitizations via Beethoven was reduced substantially over the past year. The reason for this is that this conduit was largely used to fund asset classes which no longer conform to Commerzbank's risk strategy. Since the second quarter 2010 Commerzbank is no longer engaged in securitization programmes administered by other banks.

- **Investor**: In the past, the Commerzbank Group invested under both its regulatory trading book as well as its banking book in securitization positions. As part of its strategic realignment, Commerzbank did not invest in any new non-bank securitization positions in 2010. Instead the focus is on restructuring and reducing the existing positions by the Portfolio Restructuring Unit.

More details relating to securitization positions held are shown in the following sections.

Procedure for determining risk-weighted exposure

For regulatory purposes Commerzbank applies the regulations of the advanced IRBA. In accordance with the principle of accessory relationship prescribed for securitizations in the Solvency Regulation, the regulatory rules of the IRBA apply to securitization positions.

Internal ABS rating systems certified by the supervisory authority are predominantly applied to the Kaiserplatz, Silver Tower and Beethoven multi-seller ABCP programmes sponsored by Commerzbank. Specific asset classes refer to different rating methods. They determine the risks inherent in the securitized assets which is mainly credit risk of the initial party liable. Other related risks, such as dilution risks (e.g. through discounting) and commingling risks (risks relating to the seller) are also taken into account. Additional qualitative risk components are also assessed via structured scorecards. The result of the rating process is a tranche-specific rating which, depending on the asset class, is based on the probability of default or expected loss of the securitization tranche.

For investor positions external ratings are generally available, which lead to the rating-based approach (RBA) being applied. Regardless of the type of securitized asset Commerzbank takes account of all available external ratings of securitization positions from Standard & Poor’s, Moody’s and Fitch.

Only in individual cases is the supervisory formula approach used or is there a deduction from capital as a result of the lack of an applicable external rating.

Accounting and measurement policies

In true-sale or synthetic securitization transactions via special purpose vehicles the IFRS accounting regulations require the Bank to review, in accordance with SIC 12, whether or not the securitizing special purpose entities need to be consolidated. This review process is centralized in the Commerzbank Group Accounting Department. The central unit is informed of the establishment or restructuring of a special purpose entity and carries out a review on the basis of the information submitted to it to determine whether the special purpose entity needs to be consolidated or not.

- **Originator positions**: If the special purpose vehicle is consolidated as part of the Commerzbank Group, no further derecognition test is carried out under IAS 39 rules and the assets are not derecognized. If the special purpose vehicle does not have to be consolidated, in true-sale securitizations the possible derecognition of the securitized assets from the balance sheet is assessed using the risks and rewards of ownership as the primary derecognition criterion and control as the secondary derecognition criterion (IAS 39.15 ff.) and, if appropriate, a derecognition or partial derecognition (continuing involvement) is reported. In the case of synthetic securitizations the underlying assets always remain on the balance sheet and, as with securitized assets in true-sale securitizations which are not derecognized, are reported in their original IFRS category. These assets continue to be accounted for in accordance with the rules for this IFRS category. When securitized assets are derecognized, any resultant gains or losses are reported in the income statement. The special purpose entities for the following transactions are currently consolidated for accounting purposes: CoCo Finance 2006-1, Cosmo 2007-1, Cosmo 2008-1, CB MezzCAP, TS Co. mit One, Semper Finance 2006-1 and Semper Finance 2007-1, Rügen Eins, TS Lago One and Silver Tower 125 RCLS. However, these entities are not consolidated for regulatory purposes. The securitizing special purpose entities for the following transactions are currently not consolidated either for accounting purposes or for the purposes of regulatory capital adequacy requirements: Provide Gems 2002-1, Glastonbury Finance, Opera White Tower, Opera Finance Uni-Invest, Opera Finance MEPC, Opera France One, Opera Germany 1, Opera Germany 2, Opera Germany 3.
- **Sponsor positions**: Under IFRS all funding entities for the Kaiserplatz and Beethoven programmes are consolidated. In the case of Kaiserplatz, purchasing entities are also consolidated. In the case of Silver Tower, the funding entities are not consolidated, but some purchasing entities are consolidated. However, for regulatory purposes, no purchasing or funding entities for the Kaiserplatz, Beethoven or Silver Tower programmes are consolidated.
- **Investor positions**: Under IFRS investor positions are categorized in accordance with the provisions of IAS 39 by the intention with which each of the securities was acquired (held for trading, loans and receivables or available for sale). Please refer to Note 5 in the IFRS consolidated financial statements for a detailed explanation of the classification rules and the related measurement procedures.

Quantitative information on securitizations

The following information relates to transactions for which risk-weighted exposures are determined in accordance with sections 225 to 268 SolvV in conjunction with section 1b KWG. This also includes the Commerzbank Group's own securitization transactions for which capital relief is available for regulatory purposes. However, securitization exposure of securitization transactions which are recognized in the regulatory trading book is covered in the market risk chapter.

The total volume of all securitization exposures (on- and off-balance sheet) retained or acquired amounted to €24.6bn on the reporting date. This amount corresponds to the IRBA exposure after deduction of eligible collateral.

The table below shows a breakdown of retained and acquired securitization exposures by the type of securitization exposure and the regulatory role assumed by Commerzbank.

Table 25: Retained and acquired securitization exposures by type of exposure

	Originator		Investor		Sponsor	
€m	2010	2009	2010	2009	2010	2009
Receivables[1]	8,055	8,249	239	550	912	1,931
Securities[2]	516	250	9,557	12,355	270	360
Other positions on-balance	0	0	0	0	36	0
Liquidity facilities	5	0	134	90	4,545	4,004
Derivatives[3]	9	0	134	199	124	108
Other positions off-balance[4]	0	4	103	94	0	443
Total	**8,584**	**8,503**	**10,167**	**13,288**	**5,886**	**6,846**

[1] E.g. drawings of liquidity facilities, cash loans, on-balance positions from synthetic transactions etc.
[2] ABS, RMBS, CMBS etc.
[3] Counterparty risk from market value hedges (interest rate and currency risk).
[4] Guarantees etc.

The table below provides a breakdown of the securitization exposures shown above by type of underlying assets.

Table 26: Retained and acquired securitization exposures by type of asset

	Originator		Investor		Sponsor	
€m	2010	2009	2010	2009	2010	2009
Loans to companies/SMEs	7,639	7,623	1,679	1,974	985	826
Commercial real estate	677	879	427	931	73	0
Residential real estate	1	1	1,739	2,660	118	135
Consumer loans	0	0	4,393	4,935	45	704
Securitized positions	267	0	583	1,040	185	269
Credit card receivables	0	0	0	487	0	0
Leasing receivables	0	0	27	288	868	1,461
Trade receivables	0	0	86	139	1,647	1,765
Other	0	0	1,231	835	1,965[1]	1,686[2]
Total	**8,584**	**8,503**	**10,167**	**13,288**	**5,886**	**6,846**

[1] Including €517m film receivables.
[2] Including €792m film receivables.

The securitization exposures have their origin predominantly in Germany (48%), USA (34%) and UK/Ireland (7%).

The next table provides a breakdown of acquired and retained securitization exposures by risk weighting bands. Risk weightings are ascertained by applying the risk approach applicable to each securitization exposure as per section 255 SolvV, which sets out a hierarchy of regulatory approaches for IRB securitization exposures. Half of securitization exposures with an external rating of B+ or worse is deducted from Tier 1 capital and half from Tier 2 capital. The capital requirements are determined by the exposure and its risk weighting after taking account of any impairments.

Table 27: Retained and acquired securitization exposures by risk weighting band

2010	RBA		IAA		SFA		Without rating	
Risk weighting band €m	**Position value**	**Capital requirement**	**Position value**	**Capital requirement**	**Position value**	**Capital requirement**	**Position value**	**Capital requirement**
≤ 10%	10,108	65	1,659	11	0	0	0	0
> 10% ≤ 20%	5,881	64	1,740	21	0	0	0	0
> 20% ≤ 50%	595	18	328	9	0	0	0	0
> 50% ≤ 100%	888	47	815	56	31	1	0	0
> 100% ≤ 650%	418	94	0	0	0	0	0	0
> 650% < 1250%	0	0	0	0	20	9	0	0
1250%/capital deduction	1,675	629	0	0	0	0	480	284
Total	**19,565**	**917**	**4,541**	**97**	**50**	**9**	**480**	**284**

2009	RBA		IAA		SFA		Without rating	
Risk weighting band €m	**Position value**	**Capital requirement**	**Position value**	**Capital requirement**	**Position value**	**Capital requirement**	**Position value**	**Capital requirement**
≤ 10%	11,395	65	2,074	15	88	0	0	0
> 10% ≤ 20%	7,192	80	1,992	24	0	0	0	0
> 20% ≤ 50%	743	21	247	7	0	0	0	0
> 50% ≤ 100%	1,245	54	780	58	34	1	0	0
> 100% ≤ 650%	211	57	0	0	0	0	0	0
> 650% < 1250%	0	0	0	0	19	16	0	0
1250%/capital deduction	1,831	547	0	0	151	140	635	388
Total	**22,617**	**825**	**5,093**	**105**	**291**	**157**	**635**	**388**

The table below shows the outstanding volumes of Commerzbank Group's own securitization transactions as originator with recognized regulatory risk transfer. The table does not include the transactions Opera Germany 3 and Opera France One as in accordance with sections 225 to 268 SolvV these transactions do not attract a capital charge as they are not retained.

Table 28: Securitized assets outstanding

	traditional		synthetic	
€m	2010	2009	2010	2009
Residential real estate	0	0	238	322
Commercial real estate	3,725	2,923	1,232	1,409
Loans to companies/SMEs	229	182	8,000	8,000
Total	**3,954**	**3,105**	**9,470**	**9,731**

On the reporting date, the securitized portfolios included non-performing assets or assets in arrears to the extent shown below.

Table 29: Non-performing and in-arrears securitized assets[1]

	Non-performing loans		Loans in arrears	
€m	2010	2009	2010	2009
Residential real estate	21	30	6	12
Commercial real estate	28	17	13	15
Loans to companies/SMEs	29	16	119	96
Total	**77**	**62**	**138**	**123**

[1]The figures in the table are based on the IRBA assessment.

In this context non-performing assets mean any assets with an internal rating equivalent to Standard & Poor's long-term C rating or worse. Assets in arrears include all assets where the customer is at least one day overdue on their payment obligations.

Three new transactions were structured by Commerzbank in 2010 and have since been funded through Silver Tower. As at December 31, 2010, the securitization exposure retained by Commerzbank for these transactions was around €160m. The underlying assets consist of trade and leasing receivables.

Intensive Care

The processing of non-performing commitments is being effected through the separate unit Intensive Care. Here, specialists' knowhow is concentrated which is needed to assist customers going through a restructuring or to successfully process commitments in default, including realizing any collateral.

The risks in the lending business reported under the IFRS category LaR are taken into account by forming specific loan loss provisions (SLLPs), portfolio loan loss provisions (PLLPs) and general loan loss provisions (GLLPs) for both on- and off-balance-sheet loan assets on the basis of the provisions of IAS 37 and 39.

In determining loan loss provisions the Bank distinguishes between insignificant (lending volume of €1m or less) and significant assets (lending volume over €1m) in default or not in default.

Default or non-performing loans are all assets defined as default according to Basel II regulations. The following events are keys to determining that a customer is in default:

- Impending failure to pay / payment overdue 90 days or more
- The Bank is assisting in the customer's financial restructuring with or without contributions towards the cost
- The Bank calls the loan
- The customer has become insolvent.

For insignificant loan assets in default, a specific portfolio valuation allowance or provision (PLLP impaired) based on internal parameters is recognized. For significant assets in default, the calculation of the specific allowance or provision (SLLP) is based on discounted future cash flows. The cash flows take account of both expected payments as well as proceeds from the sale of collateral and other achievable cash flows. The loan loss provision is the difference between the amount of the receivable and the present value of the total expected cash flow. General loan loss provisions (GLLP and PLLP non-impaired) for on- and off-balance sheet business are calculated at the level of each individual transaction, with the calculation again using internal default parameters (PD and LGD) and taking the LIP (loss identification period) factor into account. Country risks are not accounted for separately under IFRS but are included for the purposes of calculating SLLPs through the individual estimates of cash flows or given a flat-rate value in the PD and LGD parameters when calculating portfolio loan loss provisions.

Impairment tests are also carried out for securities classified as available for sale (AfS) and loans and receivables (LaR) if the fair value is below amortized cost as a result of deterioration in credit quality. At each reporting date a review is carried out to determine if there are objective grounds (a trigger event) for impairment and whether this will have an effect on expected cash flows. Trigger events are reviewed on the basis of the rating of the borrower/issuer or of the issue (e.g. for Pfandbriefe, ABS transactions). Trigger events might include:

- Arrears/default in payments of interest or principal on the part of the issuer/debtor
- Restructuring of the debt instrument as a result of substantial financial difficulties on the part of an issuer (of a security) or debtor (in the case of a loan)
- Increased probability of restructuring proceedings
- Increased probability of insolvency.

The trigger events are operationalized with a combination of changes to rating and fair value. To achieve this, the individual securities are split into three groups (listed and unlisted equity instruments as well as debt instruments) that are the basis for further individual impairment reviews. If trigger events are found, an impairment is taken to profit or loss and the asset is considered as non-performing. If there is no trigger event but the fair value is below amortized cost a charge is made to the revaluation reserve. The difference between amortized cost and fair value constitutes the amount of the impairment.

Loan loss provisions which relate to assets on the balance sheet are deducted directly from the respective balance-sheet items. However, loan loss provisions for off-balance-sheet business – guarantees, endorsement liabilities, lending commitments – are shown separately under provision for lending risks.

In accordance with Group write-down policy impaired positions are always written down to the asset's cash value two years after termination by utilizing existing valuation allowances (SLLPs/PLLPs impaired). Recoveries on written-down assets are recognized in the income statement.

The tables below on loan loss provisions show the total amount of non-performing or overdue assets drawn down in the IFRS categories LaR (loans) including the related loan loss provisions, or AfS (in the case of fixed-income securities) including the related write-downs, broken down by sector and country of registration/residence of the respective borrower.

Loans in arrears are all loans that are overdue for up to 90 days taking into account the minimum buffer (2.5% of the limit and a maximum of €100, respectively) and that are not defined as loans in default.

The table below shows the total amount of non-performing or in-arrears assets on and off the balance sheet against the loan loss provisions plus net additions and direct write-downs. The following definitions are used here:

- **SLLPs on-balance** is the sum of specific loan loss provisions for significant assets as determined by individual cash flow estimates.
- **PLLPs impaired on-balance** is the sum of portfolio loan loss provisions for insignificant non-performing assets as determined on a portfolio basis with the aid of internal risk parameters.
- **SLLPs and PLLPs impaired off-balance** is the total sum of loan loss provisions for significant and insignificant off-balance sheet assets. The method for determining these provisions is analogous to that used for on-balance sheet assets.
- **GLLPs/PLLPs non-impaired (NI) on-/off-balance** is the sum of general loan loss provisions relating to loans in default.
- The **net additions** column shows the net position from additions to and reversals of loan loss provisions for on- and off-balance sheet business. It does not include write-downs, which are shown separately in the **direct write-downs** column.

Table 30: Non-performing and in-arrears loans by sector

Sector €m	Non-performing loans	SLLP on-balance	PLLP impaired on-balance	SLLP+PLLP impaired off-balance	Direct write-downs
Agriculture and forestry	98	62	3	0	1
Fisheries	1	0	0	0	0
Mining and quarrying of stone	75	18	0	0	36
Manufacturing industry	2,970	1,081	63	164	32
Energy and water supply	240	79	0	6	13
Construction	819	290	31	25	12
Trade, maintenance and repair of motor vehicles and consumer goods	1,148	517	72	15	19
Hotels and restaurants	355	77	12	1	36
Transport and communication	1,984	630	11	22	5
Banking and insurance	2,477	1,203	9	13	39
Real estate and housing[1]	8,084	2,690	106	99	146
Public sector[2]	8	0	0	0	0
Education and training	52	22	2	0	0
Health, veterinary and social work	230	31	16	1	3
Other public and personal service activities	611	218	46	32	15
Private households	2,373	187	829	4	94
Non-profit organizations	71	1	0	0	0
Total 2010	**21,596**	**7,107**	**1,199**	**383**	**450**
Total 2009	**20,522**	**7,079**	**1,226**	**363**	**404**

Sector €m	Loans in arrears	GLLP/PLLP NI on-/off-balance for loans in arrears	Net additions	Recoveries on written-down assets
Agriculture and forestry	14	0	0	0
Fisheries	1	0	0	0
Mining and quarrying of stone	34	3	7	0
Manufacturing industry	854	17	156	42
Energy and water supply	100	1	– 5	0
Construction	42	4	18	2
Trade, maintenance and repair of motor vehicles and consumer goods	573	10	229	5
Hotels and restaurants	20	1	24	1
Transport and communication	971	17	267	1
Banking and insurance	365	2	186	11
Real estate and housing[1]	756	21	1,166	16
Public sector[2]	1	1	– 1	0
Education and training	4	1	1	0
Health, veterinary and social work	62	1	13	1
Other public and personal service activities	71	5	98	3
Private households	663	36	374	100
Non-profit organizations	14	0	3	0
Total 2010	**4,545**	**119**	**2,535**	**183**
Total 2009	**6,588**	**251**	**3,969**	**149**

[1] Including renting of movable objects and business activities.
[2] Including defence and social security.

Commerzbank implements the definition of non-performing assets and assets in arrears on the basis of its accounting figures. Pursuant to section 315a.1 of the German Commercial Code, the Commerzbank Group presents consolidated financial statements based on International Financial Reporting Standards (IFRS). Accordingly the relevant figure for the total amount of non-performing assets and assets in arrears are the carrying amounts pursuant to IFRS. Credit risk mitigation techniques, which can mitigate risks for the purposes of determining the capital requirement, are not relevant to the valuation of the asset for accounting purposes.

Total non-performing assets and assets in arrears stand at €26.2bn, of which around €21.6bn relates to the default portfolio (non-performing assets) and around €4.6bn relates to assets in arrears. In addition to the loan loss provisions shown below, the Bank also holds collateral against its non-performing portfolio which is taken into account when calculating SLLPs, PLLPs and GLLPs. Recoveries of €183m on written-down assets are booked as income in the loan loss provisions.

Table 31: Non-performing and in-arrears loans by country cluster

Country cluster €m	Non-performing loans	SLLP on-balance	PLLP impaired on-balance	SLLP+ PLLP impaired off-balance	Direct write-downs	Loans in arrears	GLLP/PLLP NI on-/off-balance for loans in arrears
Germany	11,035	3,138	858	272	205	2,752	35
Western Europe (excl. Germany)	5,326	1,760	13	92	83	447	9
Central and Eastern Europe	2,585	916	327	12	85	766	71
North and South America	2,300	1,042	1	5	77	409	3
Asia	321	242	0	0	0	158	0
Other	29	10	1	1	0	13	0
Total 2010	**21,596**	**7,107**	**1,199**	**383**	**450**	**4,545**	**119**
Total 2009	**20,522**	**7,079**	**1,226**	**363**	**404**	**6,588**	**251**

The breakdown by country cluster reflects the Commerzbank Group's focus on Germany and selected markets in Europe. This results in the bulk of the loan loss provisions falling on borrowers based in these geographical areas. Besides Germany and Europe, the sum of specific loan loss provisions is significant in North America, which is due to a higher level of defaults as a result of the financial market crisis.

Table 32: Development of loan loss provisions

Type of provision €m	Opening balance	Additions	Reversals	Utilizations	Exchange rate changes	Other changes	Closing balance
SLLP on-balance	7,079	3,247	1,010	2,293	166	–82	7,107
PLLP impaired on-balance	1,226	619	244	343	19	–76	1,199
SLLP+PLLP impaired off-balance	363	206	159	7	3	–24	383
GLLP/PLLP NI on-/off-balance	1,744	338	789	1	2	31	1,325
Total	**10,412**	**4,410**	**2,202**	**2,643**	**189**	**–152**	**10,014**

Changes in loan loss provisions do not take account of direct write-downs. In addition, the table only shows loan loss provisions relating to the lending business and how they have changed. Accordingly only assets or loan commitments from the IFRS category LaR and their related loan loss provisions are shown here. More details on the development of loan loss provisions are given in the Group Risk Report 2010.

The table below shows the actual losses in the whole period and compares these with the expected losses calculated at the end of the period. As losses incurred in the lending business, direct write-downs and utilizations of valuation allowances for assets classified as IRBA positions under Basel II are included in these figures. Recoveries on written-down assets reduce the actual loss. The EL for the whole book of assets calculated under the IRBA in the disclosure report is very different from Commerzbank Group's figure of €1.9bn reported for EL in the annual report. This is almost entirely due to the inclusion of loans in default in the disclosure report, which show very high figures for EL due to their 100% probability of default as considered in the model. The annual report, however, only includes loans not in default in its figure for EL.

Table 33: Expected and realized losses

Asset class	2010		2009		2008[1]	
€m	Expected loss as at 31.12.	Realized loss	Expected loss as at 31.12.	Realized loss	Expected loss as at 31.12.	Realized loss
Companies	6,115	1,166	5,919	1,241	3,359	1,125
Retail lending	926	440	906	101	1,038	401
IRBA exposures secured by mortgage liens	589	311	520	109		
Qualified revolving IRBA-positions	1	55	24	31		
Other IRBA exposures	336	73	362	−39		
Banks	527	21	574	163	499	361
Central governments	32	0	35	0	7	3
Total	**7,601**	**1,626**	**7,434**	**1,505**	**4,904**	**1,890**

[1] Pro forma inclusive Dresdner Bank.

Another difference from the annual report is the fact that the expected loss reported in the disclosure report does not include SACR or securitization positions. Due to the change to SACR (permanent partial use pursuant to section 70 SolvV) in 2009 the asset class equity investments is not shown here.

Market risk

Market risk is the risk of financial losses due to changes in market prices (interest rates, commodities, credit spreads, exchange rates and equity prices) or in parameters that affect prices such as volatilities and correlations. The losses may impact profit or loss directly, e.g. in the case of trading book positions, or may be reflected in the revaluation reserve or in hidden liabilities/reserves in the case of banking book positions. We also monitor 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 on acceptable terms as a result of insufficient liquidity in the market.

Market risk strategy

The market risk strategy is derived from the overall risk strategy and business strategies of the individual segments and lays down the objectives of market risk management for Commerzbank's main business activities. The core tasks of market risk management are the identification of all significant market risks and market risk drivers in the Group, the independent measurement and evaluation of these risks, and, on the basis of these analyses and assessments, the management of the risks on a risk/return basis within the Commerzbank Group.

The market risk strategy draws on the lessons of the financial market crisis and lays down comprehensive guidelines for controlling and monitoring market risk. At the core of these guidelines is a wide-ranging set of quantitative and qualitative instruments.

The key quantitative data for the Commerzbank Group's market risk strategy (especially value at risk and stress test limits) are derived from the key data laid down within the overall risk strategy in order to assure risk-taking capability based on economic capital requirements. These limits are broken down to the individual segments and business areas in line with the business strategy during the planning process. In addition the Bank manages and limits market risk through scenario analyses and analyses of sensitivities.

A comprehensive set of qualitative rules in the form of market risk policies and guidelines, as well as maturity limit and minimum rating requirements, aim to provide a suitable qualitative framework for the management of market risk.

The qualitative and quantitative factors limiting market price risk are determined by the Board of Managing Directors and the Group Market Risk Committee. Market risk is evaluated and monitored on a daily basis.

Risk quantification

Value at risk

The integration of the market risk for internal management has been completed in full. The use of the internal market risk model for the regulatory calculation requires the prior approval by BaFin of a new model component for specific interest rate risk. In the light of the time-consuming nature of the approval procedure, the supervisory authority has approved the parallel use of both of the certified old models for the calculation of the regulatory capital adequacy requirements. Commerzbank expects approval for the new model component for the specific interest rate risk to be granted in 2011.

Since spring 2009 a standard market risk model incorporating all positions has been used internally to manage market risk. Up until October 22, 2010, the Bank used the former Dresdner Bank's delta-gamma model at a confidence level of 97.5% and a holding period of one day for this purpose. On October 25, 2010, the Bank switched to an expanded market risk model based on a historical simulation (historical market data over 1-year interval) at a confidence level of 97.5% and a holding period of one day. This ensured a uniform view of market risk at all times. A comprehensive internal limit system down to the lower levels of portfolios was implemented as a key feature of internal market risk management.

The new model enables consistent measurement of risk across the entire Group and will furthermore meet the future requirements of Basel III. Apart from improving the quality of risk measurement results, standardizing the two methods will also reduce complexity.

At Commerzbank (prior to the integration of Dresdner Bank), the foreign Commerzbank branches and the Luxembourg subsidiary CISAL the internal model used to calculate the regulatory capital requirement for market risk is based on a value at risk approach. In doing so the historical simulation (historical market data over a 1-year interval) is used for general market risk and for specific interest rate risk the variance-covariance method is used in the context of the calculation of credit spread value at risk (CSVaR). Normal distribution is assumed when aggregating the two risk figures. The standardized approach is used for all other subsidiaries of Commerzbank (prior to the integration of Dresdner Bank).

The Group is continuing to use the former internal value at risk model of Dresdner Bank to calculate the regulatory requirement for Dresdner Bank's market risk positions on a temporary basis. Measurement of market risk here is based on an analytical delta-gamma value at risk model which takes account of both general and specific risks.

Both internal models comply with the requirements of the Solvency Regulation and have been checked and approved by the Federal Financial Supervisory Authority (BaFin) and the Bundesbank.

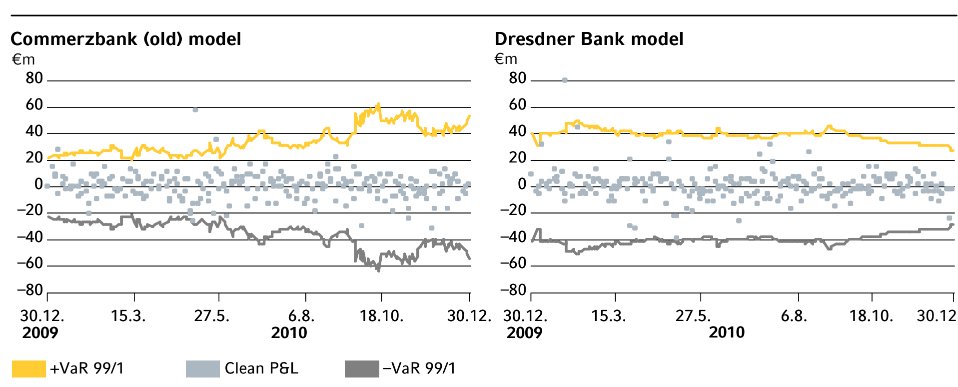
The following table shows the aggregated value at risk of the two internal models based on a confidence level of 99% and a holding period of one day.

Table 34: VaR of portfolios in the trading book (based on regulatory capital requirement)

VaR | €m	**2010**	**2009**
Minimum	55	55
Average	75	86
Maximum	101	113
Year-end figure	**81**	**63**

The reliability of the internal models is checked on a daily basis using backtesting methods. The resulting of value at risk figure is compared with the gains and losses generated by the price changes that actually occurred in the market. This provides the basis for the evaluation of the internal risk models by the supervisory authorities. Where the resulting loss exceeds the amount of risk predicted by the value at risk model this is known as a negative backtesting outlier and, vice versa, where the resulting gain exceeds the predicted risk, this is known as a positive backtesting outlier.

Analyzing the backtesting results provides important points of reference for reviewing parameters and improving the market risk model. In addition, all negative outliers are classified according to a traffic-light system prescribed by the supervisory authorities and reported to the authorities at Group level with details of their extent and cause. In the course of 2010, no negative outliers were measured in respect of the individual portfolios on the basis of either the Dresdner Bank model or the Commerzbank model.



Stress test

As the VaR metric provides a forecast on the assumption of "normal" market conditions, it is supplemented by stress tests which simulate possible extreme market movements. Extensive Group-wide stress tests and scenario analyses are carried out as part of the risk monitoring process. The goal is to simulate the impact of crises, extreme market conditions and major changes in correlations and volatilities on the Bank's overall market risk position. The impact on the various components of comprehensive income – income statement, revaluation reserve and hidden reserves or liabilities – is quantified in this exercise.

The Group-wide stress test calculation is based on a combination of short-term stress test scenarios, longer-term trend scenarios and scenarios based on macro-economic variables. The stress testing framework is complemented by portfolio-specific stress tests and ad hoc scenario analyses. The stress test calculations in each case determine the impact of strong movements in the individual asset classes of equities (shares), interest rates, credit spreads and currencies (for example, a 10% drop in share prices, a parallel shift in the yield curve of 50 bps) on the portfolio value.

Stress test calculations are carried out at fixed intervals. Short-term scenarios are calculated and reported to the Board of Managing Directors on a daily basis for the purposes of risk control and monitoring. Long-term scenarios are updated on a monthly basis and discussed within the committees responsible.

Risk management

Commerzbank defines its market risk limit for value at risk and stress testing at Group level in top down terms based on economic capital required (risk-taking capability). The limits for the individual business areas and portfolios are then allocated on the basis of the achieved and expected risk/return ratio, market liquidity of assets and business strategy. The extent to which limits are utilized is reported by the independent risk control unit on a daily basis to the Board of Managing Directors and Divisional Board members.

The market risk units continuously monitor the risks and the positions of the business units. To this end, market risk information is generated on a daily basis for all relevant portfolios throughout the Commerzbank Group. In addition to various daily reports for lower portfolio levels, market risk figures at Group level are submitted to the Board of Managing Directors and senior management on a daily basis.

Various market risk committees have been set up in the Bank, where representatives of the business segments discuss the latest risk positioning issues with Risk Management and Finance and decide on the control steps to be taken. The Market Risk Committee meets weekly and focuses on the Corporates & Markets, Public Finance, PRU and Treasury business areas. The Group Market Risk Committee, which is convened on a monthly basis, deals with the market risk positions of the Commerzbank Group as a whole. The basis for its discussions is the monthly Market Risk Report. This provides both the Market Risk Committee and the Board of Managing Directors with comprehensive information on the most significant developments in market risks on an aggregated basis. It also forms the basis for the reporting on these issues in the internal risk report which covers all types of risk.

Interest rate risk in the banking book

Strategy and organization

The interest rate risk in the Commerzbank Group's banking book is the result primarily of positions taken by central Group Treasury and the treasury activities of branches and subsidiaries. All relevant subsidiaries are included here.

The main responsibilities of Treasury include management of the balance sheet structure and liquidity risk. The aim is to generate a positive net interest margin between interest income and funding expense. Interest rate risks arise if positions are not funded over matching periods or in matching currencies.

Quantification

The measurement of interest rate risks in the banking book is completely integrated into the Bank's daily measurement and monitoring of risk. As in the case of the measurement of trading book risks, a value at risk was calculated on the basis of the internal model (delta-gamma approach) until October 22, 2010. Since then the calculation is based on historical simulation, as in the case of the trading book.

In addition, stress tests and scenario analyses are carried out on a daily and monthly basis using the stress test calculations described above. This standardized procedure is intended to ensure extensive transparency in respect of interest rate risk in both the trading and the banking book.

Table 35: Interest rate risk in the banking book

Currency	2010		2009	
€m	– 190 bp[1]	+130 bp[1]	– 190 bp[1]	+130 bp[1]
EUR – Euro	– 37	36	– 175	113
GBP – British pound	– 4	2	6	– 1
JPY – Japanese yen	4	– 3	9	– 5
CHF – Swiss franc	14	– 10	13	– 9
USD – US dollar	27	– 17	51	– 24
not allocated	4	– 2	– 3	3
Total	**7**	**7**	**– 99**	**76**

[1] Interest rate shock

For regulatory purposes, the impact of an interest rate shock on the economic value of the Group's banking book is simulated on a monthly basis. The applicable change in interest rates is currently +130 basis points and –190 basis points. As at December 31, 2010, the bulk of the interest rate positions in the banking book were denominated in euros. On this basis, a shift in interest rates of –190 basis points would lead to a gain of €7m, as would a shift in interest rates of +130 basis points. Both scenarios result in a positive outcome, making the regulatory loss limit of 20% of the Group’s liable equity capital irrelevant at the present time.

Management

Treasury centrally manages the Group's interest rate risk arising from commercial business. Interest rate risks also arise from the investment models used by the central ALCO (Asset & Liability Committee). These investment models relate in particular to the investment and/or refinancing of products without fixed contractual interest rates (e.g. equity capital, savings and sight deposits).

The risks are managed in line with the business strategy by means of refinancing over matching terms and in matching currencies and by using derivatives to hedge positions.

Liquidity risk

Liquidity risk is defined in the narrower sense as the risk that the Bank will be unable to meet its payment obligations on a day-to-day basis (intraday liquidity risk). In a broader sense, structural liquidity risk is the risk that future payments cannot be funded as and when they fall due, in full, in the correct currency or at standard market conditions.

Liquidity risk strategy

The global framework for liquidity risk management is the liquidity risk strategy, which is derived from the Bank’s business and risk strategy. This strategy, which was approved by the Board of Management Directors, takes account of the increasing regulatory requirements in respect of the management of liquidity risk. The provisions of the liquidity risk strategy are supplemented by additional policies that came into force in 2010, including the Liquidity Risk Policy, the Model Validation Policy and the revised Model Change Policy, as well as the Limit Policy.

In addition to revising and redrafting of the body of rules and regulations, the allocation of responsibility among the committees was adjusted in 2010. Until the end of 2009, the ALCO was primarily responsible for the integrated Group-wide management of financial resources, comprising, among other things, the calculation of core deposit bases, buffer limits and liquidity reserve portfolios depicted by the liquidity risk model. Potential overlaps arose between these responsibilities and those of the Group Market Risk Committee, which was responsible for the management model. In order to eliminate overlaps in the allocation of decision-making powers, the entire Board of Managing Directors transferred full responsibility for the liquidity risk model, and for limits and policies (including controlling and reporting) to the ALCO in 2010.

Since December 2010, contingency planning has been based on an integrated process, consisting of the Liquidity Risk Contingency Plan (emergency plan) and Treasury's complementary Liquidity Contingency Measures (plan of action). This concept allows for a definitive allocation of responsibilities for emergency procedures, in addition to adequate specification of measures to be taken should the need arise.

Risk quantification

Ensuring Commerzbank's ability to meet its payment obligations is quantified and monitored on the basis of two interlinked concepts, in which the Dresdner Bank's business volumes were integrated on the basis of an interim solution:

- Period of up to 1 year: available net liquidity (ANL) concept
- Period of over 1 year: stable funding concept.

Available net liquidity concept

Commerzbank's internal liquidity risk model forms the basis for the management of liquidity and for reporting to the Board of Managing Directors. With reference to the reporting date in question, this risk measurement approach calculates the available net liquidity (ANL) for the next 12 months under various scenarios. The calculation is carried out on the basis of deterministic, i.e. contractually agreed cash flows, as well as, statistically expected economic cash flows (forward cash exposure – FCE or dynamic trade strategy – DTS), taking account of realizable assets (balance sheet liquidity – BSL).

The stress scenario underlying the model which is relevant for risk management purposes allows for the impact of both an institution-specific stress event and also a market crisis in the calculation of liquidity and the establishing of limits. The stress scenario is used to draw up detailed contingency plans. The stress scenarios are calculated daily and reported to management. The underlying assumptions are reviewed regularly and adjusted in accordance with any changes in the market environment as required. With integration of Schiffsbank into the internal liquidity risk model in 2010, we achieved full coverage of all Group units significant from a liquidity risk perspective.

The liquidity surpluses calculated remained within the limits set by the Board of Managing Directors throughout 2010. Commerzbank's solvency was therefore sufficient at all times, not only in terms of the external regulatory requirements of the German Liquidity Regulation (Liquiditätsverordnung; liquidity ratio as at December 31, 2010: 1.08), but also in terms of internal limit settings. Our liquidity position we therefore continue to regard as stable and comfortable.

Stable funding

The Commerzbank Group's short-term and medium-term funding relies on an appropriately broad diversification in terms of investor groups, regions and products. Liquidity management analyzes the structure of the various sources of funding for the Bank's liabilities in order to actively manage the funding profile.

Long-term funding is mainly secured by means of structured and non-structured capital market products that may or may not be collateralized, as well as customer deposits.

The stable funding approach identifies the structural liquidity requirement for the Bank’s core lending business as well as those assets that cannot be liquidated within one year, and compares these to the liabilities available long-term to the Bank (including core customer deposit bases). The basis for planning issues in the capital markets is provided by the results thus produced. The aim is to finance the Bank’s illiquid assets and core business in terms of volume and maturity as far as possible with long-term liabilities.

Risk management

Group Treasury is responsible for liquidity management within the Group. Following the integration of Dresdner Bank and the associated organizational realignment of the Group, Group Treasury has been part of Group Management since the beginning of 2009, reporting directly to the Chairman of the Board of Managing Directors. Group Treasury is represented in all major locations in Germany and abroad and has reporting lines in all subsidiaries. Liquidity management comprises both operational and strategic elements. Operational liquidity management encompasses management of daily payments, planning for expected payment flows and managing access to central banks. Liquidity management also deals with access to unsecured and secured sources of funding on the money and capital markets and the management of the liquidity portfolio. Strategic liquidity management involves drawing up and evaluating a maturity profile for all assets and liabilities relevant for liquidity purposes, including modelling the proportion of customer deposits which will be available on a permanent basis (the core deposit base), the Group’s resulting issuance strategy, and the calculation and allocation of liquidity costs, which feed into the management of the Bank’s business activities. In order to compensate for unexpected short-term outflows of liquidity, Group Treasury has a central liquidity portfolio of highly liquid securities eligible for central bank borrowing purposes, backed by medium to long-term funding. Commerzbank also has a liquidity reserve consisting of freely disposable cash and liquid securities positions.

Operational risk

Commerzbank defines operational risk (OpRisk), in accordance with the German Solvency Regulation, as the risk of loss resulting from the inadequacy or failure of internal processes, systems and people or from external events. This definition includes legal risks, but not reputational, strategic or compliance risks.

OpRisk strategy

Commerzbank's independent Group-wide operational risk strategy is approved annually by the Board of Managing Directors of Commerzbank after it has been discussed and voted upon by the OpRisk Committee. Management of the various units and entities is responsible for implementing the OpRisk strategy, guidelines and instructions on procedures.

By implementing the OpRisk strategy on a Group-wide basis, Commerzbank is pursuing the following goals:

- Avoiding high OpRisk losses as far as possible (before they materialize) through various proactive measures, so protecting the Bank against material adverse effects
- Minimizing risks to the greatest possible extent (to limit resulting losses) in various ways including the use of risk-mitigating measures (expanding the internal control system, staff training, etc.)
- Identifying potential problem areas in the organization of workflows and consequently possible improvements from a cost/benefit perspective.

The operational risk organization has a clear allocation of responsibilities and duties and creates the organizational conditions and especially the structures required for effective and targeted operational risk control and management at all hierarchical levels in the Group's segments and in the central services and management support divisions.

OpRisk monitoring/management takes place at three different levels:

- The segments' COO units assume direct responsibility for operational risk in their areas of responsibility, and ensure prompt and effective segment risk management.
- Risk Controlling is responsible for managing operational risk at Group level, overseeing the Group-wide controlling and implementing the regulatory requirements.
- As an independent body, Group Audit reports on risk-related audit findings.

The Group OpRisk Committee chaired by the Group CRO with representatives of the segments and relevant inter-segment functions (e.g. Group Audit, Group Legal) deals mainly with the management of OpRisk within Commerzbank and fundamental methodological issues. The OpRisk Committee meets at least once a quarter with the goal of optimizing the expected loss from OpRisk from a cost/benefit perspective and minimizing the potential impact of the unexpected loss. An end-to-end view of the processes within the Bank ensures that risks are recognized in a timely manner. The segment OpRisk committees deal with segment-specific issues and meet at least once a quarter ahead of the Group OpRisk Committee meeting.

Risk quantification

To quantify operational risks, Commerzbank generally uses an advanced measurement approach (AMA) throughout the Group pursuant to section 278 SolvV. The only exceptions to this are AKA Ausfuhrkredit GmbH, Deutsche Schiffsbank AG and Bank Forum in Ukraine; they use the Basic Indicator Approach (BIA) [1]. The capital requirements for the operational risks of these three banks are added on to the AMA capital figure[2].

In the wake of the integration of Dresdner Bank, a common OpRisk model for calculating capital requirements was developed, which was adjusted for the requirements of the new Commerzbank. Until this model has been certified by the regulatory authorities, which is planned for 2011, the capital requirement for both banks will be calculated separately for regulatory and internal reporting purposes and then reported as a total figure. In coordination with the supervisory authorities, a 5% premium will also be added to these sums to cover any residual uncertainties stemming from the separate model calculations.

Effective operational risk control and management require both quantitative and qualitative methods and instruments, as well as overarching qualitative guidelines and procedures. The instruments employed by Commerzbank support the cause-based management of operational risks.

The collection of data on losses throughout the Group in compliance with Basel II and SolvV starts at a threshold of €5,000 and includes a record of all information relevant for insurance purposes (master data, losses incurred and insurance coverage).

To model the fat tail of the loss distribution – i.e. the financial risk of rare major loss events – Commerzbank uses external loss data from the Operational Riskdata eXchange Association, Zurich (ORX) in addition to internal loss data. This data syndicate, which the Bank joined as a founder member, now consists of around 50 international banks. This data also enables the Bank to compare its own risk profile with that of other international banks, which provides additional input for managing operational risk.

With the aid of Quality Self-Assessments (QSAs) across processes, the quality of workflows, internal controls and the business environment are systematically evaluated locally and analyzed centrally on the basis of end-to-end processes. The findings are used to identify potential weak spots and represent a major qualitative component in the AMA model.

The quality of the process rating determined through QSA determines the amount of external data taken into account in calculating capital. This is based on the expectation that we will tend to have fewer losses to report in future if the processes are good and more if they are less good. In determining how much capital to commit, historical experience of the distribution of losses over time is taken account of as well as the likelihood that multiple loss events will occur simultaneously in the course of a year.

[1] Commerz Finanz GmbH is another exception, as its contribution to the AMA is allocated on a pro rata basis because it is also consolidated on a pro rata basis.
[2] The BIA accounts for less than 5% of total capital requirements for operational risks.

In addition to the anonymized external data from ORX, public data from the Fitch database is utilized. This is particularly useful for developing suitable scenario analyses for structured workshops where an inventory is made of Commerzbank's main operational risks. An overview of the risks identified and details of significant specific risks are submitted to the OpRisk Committee.

Within Commerzbank, key risk indicators (KRIs) are monitored to provide management with an early warning system in the organizational units. The KRIs are aggregated in a status report at the level of the individual units and reported to the OpRisk Committee.

Risks identified in the scenario analyses, the risk situation in the individual units indicated by the defined KRIs and any other operational risk factors are fed into the calculation of OpRisk capital requirements using a bonus and malus system. An individual bonus or malus is awarded to each of the units on the basis of defined criteria leading to a discount or a premium on the capital requirement determined for the respective unit under the AMA model. The sum of the modified amounts at unit level produces the modified capital requirement for OpRisk at Group level.

Besides the regulatory capital commitment, a figure for the economic capital commitment is also calculated. Both figures come from basically the same mathematical model and use largely the same data. The main difference is in the confidence level. Whilst SolvV only requires a confidence level of 99.9%, Commerzbank bases its internal risk assessment on the considerably more conservative figure of 99.95% as at December 31, 2010.

Risk management

Key risk indicators and, in particular, scenario analyses are used to manage operational risks on an anticipatory basis (compare risk quantification section above).

The risk strategy is implemented by defining capital and EL guidelines for operational risks in a top-down approach. Based on risk-taking capability, in the context of the annual planning process, a limit for economically required capital is set for the Group, along with RWA and EL guidelines at Group and segment level which are monitored by independent Risk Controlling.

Moreover, the organizational structure ensures that there is anticipatory risk management on a bottom-up basis through the segments. The local OpRisk managers ensure that OpRisk is managed from a cost/benefit perspective at both process and system level.

Major material events are also subject to a special reporting requirement to Risk Controlling and Internal Audit. The quarterly OpRisk Monitor then reports in detail to the OpRisk Committee on cases that have arisen.

The implementation of risk-mitigating measures, such as the introduction of additional control processes or systemic adjustments, is the responsibility of each segment. If the risks are serious, Risk Controlling monitors and assesses the actions that are planned or have already been carried out. Internal Audit conducts more thorough investigations into the effectiveness of actions taken in the segments.

A structured central and decentralized reporting ensures that management of the Bank and of the individual segments, the members of the OpRisk Committee and the supervisory bodies receive regular, timely and comprehensive reports on operational risks. OpRisk reports are prepared both monthly and quarterly and are part of the risk reporting to the Board of Managing Directors. They contain the latest risk assessment by the segments, their main loss events, latest risk analyses, changes in capital requirements and the progress of measures that have been taken.

Other risks

On top of the risk categories explicitly considered in SolvV, Commerzbank Group also systematically and actively manages a number of additional risk types. Details on the other risks may be found in the Group Risk Report in the 2010 Annual Report.

Appendix

Consolidation matrix and material Group companies

The consolidation matrix below summarizes the regulatory and IFRS consolidation categories for the various companies in Commerzbank Group. The material companies included in this disclosure report are shown individually in the upper part of the matrix.

The non-material companies which are of secondary financial significance in accordance with the definition of materiality are shown at the end of the matrix.

The classification of the companies is based on section 1 KWG, supplemented by insurance companies and other companies. If necessary the companies are grouped into further sub-segments in order to provide more detailed information on their activities. The Commerzbank Group's investments that are not consolidated for regulatory or accounting purposes are not shown.

The banks classification is broken down into universal banks and specialist banks, with development banks, guarantee banks, loan guarantee associations and real estate credit institutions included in the specialist banks sub-segment. Financial companies are broken down into investment companies, holding companies and other financial companies. Asset management companies are shown separately under other companies as they are the only sub-segment included under other companies that has to be consolidated for regulatory purposes. The special purpose vehicles are mainly securitization vehicles and special funds consolidated under IFRS. There is currently no regulatory requirement to consolidate these special purpose vehicles.

Material companies of the Commerzbank Group are listed by name in the "Company" column in the consolidation matrix. The number of companies as well as the investments of material companies which are relevant for regulatory purposes is shown, broken down into segments and sub-segments and classified by consolidation type under the headings "Regulatory treatment" and "Consolidation method under IFRS".

There are two types of consolidation for regulatory purposes: full and pro rata. Full consolidation is applied to subsidiaries and pro rata consolidation for associates. To avoid the participation deduction pursuant to section 10.6 KWG, equity investments in institutions and financial companies may also be voluntarily consolidated on a pro rata basis. Risk-weighted investments in the consolidation matrix are investments that are consolidated under IFRS but not for regulatory purposes. They are allocated to the solvency regulation asset class of equity investments and are treated like any other investment position in this asset class.

Changes set off to the previous year result from the reduction of material companies, the cutback of investments during the course of the year and restructurings within Commerzbank Group.

The material entities in the Group – besides Commerzbank AG – are the following:

- BRE Bank S.A. is a major universal bank in Poland. The BRE Bank sub-group includes the following subsidiaries: BRE Leasing Sp. z o.o. (one of Poland's leading providers of leasing services), Polfactor S.A. (one of Poland's leading providers of factoring services) and BRE Bank Hipoteczny (Poland's leading mortgage bank).
- comdirect group is the market leader among Germany's online brokers. comdirect bank AG is a full-service bank, with approximately 1.6 million private customers; at comdirect group level, the number of customers rose to a total of 2.3 million in 2010.
- Commerz Real AG is one of the world's largest real estate asset managers and providers of leasing and investment solutions.
- Commerzbank Europe (Ireland) is a commercial bank established in Dublin. It is involved in the international financing business including participating in syndicated loans, bilateral loans and credit derivatives.
- Commerzbank International S.A. is a bank based in Luxembourg. It is principally active in wealth management, international lending business, money market, foreign exchange and precious metals trading and custodial services.
- Commerzbank Eurasija SAO is headquartered in Moscow. Besides transaction advice, it mainly provides services in structured export and trade finance, electronic banking, international and lending business.
- Commerzbank Zrt. is a major corporate bank in Hungary. It is regarded in Germany as a foreign trade bank with particular expertise in small and medium-sized companies.
- Commerz Finanz GmbH, Munich is a joint venture between BNP Paribas Personal Finance S.A. and Commerzbank AG. The company focuses on customer finance services such as instalment loans and sales financing for the retail trade and e-commerce. Its product portfolio includes consumer loans and revolving card products.
- Commerz Markets LLC is a company of the financial services area (investment banking and venture capital) located in Wilmington, Delaware (USA).
- Dresdner Kleinwort Limited, London, was integrated into Commerzbank's Corporates & Markets segment as part of the acquisition of Dresdner Bank.
- Deutsche Schiffsbank AG based in Bremen and Hamburg is one of the world's leading banks for shipping finance. It has representative offices in international shipping centres, such as London, Athens and Hong Kong.
- Erste Europäische Pfandbrief- und Kommunalkreditbank AG (EEPK) in Luxembourg is focused on financing the public sector through loans to sovereigns, federal states, municipalities, public-sector companies, institutions and other public-sector bodies and to supranational and government bodies based in the EEA and OECD.
- Eurohypo AG is a specialist international bank concentrating on the two segments of real estate and public finance. It is one of Europe's leading banks for real estate finance.
- Public Joint Stock Company "Bank Forum" is one of Ukraine's big universal banks. Its main business is with private and corporate customers, focusing on small and medium-sized companies.

Table 36: Consolidation matrix (I)

Company	Classification acc. to KWG	Sub-classes	No.	Regulatory treatment: Consolidation	Regulatory treatment: Deduction method	Regulatory treatment: Risk-weighted investment	Consoli-dation under IFRS
Material companies							
Commerzbank AG	Banks	Universal banks	2	full			full
			10		yes		-
		Specialised banks	26		yes		-
			1	pro rata			at equity
	Financial companies	Investment companies	14	full			full
			24		yes		-
		Holding companies	3	full			full
			6		yes		-
		Other	27	full			full
			1	full			-
			1		yes		full
			28		yes		-
			3		yes		at equity
			1			yes	at equity
			1	pro rata			at equity
	Financial services institutions		2	full			full
			1		yes		full
			4		yes		-
			1		yes		at equity
	Special purpose vehicles		89	-	-	-	full
	Provider of second. services		13	full			full
	Other companies	Capital investment comp.	2	full			full
			1			yes	at equity
		Other	15			yes	full
			3			yes	at equity
BRE Bank S.A.	Banks	Universal banks	2	full			full
		Specialised banks	1	full			full
	Financial companies	Investment companies	1	full			full
			2		yes		-
		Other	5	full			full
			9		yes		-
	Financial services institutions		1	full			full
			1		yes		-
	Insurance companies		1		yes		full
	Other companies		2			yes	full

Table 36: Consolidation matrix (II)

Company	Classification acc. to KWG	Sub-classes	No.	Regulatory treatment: Consoli-dation	Regulatory treatment: Deduction method	Regulatory treatment: Risk-weighted investment	Consoli-dation under IFRS
Material companies							
comdirect bank AG	Banks	Universal banks	2	full			full
	Financial services inst.		1		yes		-
Commerz Real AG	Financial companies	Investment companies	9	full			full
			5	full			-
			3		yes		full
			101		yes		-
		Other	7	full			full
			13	full			-
			59		yes		-
			1		yes		at equity
	Financial services institutions		7	full			full
			1	full			-
			4		yes		-
	Other companies	Capital investment comp.	1		yes		-
		Other	3			yes	at equity
			25			yes	full
Commerzbank Europe (Ireland)	Banks	Universal banks	1	full			full
	Financial companies	Other	1		yes		-
Commerzbank International S.A.	Banks	Universal banks	1	full			full
	Financial services inst.		1		yes		-
	Financial companies	Other	1		yes		at equity
Commerzbank Eurasija SAO	Banks	Universal banks	1	full			full
Commerzbank Zrt.	Banks	Universal banks	1	full			full
Commerz Finanz GmbH	Banks	Universal banks	1	pro rata			at equity
Commerz Markets LLC	Financial services inst.		1	full			full
Dresdner Kleinwort Limited	Banks	Universal banks	1	full			full
	Financial companies	Investment companies	2	full			full
		Holding companies	1	full			full
		Other	4	full			full
			1		yes		-
	Prov. of second. services		1	full			full
	Other companies	Other	2			yes	full
Deutsche Schiffsbank AG	Banks	Specialised banks	1	full			full
Erste Europäische Pfandbrief- und Kommunalkreditbank AG	Banks	Specialised banks	1	full			full

Table 36: Consolidation matrix (III)

Company	Classification acc. to KWG	Sub-classes	No.	Regulatory treatment: Consoli-dation	Regulatory treatment: Deduction method	Regulatory treatment: Risk-weighted investment	Consoli-dation under IFRS
Material companies							
Eurohypo AG	Banks	Universal banks	2	full			full
		Specialised banks	1	full			full
	Financial companies	Investment companies	4		yes		full
			3		yes		-
		Holding companies	3	full			full
			1	full			-
			1	full			at equity
			1		yes		at equity
			1		yes		-
		Other	5	full			full
			2		yes		full
			2		yes		-
	Provider of secondary services		5	full			full
			21			yes	full
			2			yes	at equity
	Other companies	Other	4			yes	full
			1			yes	at equity
Public Joint Stock Company "Bank Forum"	Banks	Universal banks	1	full			full
Immaterial companies							
Banks		Universal banks	2	full			full
			2		yes		-
		Specialised banks	1	full			full
Financial services institutions			6	full			full
Financial companies		Investment companies	3	full			full
			1	full			-
			5		yes		-
			1			yes	at equity
		Holding companies	6	full			full
			3		yes		-
		Other	35	full			full
			1	full			-
			1		yes		full
			3		yes		-
			4		yes		at equity
Provider of second. services			4	full			full
			1	full			-
Other companies		Capital investment comp.	1	full			full
		Other	14			yes	full

List of tables

Table 1: Equity structure
Table 2: Reconciliation of reported equity with eligible capital
Table 3: Material instruments of other capital
Table 4: Material long-term subordinated liabilities
Table 5: Material capital pursuant to section 10.5 KWG
Table 6: Capital ratios of material Group entities
Table 7: Capital requirements by risk type
Table 8: Risk-taking capability in Commerzbank Group
Table 9: IRBA rating procedure
Table 10: EaD/RWA coverage Group
Table 11: IRBA exposures (EaD) by rating class – on-balance and off-balance
Table 12: IRBA exposures (EaD) of off-balance sheet positions by rating class – unutilized lending commitments
Table 13: IRBA exposures (EaD) of off-balance positions by rating class – other unutilized non-derivative off-balance sheet assets
Table 14: Exposures in the Standardized Approach to Credit Risk
Table 15: Collateralized SACR exposures
Table 16: Total collateralized IRBA exposures (EaD) – financial and other collateral/guarantees
Table 17: Assessment basis by country cluster (independent of segment)
Table 18: Assessment basis by sector
Table 19: Assessment basis by maturity
Table 20: Positive replacement values by risk type before/after netting/collateral
Table 21: Breakdown of credit derivative business in the banking and/or trading book
Table 22: Valuations of investment instruments
Table 23: Realized and unrealized profits/losses on investment instruments
Table 24: Securitization transactions with regulatory capital relief
Table 25: Retained and acquired securitization exposures by type of exposure
Table 26: Retained and acquired securitization exposures by type of asset
Table 27: Retained and acquired securitization exposures by risk weighting band
Table 28: Securitized assets outstanding
Table 29: Non-performing and in-arrears securitized assets
Table 30: Non-performing and in-arrears loans by sector
Table 31: Non-performing and in-arrears loans by country cluster
Table 32: Development of loan loss provisions
Table 33: Expected and realized losses
Table 34: VaR of portfolios in the trading book (based on regulatory capital requirement)
Table 35: Interest rate risk in the banking book
Table 36: Consolidation matrix

List of abbreviations

ABCP	Asset-backed Commercial Paper
ABS	Asset-backed Securities
AfS	Available for Sale
ALCO	Asset Liability Committee
AMA	Advanced Measurement Approach
ANL	Available Net Liquidity
BaFin	Bundesanstalt für Finanzdienstleistungsaufsicht (Federal Financial Supervisory Authority)
BIA	Basisindikatoransatz (Basic Indicator Approach)
BSL	Balance Sheet Liquidity
CCF	Credit Conversion Factor
CISAL	Commerzbank International S.A., Luxembourg
CMBS	Commercial Mortgage-backed Securities
COO	Chief Operating Officer
CP	Commercial Paper
CRE	Commercial Real Estate
CRMT	Credit Risk Mitigation Techniques
CRO	Chief Risk Officer
CVaR	Credit Value at Risk
DTS	Dynamic Trade Strategy
EaD	Exposure at Default
EEPK	Erste Europäische Pfandbrief- und Kommunalkreditbank AG, Luxembourg
EL	Expected Loss
ECB	European Central Bank
FCE	Forward Cash Exposure
GLLP	General Loan Loss Provisions
HGB	Handelsgesetzbuch (German Commercial Code)
IAA	Internal Assessment Approach
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
IRBA	Internal Ratings Based Approach
ISDA	International Swaps and Derivatives Association
ISIN	International Securities Identification Number
KRI	Key Risk Indicators
KWG	Kreditwesengesetz (German Banking Act)
LaD	Loss at Default
LaR	Loans and Receivables
LGD	Loss Given Default
LIP	Loss Identification Period
MaRisk	Mindestanforderungen an das Risikomanagement (Minimum Requirements for Risk Management)
NBFI	Non-Bank Financial Institution
NI	Non-impaired
OECD	Organisation for Economic Cooperation and Development
OpRisk	Operational Risk
ORX	Operational Riskdata eXchange Association, Zurich
P&L	Profit & Loss

PD	Probability of Default
PI	Portfolio Impaired
PortLLP	Portfolio Loan Loss Provisions
PRU	Portfolio Restructuring Unit
QSA	Quality Self-Assessments
RBA	Ratings Based Approach
RMBS	Residential Mortgage-backed Securities
RW	Risk Weight
RWA	Risk Weighted Asset
S&P	Standard & Poor’s
SAO	Russian legal form of a limited company
SFA	Supervisory Formula Approach
SIC	Standing Interpretations Committee
SLLP	Specific Loan Loss Provisions
SMEs	Small and medium-sized enterprises
SoFFin	Sonderfonds Finanzmarktstabilisierung (Special Fund for Financial Market Stabilisation)
SolvV	Solvabilitätsverordnung (German Solvency Regulation)
Sp. z o.o.	Polish legal form of a limited company
SPV	Special Purpose Vehicles
VaR	Value at Risk
Zrt.	Hungarian legal form of a limited company

Disclaimer

Reservation regarding forward-looking statements

This report contains forward-looking statements on Commerzbank's business and earnings performance, which are based upon our current plans, estimates, forecasts and expectations. The statements entail risks and uncertainties, as there are a variety of factors which influence our business and to a great extent lie beyond our sphere of influence. Above all, these include the economic situation, the state of the financial markets worldwide and possible loan losses. Actual results and developments may, therefore, diverge considerably from our current assumptions, which, for this reason, are valid only at the time of publication. We undertake no obligation to revise our forward-looking statements in the light of either new information or unexpected events.

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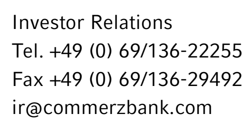

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