COMMERZBANK

Disclosure Report 2011

Disclosure in accordance with the German Solvency Regulation as at December 31, 2011

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Contents

3 **Introduction**

6 **Equity capital**

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

16 **Risk-oriented overall bank management**

- 16 Risk management organisation
- 17 Risk strategy and risk management
- 18 Risk-taking capability and stress testing

20 **Specific risk management**

- 20 Default risk
  - 20 Credit risk strategy
  - 21 Risk quantification
  - 32 Risk management
  - 36 Summary of default risks
  - 39 Default risks arising from derivative positions
  - 41 Investments in the banking book
  - 44 Securitisations
- 57 Intensive care
- 62 Market risk
  - 62 Market risk strategy
  - 63 Risk quantification
  - 67 Risk management
  - 67 Interest rate risk in the banking book
- 69 Liquidity risk
  - 69 Liquidity risk strategy
  - 70 Risk quantification
  - 72 Risk management
  - 72 Further development of liquidity risk management and Basel III
- 73 Operational risk
  - 73 OpRisk strategy
  - 74 Risk quantification
  - 75 Risk management
- 76 Other risks

77 **Appendix**

- 77 Consolidation matrix and material Group entities
- 81 List of tables
- 83 List of abbreviations

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

Introduction

Commerzbank AG is Germany's second largest bank, one of its leading banks for private and corporate customers and a major financial institution within Europe. Our customers have around 1,200 branches at their disposal, one of the densest networks of any private-sector bank in Germany. Commerzbank serves a total of around 15 million private customers and 1 million business and corporate customers worldwide. 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 core segments Private Customers, Mittelstandsbank, Corporates & Markets and Central & Eastern Europe, which are at the heart of Commerzbank. Other segments that are not part of the core bank are Asset Based Finance and Portfolio Restructuring Unit. 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 Audit, Group Communications, Group Compliance, Group Development & Strategy, Group Finance, Group Finance Architecture, Group Human Resources, Group Investor Relations, Group Legal, Group Treasury and central risk functions. The support functions are provided by Group Services. These include Group Banking Operations, Group Markets Operations, Group Information Technology, Group Organisation, Group Security and Group Support. The responsibilities of the Board of Managing Directors are also clearly defined for all these functional units. The staff, management and support functions are combined in the Others and Consolidation division for external reporting purposes.

On the domestic market, Commerzbank AG is headquartered in Frankfurt am Main, from where it manages a nationwide branch network through which all customer groups are served. Its major German subsidiaries are Eurohypo AG, comdirect bank AG, Commerz Real AG and Deutsche Schiffsbank AG, which will be merged into Commerzbank in 2012. Outside of Germany, the Bank has 8 material subsidiaries, 25 operational foreign branches and 33 representative offices in 51 countries and is represented in all the 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 2011, Commerzbank Group employed 58,160 members of staff.

A comprehensive review of the Commerzbank Group may be found in the 2011 Annual Report. Information regarding the remuneration system of Commerzbank is laid down in the Remuneration report 2011 according to the German InstitutsVergV (Instituts-Vergütungsverordnung) as well as in the section Remuneration Report in the 2011 Annual Report.

Objectives of the disclosure report

In this report Commerzbank AG 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, 2011.

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 annual report pursuant to the German Commercial Code (Handelsgesetzbuch – HGB), 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 the context of the solvability requirements (section 26a KWG in connection with sections 319 following SolvV) besides the disclosure report itself, all policies and processes have to be documented as a main component to fulfil the pillar III requirements. The appropriateness and practicality of the institute’s solvability practice has to be verified regularly. For this purpose Commerzbank has defined guidelines for the solvability report which regulate the overarching, strategic part of the internal instructions. The operative targets and responsibilities are defined in addition in separate documents.

The disclosure report is being updated and published on a yearly basis. 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.

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. Compared to the previous year the number of

material entities remained at 15 whereas Dresdner Kleinwort Limited was replaced with Commerzbank Holdings (UK) Limited.

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. For selected indicators we are also providing prior-year figures. However the group of consolidated companies has not been restated retroactively for the prior year figures.

With the exception of Commerz Finanz 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 among others 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 AG 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 AG as the ultimate parent company of Commerzbank Group to be exempted from the requirements at single-entity level has been utilised. In particular, Commerzbank AG is integrated in Commerzbank Group's management system and there are no legal or other obstacles to the transfer of capital to Commerzbank AG.

Application of the waiver rule has been reported to the Bundesbank and BaFin together with evidence of compliance with the requirements and is subsequently monitored and documented on occasion.

[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 I) as defined in section 10.2a KWG, supplementary capital (Tier II) as defined in section 10.2b KWG and Tier III 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 III capital, viewed as a lower-quality component of capital, consists of short-term subordinated liabilities. Tier III capital may only be used to back market risks.

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

The following table shows the regulatory equity structure:

Table 1: Equity structure

Equity position | €m	31.12.2011	31.12.2010
Total core capital pursuant to sec. 10.2a KWG (total Tier I)	**26,189**	**31,727**
Core capital without hybrid instruments (core Tier I)	23,443	26,728
Subscribed capital	5,113	3,047
Capital reserve and retained earnings (incl. year-end-result)	11,796	2,696
Other reserves incl. own pledged shares	7,768	7,665
Non-controlling interests	721	807
Other core capital – silent participation (SoFFin)	1,937	16,428
Items 100 % deducted from Tier I capital pursuant to sec. 10.2a sentence 2 KWG	−2,855	−2,892
thereof intangible assets	−950	−1,020
thereof goodwill	−1,905	−1,872
50% deduction from Tier I capital pursuant to sec.10.2a, sentence 2 no. 6 KWG	−1,037	−1,023
thereof deductible investments in financial sector	−159	−189
thereof advance payment risk >5 days outstanding	−6	−2
thereof securitisation positions not risk weighted	−872	−457
thereof depreciation loss	0	−375
Other capital[1]	2,746	4,999
thereof unlimited and without incentive to redeem	1,632	1,841
thereof limited or with incentive to redeem	1,114	3,158
Total supplementary capital pursuant to sec. 10.2b KWG (Tier II)	**10,371**	**9,130**
Capital pursuant to sec. 10.5 KWG (former: profit sharing certificates)	726	674
Long-term subordinated liabilities pursuant to sec. 10.5a KWG	10,533	9,328
Eligible allowance surplus	88	0
Revaluation reserve/unrealised profits from securities positions	61	148
50% deduction from Tier II capital pursuant to sec. 10.2b.2, 10.6.and 6a KWG	−1,037	−1,020
thereof deductible investments in financial sector	−159	−188
thereof advance payment risk >5 days outstanding	−6	−2
thereof securitisation positions not risk weighted	−872	−456
thereof depreciation loss	0	−374
Total Tier III capital pursuant to sec. 10.2c KWG	**0**	**0**
Modified available capital	**36,560**	**40,857**
Risk weighted assets		
Default risks	189,763	232,438
Market risk	20,503	13,238
Operational risk	26,328	21,825
Total	**236,594**	**267,500**
Capital ratios | %		
Core Tier I ratio	**9.9**	**10.0**
Tier I capital ratio	**11.1**	**11.9**
Total capital ratio	**15.5**	**15.3**

[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]

Table 2: Reconciliation of reported equity with eligible capital

31.12.2011 €m	Core capital/ equity	Supplementary/subordinated capital	Total
Reported in balance sheet	24,803	13,285	38,088
Revaluation reserve	2,511		2,511
Cash flow hedge reserve	810		810
Non-controlling interests not to be shown in core capital (incl. revaluation reserve, cash flow hedge reserve), changes in consolidated companies and goodwill	−1,686		−1,686
Other capital subject to a 15% limit	1,114		1,114
Other capital subject to a 35% limit	1,632		1,632
Reclassification from silent participations to other capital	−750		−750
Parts of subordinated capital not eligible due to limited residual term		−1,210	−1,210
Latent revaluation reserves for securities		61	61
Other differences	−2,245	−1,765	−4,010
Eligible equity	**26,189**	**10,371**	**36,560**

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 1, 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.[2]

[1] The Consolidated Financial Statements Reconciliation Regulation (Konzernabschlussüberleitungsverordnung) dated July 22, 2009.
[2] Details on revaluation effects may be found in the 2009 Annual Report.

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

Subscribed capital

The subscribed capital (share capital) of Commerzbank AG consists of no-par-value shares, each with an accounting par value of €1.00. The shares are issued in bearer form. At the AGM on May 6, 2011, it was resolved to redenominate the notional par value of a Commerzbank share from €2.60 to €1.00. As a result, the subscribed capital of Commerzbank AG pursuant to the Bank’s articles of association stood at €5,113,4m as at December 31, 2011 and was divided into 5,113,429,053 no-par-value shares. After deducting the 863,010 treasury shares held by the Bank on December 31, 2011, the subscribed capital amounted to €5,112,6m. There are no preferential rights or restrictions on the payment of dividends at Commerzbank AG. All shares in issue are fully paid up.

Other core capital – silent participations (SoFFin)

The Financial Market Stabilisation Fund (SoFFin) provided Commerzbank with silent participations of €8.2bn each as at December 31, 2008 and June 4, 2009. These silent participations were reduced by €14.5bn from €16.4bn to €1.9bn during 2011 through a number of capital measures. In addition to the repayment of €11.0bn of silent participations as a result of the capital measures, a further €3.27bn of silent participations was repaid to SoFFin in June 2011 out of free regulatory capital. In connection with the capital measures a non-recurring payment of €1.03bn was agreed with SoFFin as compensation for the early repayment of the silent participations. Details regarding the conditions of the silent participations can be found in the 2011 Annual Report on page 277. No interest was payable on the silent participations in 2011 as the conditions for the payment of interest were not met. The silent participations have an indefinite term.

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.

In financial year 2011 interest of €152m (previous year: €155m) was payable on hybrid capital. Hybrid capital forms part of the Bank's liable equity capital. Interest payments are due in accordance with the issue conditions of the instrument. The claims of holders of hybrid instruments to repayment of their capital are subordinate to the claims of creditors of the liabilities reported under subordinated liabilities and profit-sharing certificates.

In 2011, parts of the Trust Preferred Securities (TruPS) of the Commerzbank Capital Funding Trust I to III and the Eurohypo Capital Funding Trust I to II were repurchased. In January 2011, TruPS with a nominal value of €0.9bn were contributed as non-cash contributions against payment in shares (for further details, see page 207 of the 2011 Annual Report). In December 2011, Commerzbank repurchased TruPS with a nominal volume of €1.3bn. The redemption increased the Bank's core Tier I capital. These two measures reduced our hybrid capital by €2.2bn in financial year 2011. Beyond this there were no significant changes. At the end of 2011, 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 AG	6.932	unlimited	31.12.2016
1999	773	1,000	USD	Dresdner Capital LLC I	8.151	2031	30.6.2029
2009	750	750	EUR	Commerzbank AG	9.000	unlimited	8.6.2014
2003	306	306	EUR	Eurohypo Capital Funding Trust I	6.445	unlimited	23.5.2013
2006	190	190	EUR	Commerzbank Capital Funding Trust I	5.012	unlimited	12.4.2016
2006	186	186	EUR	Commerzbank Capital Funding Trust III	2.524	unlimited	18.12.2012
2005	152	152	EUR	Eurohypo Capital Funding Trust II	3.486	unlimited	
2006	138	116	GBP	Commerzbank Capital Funding Trust II	5.905	unlimited	12.4.2018

Long-term subordinated liabilities

The long-term subordinated liabilities are Tier II 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.

In 2011, the volume of subordinated liabilities maturing amounted to €0.9bn, redemptions to €1.3bn and new issues to €3.1bn. Beyond this there were no significant changes in the reporting year.

At the end of 2011, 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
2011	1,254	1254	EUR	Commerzbank AG	6.375	2019
2011	1,250	1250	EUR	Commerzbank AG	7.750	2021
2007	600	600	EUR	Commerzbank AG	1.815[1]	2017
2006	502	502	EUR	Commerzbank AG	2.337[1]	2016
2008	500	500	EUR	Commerzbank AG	6.250	2014
2009	386	500	USD	Commerzbank AG	7.250	2015
2011	322	322	EUR	Commerzbank AG	5.000	2018
2011	300	300	EUR	Commerzbank AG	5.000	2018
2007	273	273	EUR	Commerzbank AG	5.625	2017
2003	250	250	EUR	Eurohypo AG	5.000	2016
2009	250	250	EUR	Commerzbank AG	5.000	2017
2006	227	300	CAD	Commerzbank AG	2.159[1]	2016
2003	220	220	EUR	Eurohypo AG	5.000	2014
1999	180	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-2011, the following material capital instruments 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. In specific cases capital transfers to entities belonging to the Group are subject to prior consent by the supervisory authorities.

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 AG, 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 as well as Commerz Markets LLC and Commerzbank Holdings (UK) Limited as non-regulated companies 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	Total capital ratio %	Core capital ratio %
Eurohypo AG	4,064	17.3	12.9
BRE Bank SA	1,185	15.0	9.6
Deutsche Schiffsbank AG	707	12.5	9.2
Commerz Finanz GmbH	205	10.5	10.5
Commerzbank Europe (Irleand)	129	22.1	22.1
Public Joint Stock Company "Bank Forum"	106	23.6	13.4
Erste Europäische Pfandbrief- und Kommunal-kreditbank AG in Luxemburg	97	30.9	28.2
Commerzbank International S.A.	68	111.7	55.8
Commerzbank (Eurasija) SAO	60	43.9	43.4
Commerzbank Zrt.	51	14.4	11.8

The above table shows that all relevant entities are currently reporting an adequate total 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.

There were significant changes in capital requirements and capital ratios for some units compared with the previous year:

- At the Public Joint Stock Company “Bank Forum” the Tier I capital fell in 2011 due to losses. Simultaneously with the fall in capital requirements the Tier I capital ratio fell from 20.3% to 13.4% (and a fall in the total capital ratio from 28.4% to 23.6%).
- At Commerz Finanz GmbH the expansion in the lending business in 2011 led the capital requirements to increase by €65m to €205m. This led to a fall in the total and Tier I capital ratios from 14.6% to 10.5% respectively.
- At Erste Europäische Pfandbrief- und Kommunalkreditbank AG the total capital ratio fell from 38.8% to 30.9% and the Tier I capital ratio from 35.2% to 28.2%. This was largely due to changes in risk weightings as a result of consultations with the Luxembourg regulator.
- At Commerzbank International S.A. the capital ratios rose sharply, as substantial parts of its operations were transferred to the Luxembourg branch of Commerzbank AG, but its capital remained unchanged. This led to a jump in the total capital ratio from 41.6% to 111.7% (and in the Tier I capital ratio from 20.8% to 55.8%).
- At Commerzbank (Eurasija) SAO risk-weighted assets increased in 2011, which led to a corresponding rise in capital requirements. Tier I capital rose simultaneously as a result of retention of earnings and this partly compensated for the rise in RWAs. As a result, the Tier I capital ratio fell by less (from 45.4% to 43.4%) than the total capital ratio (from 53.5% to 43.9%).

There was no under-capitalisation 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 Basel II Pillar 1.
The regulatory capital requirements as well as the Risk Weighted Assets (RWA) are shown for each risk type, broken down into the different calculation approaches:

Table 7: Capital requirements and risk weighted assets by risk type

€m	31.12.2011		31.12.2010	
	Capital requirements	Risk weighted assets	Capital requirements	Risk weighted assets
Default risks	**14,987**	**187,333**	**18,416**	**230,195**
Standardised Approach to Credit Risk (SACR)	**3,928**	**49,100**	**4,542**	**56,772**
Central governments	26	326	41	509
Regional governments and local authorities	17	216	14	177
Other public sector bodies	70	871	73	915
International organisation (as defined by SolvV)	0	0	0	0
Banks	298	3,723	193	2,408
Multilateral development banks	0	0	0	0
Companies	2,021	25,258	2,573	32,165
Exposures secured by real estate property	334	4,174	318	3,972
Retail banking	698	8,722	686	8,580
Debt instruments backed by banks	7	88	10	129
Investment fund shares	83	1,042	117	1,465
Other exposures	162	2,031	282	3,526
Overdue exposures	212	2,649	234	2,925
Advanced approach (IRBA)	**10,392**	**129,899**	**13,295**	**166,188**
Central governments	518	6,479	338	4,231
Banks	1,848	23,094	2,378	29,728
Companies	6,948	86,856	9,101	113,766
Retail banking	901	11,263	1,304	16,295
Other non-loan based assets	177	2,208	173	2,167
Securitisation risks	**481**	**6,016**	**394**	**4,928**
Securitised positions (IRBA)	481	6,016	394	4,928
thereof resecuritisations	109	1,358	0	0
Investment risks	**185**	**2,319**	**185**	**2,306**
Investments (Grandfathering)	185	2,319	185	2,306
Market risks	**1,638**	**20,471**	**1,055**	**13,191**
Standardised Approach	**86**	**1,072**	**77**	**958**
Interest rate risk	**25**	308	**18**	229
thereof general price risk	**19**	232	**12**	154
thereof specific price risk	**6**	76	**6**	74
Specific price risk securitisations	**5**	63	**0**	0
Currency risk	**56**	702	**58**	728
Equity risk	**0**	0	**0**	1
Commodity price risk	**0**	0	**0**	0
Option risk	**0**	0	**0**	0
Internal model approach	**1,552**	19,399	**979**	12,232
Operational risks	**2,090**	26,127	**1,731**	21,638
Basic Indicator Approach (BIA)	**38**	472	**34**	428
Advanced Measurement Approach (AMA)	**2,052**	25,655	**1,697**	21,210
Total	**18,715**	233,932	**21,202**	265,023

Around 80% 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, €0.9bn 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 Standardised 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.

Securitised positions in the banking book as well as counterparty risk positions from market value hedges in connection with securitisations also fall under the category of default risk positions subject to a capital requirement. Commerzbank treats these positions according to the IRBA rules for securitised positions. Capital deduction items of securitisations 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 was 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. In December 2011 the BaFin has approved the internal market risk model. The figures for 2011 shown in table 7 are based on the newly approved model. This affects both the equity price and interest rate-related risk positions in the trading book. The standardised 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 approximately €2.1bn 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 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. We take the differences between the two separate models into account by applying an appropriate surcharge.

Risk-oriented overall bank management

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

Risk management organisation

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

The Bank's Chief Risk Officer (CRO) is responsible for implementing the Group's risk policy guidelines for quantifiable risks laid down by the Board of Managing Directors. The CRO regularly reports to the Board of Managing Directors and the Risk Committee of the Supervisory Board on the overall risk situation within the Group.

Risk management activities are split between Credit Risk Management, Market Risk Management, Intensive Care and Risk Controlling, and Capital Management, all of which span across the group and report directly to the CRO. The heads of these four risk management divisions together with the CRO make up the Risk Management Board within Group Management. The Board of Managing Directors has delegated the operational management of risk to committees. Under the relevant rules of procedure these are the Group Credit Committee, the Group Market Risk Committee and the Group OpRisk Committee, in addition to the Group Strategic Risk Committee which decides on risk issues of an overarching nature. The CRO chairs all these committees and has the right of veto.

Commerzbank's Asset Liability Committee has responsibility for the group-wide management of portfolio composition, capital allocation and development of RWAs, and is the major instigator of the internal capital adequacy assessment process (ICAAP).

Risk strategy and risk management

The risk strategy, together with the business strategy, defines the strategic guidelines for the development of Commerzbank's investment portfolio. Risk-taking capability and liquidity are ensured by setting concrete limits for the risk resources available to the Group in the form of capital and liquidity reserves.

Banks' core functions as transformer of liquidity and risk might result in inevitable threats that can in an extreme case endanger the business continuity of the institution. For Commerzbank, these implied existential threats are e.g. the default of Germany, Poland, one of the other major EU countries (France, Italy, Spain or the UK) or of the USA, respectively a collapse in the basic repo functionality of the ECB. Pursuing our business targets, those risks are taken deliberately and lie out of scope of the management defined within our Group risk strategy.

The overall risk strategy covers all material risks to which Commerzbank is exposed. It is detailed further in the form of sub-risk strategies for the risk types which are material. These are then specified and made operational through policies, regulations and instructions/guidelines. The annual risk inventory process ensures that all quantifiable and unquantifiable risks material to the Group are identified. The assessment of the materiality of a risk is based on whether its occurrence could have a major direct or indirect impact on the Bank's risk-taking capability.

As part of the planning process, the Board of Managing Directors uses stress scenarios to decide on the extent to which the capital available to the Bank for risk coverage should be utilised. The Board sets the risk appetite at Group level by consciously defining a capital framework as part of the capital available for risk coverage. In a second step, as a result of the planning process this capital framework is broken down into limits for each risk category and allocated to the relevant units. Compliance with limits and guidelines is monitored during the year and action taken where required.

The avoidance of risk concentrations is a core strategy of risk management. Risk concentrations can arise both from the synchronous movement of risk positions within a risk type ("intra-risk concentrations"), and through the synchronous movement of risk positions across differing risk types (through common risk drivers or interactions between different risk drivers of various risk types – "inter-risk concentrations").

The establishment of adequate risk management and controlling processes, which enable the identification, assessment, management, monitoring and communication of substantial risks and related risk concentrations, serves to ensure that all Commerzbank-specific risk concentrations are adequately accounted for. A major objective is to ensure early transparency regarding risk concentrations, and thus to reduce the potential risk of losses. Commerzbank uses a combination of portfolio and scenario analyses to identify Commerz-bank-specific inter-risk concentrations. Stress tests are used to deepen the analysis of risk concentrations and, where necessary, to identify new drivers of risk concentrations.

Management is regularly informed about the results of the analyses.

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 the Commerzbank Group at all times.

Commerzbank monitors risk-taking capability using a gone concern approach which seeks primarily to protect unsubordinated lenders. This objective should be achieved even in the event of extraordinarily high losses from an unlikely extreme event.

When determining the economic capital required, allowance is made for potential unexpected fluctuations in value. Where such fluctuations exceed forecasts, they must be covered by available economic capital in order to absorb unexpected losses (capital available for risk coverage). The quantification of capital available for risk coverage is based on a differentiated view on the accounting values of assets and liabilities and involves economic valuations of certain balance sheet items.

The capital requirement for the risks taken is quantified using the internal economic capital model. When setting the economic capital required, allowance is made for all the types of risk at Commerzbank Group that are classified as material in the annual risk inventory. The economic risk approach therefore also includes risk types that are not included in the regulatory requirements for banks' capital adequacy and reflects the effect of portfolio-specific interrelationships. The confidence level of 99.91% in the economic capital model is in line with the underlying gone concern assumptions and ensures the economic risk-taking capability concept is internally consistent.

Risk-taking capability at Commerzbank Group level is monitored and managed monthly at Group level. Risk-taking capability is assessed based on the utilisation of the capital available for risk coverage, and is deemed to be assured as long as utilisation is below 100%. In 2011, the utilisation level was consistently well below 100% and was 81.5% as at December 31, 2011.

Table 8: Risk-taking capability in Commerzbank Group

Risk-taking capability Commerzbank Group | €bn	31.12.2011[2]	31.12.2010[3]
Capital available for risk coverage	**27**	**36**
Economically required capital	**22**	**20**
thereof for credit risk	13	14
thereof for market risk	8	6
thereof for operational risk	2	3
thereof for business risk	2	2
thereof diversification between risk types	−4	−4
Utilisation level[1]	**81.5%**	**56.8%**

[1] Utilisation level = economically required capital/capital available for risk coverage.
[2] Based on current methodology from the first quarter of 2011; only partially comparable to values for 2010.
[3] 2010 figures based on methodology as at December 31, 2010.

The higher utilisation level during the year under review was mainly due to the increase of the economically required capital for market risk, which was driven by heavy capital markets turmoil in the second half of 2011, as well as the decrease of capital available for risk coverage. The main drivers of the change in capital available for risk coverage were the capital measure carried out in 2011 in order to repay most of the SoFFin's silent participation as well as actions taken to strengthen our capital structure and the development of the Public Finance portfolio as a consequence of the crisis.

Macroeconomic stress tests are also used to check risk-taking capability in the face of assumed adverse changes in the economic environment. The underlying scenarios, which are updated regularly every quarter, show exceptional, but plausible, negative developments in the economy 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. The risk-taking capability in stress scenarios is also assessed based on utilisation of the capital available for risk coverage. The utilisation level in the stress case was consistently below 100% in 2011.

We also developed our risk-taking capability and stress test concept during 2011. The risk-taking capability concept was extended in accordance with regulatory requirements defined in Germany and applied correspondingly throughout 2011. In addition to the regular stress tests, "reverse stress tests" were first implemented at Group level in 2011. Contrary to regular stress testing, the result of the simulation is determined in advance: a sustained threat to the business model. The aim of this analysis process in the reverse stress test is to improve the transparency of Bank-specific risk potentials and interactions of risk via the identification and assessment of extreme scenarios and events.

Specific risk management

Default risk

Default risk refers to the risk of losses due to defaults by counterparties as well as to 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 the partial risk strategy for default risks and is derived from the overall risk strategy. It is embedded in the ICAAP process of the Commerzbank Group and therefore contributes to ensuring risk-taking capability. The credit risk strategy serves as the bridge between the Bank's overall risk management across all risk types and the operationalising of default risk management. It relies on quantitative and qualitative management tools.

Quantitative management takes place via clearly defined (economic and regulatory) key figures at a Group and segment/sub-segment level with the aim of ensuring an adequate portfolio quality and granularity in addition to risk-taking capability.

Qualitative management guidelines in the form of credit policies define the target business of the Bank and at the level of individual transactions they regulate the transaction type with which the risk resources provided are to be exploited. These credit policies are firmly embedded in the credit process: Transactions which do not meet the requirements are subject to competence escalations.

The credit risk strategy describes the strategic areas of action and gives an overview of the important management concepts in credit risk management – particularly for the management of the most important risk concentrations (groups, countries, sectors).

Risk quantification

The quantification of default risks largely takes place through a group-wide credit portfolio model in combination with internally developed rating systems. It draws on the risk parameters “probability of default” (PD), “exposure at default” (EaD[1]) and “loss given default” (LGD), which are based on internal models and estimates. These parameters are used to determine the expected and unexpected loss on each individual default risk, which are key risk management variables. The expected loss measures the potential loss on a loan portfolio that can be expected within a single year on the basis of historical loss data. The unexpected loss (Credit Value at Risk – CVaR) reflects the default risk over and above the expected loss and is backed by economic equity capital.

Loan portfolio model

Using a loan portfolio model allows the Bank to estimate the probability of possible losses in the lending business and therefore provide key figures on credit risk management and monitoring. The loan portfolio model contains a wide range of data and parameters that are closely linked to the parameters for Basel II. These include, firstly, the transaction and customer data containing precise information on the commitment amount, the creditworthiness, the expected loss ratios and the customer's sector. And secondly, they also include specific model parameters which provide information on the correlations and therefore potential dependencies and diversification effects between various sectors and countries.

Commerzbank’s risk model is an in-house model which, as with the CreditMetrics or Moody's KMV model, is based on the asset value approach. A Monte Carlo simulation simulates the goodwill of the borrowers and borrowing entities and derives changes to a borrower's creditworthiness and default risk from the corresponding realisations. The model's high degree of flexibility allows it to adequately map complex portfolio risks such as the risk arising from structured credit products. The risk-mitigating effects of the Bank's own securitisation positions can also be measured using the loan portfolio model.

Rating architecture

A key component of Commerzbank's rating architecture is the use of “single point of methodology” rating procedures, which takes advantage of a central suite of computation kernels. This uniform process architecture not only facilitates risk management and monitoring but also prevents rating arbitrage within the 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 for data collection, calculating ratings and monitoring and management.

The use of rating processes is an essential component of risk assessment in the Commerzbank Group, irrespective of regulatory requirements. The resulting ratings are then used in the front and back office credit decision-making processes, the internal management processes to determine loan loss provisions under IFRS and in the internal measurement of the CVaR and risk-taking capability. Rating processes which had already been approved, were further revised and improved in 2011. The main aim of these improvements was to achieve more accurate risk forecasts and improved management mechanisms.

[1] Economic EaD: Expected loan amount taking into consideration a possible (partial) drawing of undrawn lines and contingent liabilities which will charge the risk-taking capability in the case of default. The EaD of securities in the public finance portfolio is equal to the nominal.

The table below shows the rating processes used in the IRBA and their main elements as of the reporting date.

Table 9 IRBA rating procedure

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

[1] The calculated figures may be adjusted by analysts.

Hard facts refer to system-based factors which are used in the rating process and allow no scope for interpretation, e.g. data from companies' annual financial statements, the income of a private individual, or the age of the documents being used.

Soft facts refer to structured 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 downstream area of analysis where there is a further opportunity for the analyst to assess circumstances separately based on his or her personal judgement. The system result can hereby be adjusted upwards or downwards with the relevant reason for the decision being documented. Overruling should particularly be used when there are strongly fluctuating developments (e.g. market changes) such that an adequate assessment of a company's situation based on the analysis of statistical information (e.g. annual financial statements) is not sufficient to give a future-oriented probability of default. Due to the degree of freedom this gives the rating process, overruling is subject to strict standards and regular monitoring.

The Commerzbank rating method comprises 25 rating levels for loans not in default (1.0 to 5.8) and five default classes (6.1 to 6.5). The Commerzbank master scale allocates a non-overlapping range of probabilities of default that are stable over time to each rating class. The rating processes are subject to annual validation and recalibration procedures so that they reflect the latest assessment results based on the actual observed defaults. Consistent with the master scale method, the default ranges assigned to the ratings within the Commerzbank master scale remain unchanged for the purpose of comparability (stable over time and for the portfolio). External ratings are shown as well for guidance. A direct reconciliation is not possible, however, because external ratings of different portfolios show fluctuating default rates from year to year.

Commerzbank master scale

Commerzbank AG rating	PD and EL mid-point as percentage	PD and EL range as percentage	S&P		
1.0	0	0	AAA	AAA	Investment grade
1.2	0.01	0–0.02			
1.4	0.02	0.02–0.03	AA+	AA	
1.6	0.04	0.03–0.05	AA, AA–		
1.8	0.07	0.05–0.08	A+, A	A	
2.0	0.11	0.08–0.13	A–		
2.2	0.17	0.13–0.21	BBB+	BBB	
2.4	0.26	0.21–0.31	BBB		
2.6	0.39	0.31–0.47			
2.8	0.57	0.47–0.68	BBB–		
3.0	0.81	0.68–0.96	BB+	BB	Non-investment grade
3.2	1.14	0.96–1.34	BB		
3.4	1.56	1.34–1.81			
3.6	2.10	1.81–2.40	BB–		
3.8	2.74	2.40–3.10	B+	B	
4.0	3.50	3.10–3.90			
4.2	4.35	3.90–4.86	B		
4.4	5.42	4.86–6.04			
4.6	6.74	6.04–7.52			
4.8	8.39	7.52–9.35	B–		
5.0	10.43	9.35–11.64			
5.2	12.98	11.64–14.48	CCC+	CCC	
5.4	16.15	14.48–18.01			
5.6	20.09	18.01–22.41	CCC to CC–		
5.8	47.34	22.41–99.99			
6.1		>90 days past due	C, D-I, D-II		Default
6.2		Imminent insolvency			
6.3	100	Restructuring with recapitalisation			
6.4		Termination without insolvency			
6.5		Insolvency			

As of the reporting date, the Bank had registered more than 80% of its loan portfolio using the IRBA process. This means that for these loans and receivables, the internal credit rating and the internal assessment of collateral proceeds 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, the standardised approach for credit risk (SACR) applies, under which fixed risk weightings are used inclusively or based on external assessments of the borrower's creditworthiness. Commerzbank has defined a timetable for the gradual migration of the SACR portfolio to the IRBA.

Risk parameters

In addition to classifying the default risk within the scope of the rating process, correctly assessing loss severity is essential for a reliable and holistic risk assessment. The loss severity is determined firstly by the exposure at default (EaD) and secondly by the loss given default (LGD).

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

LGD is primarily determined by the expected proceeds from collateral and unsecured portions of loans. Proceeds from collateral are modelled via recovery rates representing a discount on the previously defined market value. The recovery rate depends on the characteristics of the collateral, e.g. when modelling for properties, the collateral is differentiated by property type and location. To determine the proceeds 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 bank-internal empirical loss data whereby experts, particularly from the back office and workout departments, are used to identify relevant factors and verify the plausibility of results.

For this purpose, Commerzbank refers to 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 collection process is monitored by a number of manual and automatic checking procedures to ensure the quality of the data.

Both the internal and regulatory requirements of the German Solvency Regulation 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 results. In areas with only a small number of historical default or collateral utilisation cases, the empirical analyses are supplemented with expert assessments. 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 suitability of the models was verified by the Bundesbank and the German Financial Supervisory Authority (BaFin) as part of the inspection prior to the granting of authorisation for the advanced IRBA.

Finally, combining the above components yields an assessment of the expected loss (EL = EaD*PD*LGD) and the risk density as a ratio of EL to EaD (EL to EaD in basis points). Both the percentage probability of borrower default (customer rating) and the risk density of a loan commitment (credit rating) are assigned to rating levels using an internal master scale.

Validation

Pursuant to section 147 ff. of the German Solvency Regulation (SolvV), as risk classification procedures, rating systems are subject to a regular validation and calibration of parameters. Risk Control, which is independent of the front office units, is responsible for preparing the validation reports. Any particular irregularities and necessary changes are presented to the Strategic Risk Committee for approval. Regular monitoring of procedures is an additional system control element. Internal Audit carries out an annual review of the quality of the rating processes used by inspecting the validation and monitoring measures and verifying the methods and processes used.

For the validation measures, a distinction is made between quantitative and qualitative reviews of the rating processes. A uniform validation concept that prescribes specific standardised analyses for all rating processes and defines process-specific obligatory analyses, forms the basis for the reviews. Internal historical data is used for the validation measures. If necessary, this data can be supplemented by purchasing data from external providers (e.g. when analysing shadow rating processes). This database allows a long-term assessment of model stability and quality over time, whereby the discriminatory power and forecast performance of a procedure serve as important indicators.

Quantitative validation involves comparing the forecasts for the risk parameters determined as well as the rating processes, with the reality over the course of the assessment period. The quality of the forecasts is verified using statistical methods. For example, Gini coefficients, concordance indices and hit rate analyses are used to assess the selectivity whilst various statistical tests are performed to assess the calibration. All of the analysis results are grouped and evaluated using a traffic-light system. If the standards and limits that have been defined in the validation concept are fallen short of, concrete action must be taken once the cause of the error has been clearly established, e.g. activities for the improvement of data quality or a revision of the assessed process.

Qualitative validation, also described as a use test, is carried out in cooperation with the users of the rating process and particularly takes procedural conditions into consideration.

Asset Quality Reviews established in the back office also guarantee a continuously reliable data quality for parameter-based risk management. 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 basis for the management measures based on these reports. In addition, this complies with the obligation to review ratings on an annual basis.

Each of Commerzbank's approved IRBA rating processes is validated at least once a year according to the internal directives and requirements of the German Solvency Regulation. The validation comprises a quantitative testing of the calibration and predictive power of the rating process and a qualitative evaluation of the risk assessment. The validations performed in 2011 led to a recalibration of the rating process for commercial real estate and ship financing als well as NBFI-clients. Further on, the shadow rating procedure for US local authorities was adjusted and recalibrated due to changes in the external rating system.

The parameters used to forecast EaD and LGD were partly updated due to an expanded historical database. This led to adjustments of the corresponding forecast values for corporates, private customers, banks and commercial real estate. The effects of the recalibration measures will only be partially realised during the course of 2012, whereby a release of RWA in the single-digit billion range is expected.

Commerzbank Group's IRBA 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 structuring of the rating classes corresponds to the Commerzbank internal management via the PD master scale. These have been grouped into five main classes for reasons of clarity. Rating class 6 comprises borrowers in default according to IRBA regulations, whereby the IRBA definition of default is also 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 (RW).
The IRBA exposure value refers to the exposure values to be defined according to section 99 of the German Solvency Regulation (SolvV). These represent the expected amounts of the IRBA position that will be exposed to a risk of loss. The exposure value for 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 therefore also use internal estimates for credit conversion factors (CCF) for regulatory purposes. CCFs are necessary for off-balance sheet transactions in order to assess the likely exposure in the event of a possible default on commitments that have not yet been made.

Only portfolios which fall under the purview of the IRBA and are rated with a rating process that has been approved by the supervisory authority are shown. Positions in the asset class other non-loan-related assets are not listed. These assets amounting to €2.2bn do not have any creditworthiness risks and are therefore irrelevant for the management of default risks. Securitisation positions in the IRBA are presented separately in the securitisations section in this chapter.

The exposure values shown in this section generally differ from those EaD values in the annual report (economic EaD, see page 21 “Risk quantification“) due to the following:

- For derivative positions, there are differences in definitions between the exposures reported in the annual report and the regulatory figures presented in this disclosure report.
- Furthermore, 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 of the annual and risk reports respectively.
- The figures presented in this disclosure report relate to 15 entities within the Commerzbank Group considered important for disclosure, while the figures in the annual report relate to all companies that have to be consolidated according to IFRS.

All of the IRBA exposures are presented as follows:

Table 10: IRBA exposures (EaD) by rating class – on-balance and off-balance

	EaD €m	Central govern-ments	Banks	Compa-nies	Retail business: IRBA mortgage exposure	Retail business: Other retail lending	Retail business: Qualified revolv. IRBA-positions	**Total 2011**	Total 2010
Investment Grade (0-0.68%)									
Rating 1 (0.00-0.08%)	EaD	20,588	36,225	17,518	8,766	2,058	0	**85,155**	114,261
	LGD in %	12.1	28.6	34.9	13.8	32.7	41.2	**24.5**	29.2
	PD in %	0.0	0.0	0.1	0.0	0.0	0.1	**0.0**	0.0
	RW in %	4.2	13.2	13.4	1.9	4.7	1.9	**9.7**	9.5
Rating 2 (0.08-0.68%)	EaD	18,961	30,036	93,903	26,957	7,095	472	**177,423**	182,453
	LGD in %	14.0	32.5	31.5	14.1	37.4	60.0	**27.5**	33.0
	PD in %	0.2	0.3	0.3	0.3	0.3	0.5	**0.3**	0.3
	RW in %	14.8	33.1	38.7	7.7	21.5	6.6	**29.7**	35.9
Non-Investment Grade (0.68-99.99%)									
Rating 3 (0.68-3.10%)	EaD	5,595	8,643	39,530	6,372	4,018	28	**64,187**	75,629
	LGD in %	19.0	36.7	30.0	15.5	38.7	47.4	**29.1**	33.8
	PD in %	1.3	1.3	1.4	1.3	1.4	2.8	**1.4**	1.5
	RW in %	41.9	75.1	71.0	23.1	45.8	19.1	**62.7**	74.6
Rating 4 (3.10-9.35%)	EaD	548	825	10,351	1,558	1,825	393	**15,499**	18,305
	LGD in %	7.6	34.5	27.7	14.8	31.2	59.5	**27.3**	31.3
	PD in %	5.9	5.1	5.7	5.5	4.9	5.3	**5.5**	4.9
	RW in %	24.8	104.8	106.2	53.3	48.6	54.0	**89.8**	100.9
Rating 5 (9.35-99.99%)	EaD	718	830	4,705	1,361	656	123	**8,394**	8,884
	LGD in %	8.2	21.5	26.1	15.6	34.8	60.4	**23.6**	26.1
	PD in %	39.6	28.6	23.6	22.0	21.0	17.5	**24.9**	25.2
	RW in %	45.8	114.0	133.8	87.5	75.9	135.1	**112.3**	120.9
Default (100%)									
Rating 6 (100%)	EaD	4	564	13,631	949	323	40	**15,511**	16,096
	LGD in %	2.5	75.0	33.3	27.5	60.3	83.6	**35.2**	39.1
	PD in %	100.0	100.0	100.0	100.0	100.0	100.0	**100.0**	100.0
	RW in %	0.4	0.0	20.8	21.1	0.0	0.0	**19.6**	12.0
Total									
	EaD	46,414	77,124	179,639	45,962	15,974	1,056	**366,169**	415,628
	LGD in %	13.6	31.3	31.3	14.6	36.8	60.4	**27.3**	32.1
	PD in %	1.0	1.4	9.0	3.3	4.0	8.1	**5.4**	5.0
	RW in %	14.0	29.9	48.3	12.9	30.3	39.4	**34.8**	39.4

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

Table 11: IRBA exposures (EaD) for off-balance sheet transactions by rating class – unutilised lending commitments

Unutilised lending commitments €m		Central governments	Banks	Companies	Retail business: IRBA mortgage exposure	Retail business: Other retail lending	Retail business: Qualified revolv. IRBA-positions	**Total 2011**	Total 2010
Investment Grade (0-0.68%)									
Rating 1 (0.00-0.08%)	Total sum	3,486	648	9,196	209	747	0	**14,285**	8,955
	Average EaD	117	20	116	0	1	0	**85**	36
	Average CCF (%)	49	49	48	100	66	45	**50**	50
Rating 2 (0.08-0.68%)	Total sum	826	1,232	44,162	389	3,512	1,034	**51,154**	51,860
	Average EaD	33	36	33	0	1	0	**30**	39
	Average CCF (%)	47	48	48	100	54	46	**48**	50
Non-Investment Grade (0.68-99.99%)									
Rating 3 (0.68-3.10%)	Total sum	364	304	9,802	92	1,762	18	**12,342**	15,759
	Average EaD	17	7	23	0	1	0	**19**	19
	Average CCF (%)	46	47	50	100	51	1	**50**	53
Rating 4 (3.10-9.35%)	Total sum	31	141	963	12	168	367	**1,683**	2,308
	Average EaD	2	7	7	0	0	0	**5**	13
	Average CCF (%)	46	46	49	100	49	21	**43**	55
Non-Investment Grade (0.68-99.99%)									
Rating 5 (9.35-99.99%)	Total sum	209	113	366	9	69	17	**783**	885
	Average EaD	26	7	5	0	0	0	**10**	8
	Average CCF (%)	48	47	44	100	54	77	**48**	50
Default (100%)									
Rating 6 (100%)	Total sum	0	1	463	1	17	15	**496**	978
	Average EaD	0	0	13	0	1	0	**12**	35
	Average CCF (%)	40	50	57	100	47	2	**55**	65
Total									
	Total sum	4,916	2,439	64,951	712	6,275	1,452	**80,744**	80,746
	Average EaD	93	23	42	0	1	0	**39**	33
	Average CCF (%)	48	49	48	100	54	39	**49**	51

Table 12: IRBA exposures (EaD) for off-balance sheet positions by rating class – other unutilised non-derivative off-balance sheet assets[1]

Unutilised non-derivative off-balance sheet assets €m		Central govern-ments	Banks	Compa-nies	Retail business: IRBA mortgage exposure	Retail business: Other retail lending	Retail business: Qualified revolv. IRBA-positions	Total 2011	Total 2010
Investment Grade (0-0.68%)									
Rating 1 (0.00-0.08%)	Total sum	2,232	1,048	3,749	0	39	0	**7,068**	5,219
	Average EaD	7	19	29	0	0	0	**20**	19
	Average CCF (%)	28	34	31	0	22	0	**31**	44
Rating 2 (0.08-0.68%)	Total sum	2,182	3,257	15,980	0	377	0	**21,796**	21,516
	Average EaD	6	7	10	0	0	0	**9**	8
	Average CCF (%)	33	31	28	0	24	0	**29**	43
Non-Investment Grade (0.68-99.99%)									
Rating 3 (0.68-3.10%)	Total sum	1,523	2,666	3,745	0	196	0	**8,130**	9,027
	Average EaD	8	6	4	0	0	0	**5**	4
	Average CCF (%)	29	32	27	0	26	0	**29**	38
Rating 4 (3.10-9.35%)	Total sum	647	971	673	0	35	0	**2,326**	2,083
	Average EaD	4	3	1	0	0	0	**3**	5
	Average CCF (%)	26	29	27	0	29	0	**27**	39
Non-Investment Grade (0.68-99.99%)									
Rating 5 (9.35-99.99%)	Total sum	939	792	175	0	17	0	**1,923**	1,598
	Average EaD	47	26	3	0	0	0	**34**	14
	Average CCF (%)	26	22	44	0	31	0	**26**	29
Default (100%)									
Rating 6 (100%)	Total sum	13	2	521	0	10	0	**545**	600
	Average EaD	0	1	3	0	0	0	**3**	2
	Average CCF (%)	20	44	35	0	31	0	**35**	58
Total									
	Total sum	7,536	8,736	24,844	0	674	0	**41,789**	40,042
	Average EaD	11	11	11	0	0	0	**11**	9
	Average CCF (%)	29	31	28	0	25	0	**29**	42

[1] Securities lending and repurchase transactions are not included.

Commerzbank Group's SACR portfolio

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

For a large portion of the non-security positions, there are no position-specific external credit ratings. In these cases, it is possible to transfer issue ratings subject to specific requirements. In order to determine the specific external credit rating to be used, Commerzbank has implemented a binding algorithm in accordance with section 43 ff. of the German Solvency Regulation (SolvV).

The allocation of external ratings and flat risk weightings is carried out according to the following procedure:

- **A clear ISIN** can be allocated to the position: The process is based on the provisions of section 44 clauses 3 and 4 of the SolvV for the credit assessment of rated SACR positions. A long-term issue rating is allocated to the position via the ISIN. If there is no long-term issue rating available, a short-term issue rating may only be allocated via the ISIN for positions belonging to the SACR asset class “companies”. If this is also not available, the asset is treated as though no ISIN has been allocated to it.
- The position can **not be allocated with an ISIN**: The process is based on the provisions of section 45 (2) and (3) of SolvV for external credit assessments of unrated SACR positions. In this case, comparable exposures are used to derive credit assessments. Comparable exposures are defined as issues with the same issuer, which have an unsecured long-term foreign currency rating. All comparable exposures with a higher or pari passu ranking and an SACR risk weighting > 100% are transferred to the exposure being assessed. If the rating cannot be transferred, either comparable exposures ranking pari passu with an SACR risk weighting < 100% or lower-ranking comparable exposures will be selected or no issue rating will be allocated to the receivable. In the latter case, the allocation of the flat SACR risk weighting is carried out according to the provisions of SolvV.

The risk weightings determined by external ratings or flat risk weightings and the allocations 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) according to section 8 SolvV.

Table 13: Exposures in the Standardised Approach to Credit Risk –before CRMT

	Risk weightings										
€m	0%	10%	20%	35%	50%	70%	75%	100%	150%	Other	Total
Central governments	23,348	0	112	0	71	0	0	170	0	0	23,700
Regional government/local authorities	33,144	0	637	0	21	0	0	27	0	0	33,829
Other public-sector bodies	6,419	0	3,570	0	325	0	0	79	0	0	10,393
International organisations	169	0	0	0	0	0	0	0	0	0	169
Banks	2,969	0	10,359	0	486	0	0	1,539	7	0	15,360
Multilateral development banks	40	0	0	0	0	0	0	0	0	0	40
Companies	562	0	2,586	0	1,656	0	0	30,644	16	0	35,464
Loans backed by real estate	0	0	0	7,516	3,091	0	0	0	0	0	10,607
Retail business	0	0	0	0	0	0	12,737	0	0	0	12,737
Debt instruments backed by banks	0	135	50	0	128	0	0	0	0	0	314
Investment funds	0	0	0	0	0	0	0	0	0	3,359	3,359
Other items	3,310	0	17	0	0	0	0	2,023	0	0	5,350
Overdue items	0	0	0	0	34	0	0	1,035	1,294	0	2,364
Investments	0	0	0	0	0	0	0	2,310	0	0	2,310
Total 2011	**69,961**	**135**	**17,332**	**7,516**	**5,812**	**0**	**12,737**	**37,828**	**1,317**	**3,359**	**155,998**
Total 2010	**91,044**	**350**	**17,449**	**3,851**	**6,697**	**0**	**15,259**	**47,211**	**1,715**	**3,053**	**186,630**

Table 14: Exposures in the Standardised Approach to Credit Risk – after CRMT

	Risk weightings										
€m	0%	10%	20%	35%	50%	70%	75%	100%	150%	Other	Total
Central governments	30,542	0	333	0	154	0	0	182	0	0	31,211
Regional government/local authorities	36,527	0	791	0	61	0	0	27	0	0	37,407
Other public-sector bodies	7,015	0	3,354	0	325	0	0	37	0	0	10,731
International organisations	169	0	0	0	0	0	0	0	0	0	169
Banks	3,247	0	10,965	0	523	0	0	1,268	0	0	16,003
Multilateral development banks	42	0	0	0	0	0	0	0	0	0	42
Companies	361	0	2,180	0	776	0	0	24,414	14	0	27,744
Loans backed by real estate	0	0	0	7,516	3,087	0	0	0	0	0	10,603
Retail business	0	0	0	0	0	0	11,629	0	0	0	11,629
Debt instruments backed by banks	0	135	50	0	128	0	0	0	0	0	314
Investment funds	0	0	0	0	0	0	0	0	0	3,358	3,358
Other items	3,310	0	17	0	0	0	0	2,023	0	0	5,350
Overdue items	0	0	0	0	38	0	0	1,084	1,036	0	2,158
Investments	0	0	0	0	0	0	0	2,318	0	0	2,318
Total 2011	**81,214**	**135**	**17,689**	**7,516**	**5,092**	**0**	**11,629**	**31,354**	**1,050**	**3,358**	**159,038**
Total 2010	**103,815**	**350**	**16,815**	**6,855**	**5,767**	**85**	**11,439**	**38,348**	**1,266**	**3,053**	**187,792**

In order to mitigate credit risk in the SACR, Commerzbank Group takes financial collateral and guarantees into consideration; these will be dealt with separately in the section “Risk mitigation”. Furthermore, collateral in the form of property charges also reduce the risk weighting.

To determine the SACR exposure before the credit risk mitigation techniques, the SACR assessment basis before credit risk mitigation is multiplied with 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) SolvV and the respective SACR conversion factor for each exposure pursuant to section 50 SolvV. For the SACR assessment basis, in contrast to the IRBA, the valuation allowances based on each of the positions are deducted. The “other risk weightings” row shows the exposures derived from SACR investment units for which an average risk weighting has been determined by the investment company.

The substitution principle included under the SACR for the consideration of guarantees, i.e. the borrower's risk weighting is replaced by that of the guarantor, means that a transfer of the guarantee amount from the borrower's risk weighting class to that of the guarantor takes place. However, this shift only takes place if the risk weighting of the guarantor is lower than that of the borrower. This is why the exposure before CRMT for assets guaranteed by central governments for example 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 based on them (SLLP, Port LLP impaired) or the collateral, this may lead to a shift to lower risk weighting classes.

No deductions from capital were made for SACR positions as of December 31, 2011.

Risk management

To manage and limit default risks, we use the risk parameters exposure at default (EaD), expected loss (EL), risk density (EL/EaD) and credit value at risk (CVaR = economically required capital for credit risk with a confidence level of 99.91%) as well as “all-in” for bulk risks.

Limit systems

Based on risk-taking capability, limits are placed on the capital consumption at Group level across all risk types by means of a capital framework established by the Board of Managing Directors. The capital framework for the segments is derived from this. The segment-specific capital framework is translated into planned EL figures for the operationalisation of the default risk management. The group-wide management parameters for capital requirement and expected loss, are also supplemented by key figures for specific 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 direction of the Commerzbank Group whilst maintaining the greatest justifiable degree of freedom. In addition to the segment-specific planned EL figures, the limitation of cluster, concentration and country risks is of key importance.

Limitation of bulk and concentration risks

The financial market crisis has shown that defaults of individual market participants may present considerable risks for the stability of the financial system. In order to detect and limit these risks at an early stage, risk concentrations of individual corporate customers (bulk risks) as well as those within countries, customer groups and products are limited by means of active management under consideration of segment-specific features.

At the beginning of 2011, the previous method for categorising bulk risks based on statistically modelled parameters (EaD, LaD and CVaR) was replaced by a standardised definition based on the all-in concept. The all-in concept comprises all customer credit lines approved by the bank in their full amount – irrespective of the loan utilisation to date. It is also independent of statistically modelled parameters and therefore gives a better indication than the previous criteria as to the maximum loss potential arising from credit risks with regard to the individual customer.

Bulks above a defined maximum exclusion threshold are permanently regarded as undesirable and are systematically reduced. The management of risk concentrations within default risk includes both exposure-related credit risk concentrations (bulk risks) as well as country and sector concentrations.

Management is regularly informed about the results of the analyses.

Country risk management

The Group's country risk calculation records both transfer risks and region-specific event risks defined by political and economic events which impact on the individual economic entities of a country. Country risk management comprises all decisions, measures and processes which aim to influence the country portfolio structure in order to achieve business, risk and return targets. In 2011 country risks were primarily managed and limited via the EL at a country level. For 2012 it is planned to change management and limitation of country risks to the LaD of the respective country. Country exposures which are significant for Commerzbank due to their size and 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. Within the scope of IRBA tests, processes for offsetting collateral instruments were recognised; in particular this includes financial collateral, guarantees, credit derivatives, life insurance, mortgage liens in the land register and other real collateral.

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 essentially 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 review is to establish a guarantor's maximum ability to pay.

In accordance with the German Solvency Regulation, the quality of the collateral received is subject to rigorous review and is continuously monitored. In particular, this includes establishing the legal enforceability of the collateral and ensuring that it is valued regularly and managed appropriately. The recoverability of the collateral instruments is reviewed above a certain threshold on a regular basis during the term of a loan as part of the regular credit

processing. Depending on the collateral type, this usually takes place annually but at shorter intervals as the case may be. 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 affected are not offset.

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

In addition to the listing of principles for the use of collateral, the valuation and management (processing) of collateral are governed by universally applicable standards and collateral-specific instructions (guidelines, manuals, descriptions of processes, IT instructions, legally validated standard contracts and samples). The standards established to hedge against or mitigate the risks of loans, which also take account of the regulatory requirements of the SolvV, include:

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

For the vast majority of its derivative default risk positions, the Commerzbank Group uses the internal model method (IMM) according to section 223 SolvV. The credit equivalent amounts are determined as expected future exposure through the simulation of 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 any offsetting agreements in accordance with section 209 SolvV and the application of section 215 (5) SolvV and section 155 ff. SolvV into account. Guarantees/credit derivatives are taken into account via the substitution approach. The double-default procedure defined under section 86 (3) SolvV is applied.

The table below , "Secured SACR exposures", shows the scope of 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 consideration of all the relevant "haircuts" for the collateral, are allocated to the SACR asset class. In taking financial collateral into account as a credit-risk mitigating technique, Commerzbank generally uses the comprehensive method as defined under sections 186 to 203 SolvV. This stipulates that the assessment basis for the default risk position is reduced by the value of the financial security. For smaller entities the basic method pursuant to section 185 SolvV is used.

Table 15: Collateralised SACR exposures[1]

Asset class €m	Financial collateral	Guaran-tees	Credit deriva-tives	Mortgage liens	Life insuran-ces	Total 2011	Total 2010
Companies	1,497	6,110	197	2,539	8	10,350	13,355
Retail banking	799	246	0	8,069	1	9,116	7,664
Banks	581	49	12	0	0	641	827
Central governments	0	10	0	0	0	10	86
Regional governments and local authorities	0	0	0	0	0	1	0
Other public-sector bodies	6	261	0	0	0	267	332
Overdue items	23	185	0	323	1	532	713
Total 2011	**2,906**	**6,861**	**209**	**10,930**	**10**	**20,917**	
Total 2010	**3,870**	**8,254**	**322**	**10,409**	**122**		**22,977**

[1] For reasons of materiality, secured investment positions have not been presented.

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 purposes of comparability 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 borrower.

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

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

Asset class €m	Financial collateral	Guaran-tees	Credit deriva-tives	Life insuran-ces	Other IRBA collateral[2]	Total 2011	Total 2010
Companies	5,244	8,711	3,015	99	40,325	57,393	58,902
Retail banking: sub-class IRBA exposures secured by mortgage liens	652	5	0	204	33,579	34,440	36,639
Retail banking: other IRBA exposures	548	298	0	0	2,771	3,618	4,159
Banks	801	1,423	124	0	126	2,474	2,905
Central governments	1,487	2,636	107	0	131	4,360	2,505
Total 2011	**8,732**	**13,074**	**3,245**	**302**	**76,932**	**102,285**	
Total 2010	**7,937**	**11,620**	**2,536**	**337**	**82,680**		**105,110**

[1] For reasons of materiality, secured investment positions have not been presented.
[2] Exposures secured by mortgage liens on residential and commercial property do not form an asset class of their own under the IRBA. They are therefore shown under other IRBA collateral. Mortgage liens in the land register also fall into this category.

The calculation of collateral is based on market values weighted with recovery rates. These recovery rates are based on empirical data and form part of the LGD models. By definition, the rates cannot exceed 100%; the figures shown are therefore lower than the market values. By contrast, under the IRBA the so-called substitution approach to offset guarantees and credit derivatives is used – both subsumed as guarantees in the 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 risk parameters with those of the guarantor.

Summary of default risks

This section provides an overview of the total portfolio containing default risks with an assessment basis amounting to €588bn. For balance sheet positions, a distinction is made between the lending business and securities. Off-balance sheet positions, e.g. loan commitments or placed guarantees, other non-derivative off-balance sheet assets and derivative instruments, are shown separately.

The sum of SACR and IBRA positions with their assessment basis, as defined in sections 49 and 100 SolvV, is shown. The IRBA assessment basis for loans represents the amount claimed by the customer. If valuation allowances have been formed based on the exposure to the customer, these are not deducted, unlike the volume of assets determined in accordance with IFRS accounting standards. Off-balance sheet positions relate to the amount committed to but not yet claimed by the customer. A weighting with the conversion factor does not take place. For securities, the IRBA assessment basis is determined from the highest value of the acquisition costs or the sum of the carrying amount and 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 applied. The SACR assessment basis is calculated using the IFRS carrying value of the positions giving consideration to the write-downs of the last approved annual financial statement. The assessment basis includes all positions subject to credit risks regardless of whether the positions are listed in the banking or the trading book.

Effectively securitised positions are not included in the tables below. In accordance with section 232 SolvV, positions are deemed to be effectively securitised if there has been an effective transfer of risk. This applies regardless of whether these are traditionally or synthetically securitised positions. Securitisation positions arising from Group companies included in the disclosure report acting as investors or sponsors have also not been shown. Due to their particular significance, these are shown in a separate chapter on securitisations.

Other non-loan-related assets which are largely formed through tangible assets and do not contain a credit default risk, as well as positions included under the SACR asset class “Other positions”, are also not listed. Only positions which contain credit risks are shown.

Table 17: Assessment basis by asset class

	On-balance assets		Off-balance assets			
Asset class €m	**Loans**	**Securities**	**Commit-ments**	**Derivatives**	**Non-derivative**	**Total 2011**
SACR						
Central governments	10,344	13,892	222	1,518	5	25,980
Regional governments and local authorities	21,004	11,147	1,749	1,573	57	35,530
Other public-sector bodies	6,162	2,445	692	1,534	6	10,839
Multilateral development banks	0	40	0	0	0	40
International organisations (in terms of SolvV)	25	145	0	0	0	169
Banks	11,366	1,651	257	1,914	467	15,655
Debt instruments backed by banks	0	314	0	0	0	314
Companies	23,889	4,820	6,741	1,942	3,846	41,238
Retail business	12,257	0	16,373	61	349	29,040
Loans backed by real estate	10,575	0	51	0	34	10,660
Investment funds	209	3,150	0	0	0	3,359
Other items	2,335	102	33	0	0	2,470
Overdue items	3,934	0	81	3	56	4,074
Total SACR	**102,099**	**37,706**	**26,197**	**8,547**	**4,820**	**179,369**
IRBA						
Central governments	9,764	8,323	352	601	802	19,842
Banks	29,127	28,782	2,439	12,598	8,736	81,682
Retail banking: sub-class IRBA exposures secured by mortgage liens	45,250	0	712	0	0	45,962
Retail banking: other IRBA exposures	11,760	0	7,726	88	674	20,248
Retail banking: qualified revolving IRBA exposures	0	0	1	0	0	1
Companies	131,999	2,078	64,951	15,695	24,844	239,568
Other loan-independent assets	894	0	0	0	0	894
Total IRBA	**228,793**	**39,183**	**76,181**	**28,983**	**35,055**	**408,196**
Total 2011	**330,892**	**76,889**	**102,378**	**37,530**	**39,875**	**587,565**
Total 2010	**380,843**	**92,342**	**104,460**	**44,576**	**37,234**	**659,455**

The selected country cluster corresponds to the geographical classification of the assessment basis used for internal purposes.

Table 18: Assessment basis by country cluster

	On-balance assets		Off-balance assets				
Country cluster €m	**Loans**	**Securities**	**Commit ments**	**Derivatives**	**Non-derivative**	**Total 2011**	**Total 2010**
Germany	187,048	25,739	65,504	11,884	20,063	310,238	352,347
Western Europe (without Germany)	59,481	38,107	20,408	19,864	8,618	146,478	169,457
Central- and Eastern Europe	40,544	3,117	5,150	789	2,039	51,640	49,137
thereof Poland	24,718	1,087	3,303	335	276	29,718	28,789
North and South America	24,148	6,833	7,927	3,370	3,048	45,326	56,361
thereof USA	14,093	3,336	6,525	2,878	1,733	28,566	37,694
Asia	14,105	1,936	2,418	722	4,967	24,149	22,336
Other	5,567	1,156	971	900	1,140	9,734	9,818
Total 2011	**330,892**	**76,889**	**102,378**	**37,530**	**39,875**	**587,565**	
Total 2010	**380,843**	**92,342**	**104,460**	**44,576**	**37,234**		**659,455**

The breakdown by sector is based on a system used internally by the Bundesbank. For comprehension purposes, the assessment basis has been broken down by sector with a volume of more than €10bn. Sectors with a volume below this threshold value have been grouped under the "Other" item

Table 19: Assessment basis by sector

	On-balance assets		Off-balance assets				
Sector €m	**Loans**	**Securities**	**Commitments**	**Derivatives**	**Non-derivative**	**Total 2011**	**Total 2010**
Banking and insurance	56,383	35,453	10,798	23,470	14,155	140,259	171,709
Public sector, defence and social security	40,450	37,212	2,424	3,305	53	83,445	98,776
Real estate, renting and business activities	67,665	40	7,800	3,748	1,817	81,070	93,052
Manufacturing industry	34,195	466	35,224	3,415	13,969	87,270	90,745
Private households	61,749	0	17,564	101	217	79,631	85,088
Transport and communications	27,655	870	5,858	1,352	1,151	36,885	39,007
Trade, maintenance and repair of motor vehicles and consumer goods	11,750	0	10,121	441	2,831	25,143	24,859
Energy and water supply	8,425	1,172	5,235	929	2,308	18,069	15,682
Other public and personal service activities	7,755	22	1,574	285	568	10,204	10,077
Other	14,864	1,654	5,782	483	2,806	25,589	30,460
Total 2011	**330,892**	**76,889**	**102,378**	**37,530**	**39,875**	**587,565**	
Total 2010	**380,843**	**92,342**	**104,460**	**44,576**	**37,234**		**659,455**

The breakdown according to residual terms is based on the maturity and emphasises the focus on relatively long-term financing transactions and overnight receivables. Overnight receivables include call and overnight transactions and credit lines that can be terminated at any time.

Table 20: Assessment basis by residual term

	On-balance assets		Off-balance assets				
Maturity Mio. €	**Loans**	**Securities**	**Commit-ments**	**Deriva-tives**	**Non-derivative**	**Total 2011**	**Total 2010**
daily maturity	34,036	391	56,072	2,803	15,985	109,286	114,817
> 1 day up to 3 months	32,036	1,913	2,377	3,981	4,978	45,285	66,069
> 3 months up to 1 year	31,175	4,139	12,557	4,070	6,780	58,721	65,372
> 1 year up to 5 years	87,622	28,311	29,505	11,085	7,896	164,419	207,306
> 5 years	146,024	42,136	1,866	15,591	4,236	209,853	205,893
Total 2011	**330,892**	**76,889**	**102,378**	**37,530**	**39,875**	**587,565**	
Total 2010	**380,843**	**92,342**	**104,460**	**44,576**	**37,234**		**659,455**

Default risks arising from derivative positions

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

The derivative positions shown in the tables below do not include securitisation positions as defined in the German Solvency Regulation (SolvV) as these are shown in the securitisations chapter. In particular, this means that interest rate and currency swap or credit derivative transactions entered into with special-purpose securitisation companies are not included.

Table 21: Positive replacement values by risk type before/after netting/collateral

Risk type	Replacement values	
€m	**2011**	**2010**
Interest rate risk	304,758	308,774
Currency risk	17,751	19,266
Equity risk	2,333	3,140
Precious metal risk	92	198
Commodity price risk	273	388
Credit derivatives	3,962	3,523
Collateral	24,808	22,391
Replacement values before netting/collateral	**353,977**	**357,680**
− Nettable value	315,909	324,841
− Eligible collateral	10,382	9,958
Replacement values after netting/collateral	**27,686**	**22,881**

The positive market values listed in the table are the expenses which would be incurred by the Bank to replace the contracts originally concluded with transactions of an equivalent financial value. From the Bank's point of view, a positive market value thus indicates the maximum potential counterparty-specific default risk. The positive market value is understood as a replacement expense in the regulatory sense. The amounts shown in the table reflect the posi-

tive replacement values before taking related collateral into account and before exercising offsetting agreements. The replacement values are broken down according to risk types in the contracts involved. The collateral provided for derivative positions is shown as a separate risk type as it can not be allocated to other specific risk types.

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

In order to minimise 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 the German Master Agreement for Financial Futures with the respective business partners. By means of such bilateral netting agreements, the positive and negative market 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).

For both regulatory reports and the internal measurement and monitoring of the credit commitments, these risk-mitigating techniques are only used if Commerzbank considers them enforceable in the jurisdiction in question should the counterparty become insolvent. Legal opinions are obtained 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 Commerzbank concludes with its business associates to secure the net claim or liability remaining 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 exposure. The – mostly cash – collateral and netting opportunities shown in the aforementioned table reduce the exposure to counterparties to €27,686m (2010: €22,881m).

The basis for determining the offset amounts for the default risk from derivative positions is not the positive market values but instead the credit equivalent values. To determine the assessment basis of derivative default risk positions, Commerzbank uses the internal model method (IMM) pursuant to section 223 SolvV, the market valuation method pursuant to section 18 SolvV and the maturity method pursuant to section 23 SolvV.
The approach to risk quantification under the IMM is generally based on a risk simulation which generates future market scenarios and creates portfolio valuations based on these scenarios. Netting and collateral agreements are taken into account.

The credit equivalent values for the counterparty default risk from derivative positions – including exchange-traded derivatives – used to determine the (net) assessment basis amounted to €20,388m at the end of 2011 using the market valuation method, €17,954m using the internal model method and €1,076m using the maturity method. Credit equivalent values effectively correspond to the exposures of on-balance sheet default risk positions 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 therefore no capital requirement.

All operative units, branches and subsidiaries are, subject to compliance with the regulations, authorised to use credit derivatives to hedge credit risks in loan portfolios (i.e. purchase of collateral). This allows them to hedge credit risks with a credit derivative without having to sell or assign the loan.

Table 22: Breakdown of credit derivative business in the banking and trading book

Type of credit derivative	Banking book		Trading book	
Nominal value | €m	**Buy position**	**Sell position**	**Buy position**	**Sell position**
Credit Default Swap	10,424	2,984	74,704	76,945
Total Return Swap	0	0	1,625	2,008
Total 2011	**10,424**	**2,984**	**76,329**	**78,953**
Total 2010	**11,443**	**252**	**76,687**	**79,014**

Contractual agreements that oblige Commerzbank to provide additional collateral to its counterparties in the event of a downgrading of its own rating are governed in the Credit Support Annexes which are established as part of the netting master agreements for the OTC derivative 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 necessary. This makes it possible to carry out an advance analysis of the potential effects on the collateral amounts.

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 other non-strategic holdings. A divestment concept is applied here, the aim of which is to optimise Commerzbank's market value, capital and income statement under appropriate market conditions.

Tasks and organisation

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 monitoring is primarily concentrated on the non-strategic investments while the strategic investment that form part of the Bank's core business are controlled on a decentralised basis by the Commerzbank segments responsible for them. The strategic investments are mainly majority holdings.

Valuation and accounting principles

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, unrealised 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. capitalised 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 23: Valuations of investment instruments

Investment group	Book value (IFRS)		Fair value		Market value (listed positions)	
€m	2011	2010	2011	2010	2011	2010
Segment-supporting investments	**576**	**558**	**579**	**562**	**11**	**8**
thereof listed positions	4	3	11	8	11	8
thereof unlisted positions	572	555	567	555	-	-
Other strategic investments	**36**	**32**	**36**	**32**	**-**	**-**
Other investments	**540**	**860**	**496**	**573**	**103**	**428**
thereof listed positions	147	506	103	428	103	428
thereof unlisted positions	392	354	392	145	-	-
Funds and certificates	**1,166**	**858**	**1,166**	**858**	**13**	**13**
Investments total	**2,318**	**2,308**	**2,276**	**2,026**	**127**	**449**

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 620 unlisted and segment-supporting companies and the approximately 90 other investments mainly belong to Commerz Real AG and Commerzbank AG.

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 €183m.

Table 24: Realised and unrealised profits/losses from investment instruments

		Unrealised revaluation profit/loss		
€m	Realised profit/loss from sale/liquidation	Total	thereof accounted for in Tier I capital	thereof accounted for in Tier II capital
2011	9	135	0	61
2010	71	118	0	60

This table shows the realised profits/losses from sales and the winding-up of investments during the reporting period.

The unrealised gains and losses refer to changes in the value of investments in the revaluation reserve that are not recognised in the income statement. Group companies included within the disclosure sold investments held in the banking book for a total profit of €9m in the past year. This profit was generated from sales revenue above the IFRS book values. Write-downs and write-ups of holdings recognised as income in 2011 are not considered as realised profits or losses. In addition, there is a deferred revaluation profit totalling €135m. From the unrealised revaluation profit, contributions of €61m from the 15 material entities at group level are taken into account in the Tier II capital.

Securitisations

Securitisation process

In the securitisation 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 securitisation transactions. Commerzbank and Eurohypo have in recent years securitised loan receivables due from the Bank's customers with a volume of €8.9bn at the securitisation date, primarily for capital management purposes. This also includes the securitisation of Mittelstand loans of €1bn, which were placed in January 2011. As at the reporting date on December 31, 2011, risk exposures of €5.1bn were retained out of the outstanding securitisation transactions, with by far the largest portion of these exposures (€4.7bn) consisting of senior tranches which are nearly all rated AAA or AA. This marked a significant reduction in the risk exposures held by the Bank compared with the previous year due to the redemption of a €4.5bn securitisation of Mittelstand loans. The table below shows the Commerzbank Group's securitisation transactions outstanding on the capital markets on the reporting date which the Bank uses to free up regulatory capital:

Table 25: Securitisation transactions with regulatory capital relief

Securitisation programme[2]	Type[1]	Securitisation pool	Maturity	Issue currency	Current volume €m
Cosmo Finance II– 1	S	Companies	2016	EUR	1,000
Cosmo Finance 2007– 1	S	Companies	2027	EUR	2,010
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	39
Total Commerzbank AG					**4,721**
Provide Gems 2002– 1	S	RMBS	2048	EUR	170
Semper Finance 2006– 1	S	CMBS	2048	EUR	645
Semper Finance 2007– 1	S	CMBS	2046	EUR	385
Glastonbury Finance	T	CMBS	2047	GBP	385
Opera White Tower	T	CMBS	2016	EUR	384
Opera Finance Uni-Invest	T	CMBS	2012	EUR	604
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	512
Total Eurohypo					**4,167**
Total Group					**8,888**

[1] S = synthetic, T = true sale.
[2] Securitisation of own customer receivables.

Other own-asset securitisation 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).

Commerzbank cooperated regularly with the rating agencies Standard & Poor's, Moody's and Fitch in connection with originator securitisation transactions (both synthetic and true sale). The securitised 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 AG's originator securitisation transactions, the underlying securitised assets are generally commercial real estate loans and private residential mortgages. As part of the overall management of the Bank, the Commerzbank Group is constantly reviewing opportunities to securitise its own assets. This process is primarily influenced by the market conditions prevailing at any one time. In 2011, a further €2.0bn securitisations of assets deriving from Commerzbank’s Mittelstand lending business were pre-arranged. After the reporting period, the transaction was placed on the market as Cosmo Finance II-2 in January 2012.

- **Sponsor**: Structuring, arranging and securitising receivables portfolios of Commerzbank's customers, particularly from the Mittelstandsbank and Corporates & Markets segments, is a key component of the structured finance product range. By securitising 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. Typically special purpose vehicles (purchasing entities) are established to manage these assets. The purchases of receivables are funded primarily by the issue of short-term commercial paper (CP) under the Bank's asset-backed commercial paper (ABCP) programme (conduits). The commercial paper issued is rated by the rating agencies Stan-

dard & Poor's, Moody's and Fitch. As sponsor, the Bank is responsible for structuring and, as a rule, purchasing and refinancing the transactions. Commerzbank provides the special purpose entities with liquidity facilities so that they have access to short-term liquidity. All liquidity lines are counted in full when determining the risk-weighted exposures. The highly diversified portfolios of receivables generally derive from customers' working capital, such as trade receivables and car, machinery and equipment leases. The receivables portfolios therefore reflect the differing businesses of those selling the receivables. In 2011, the two conduits sponsored by Commerzbank, Kaiserplatz and Silver Tower, were merged. Since then all transactions have been managed by the Silver Tower conduit. The securitisation exposures deriving from the conduit largely consist of liquidity facilities and back-up lines. In addition to the strategic business of providing funding opportunities for customers of Mittelstandsbank as well as Corporates & Markets, the Bank also holds a small amount of non-strategic business in the ABCP conduit Beethoven which is being wound down by the Bank's Portfolio Restructuring Unit (PRU). Due to the successful portfolio downsizing, only €744m of securitisation exposure to the Beethoven conduit now remains.

- **Investor**: In the past, the Commerzbank Group invested under both its regulatory trading book as well as its banking book in securitisation positions. As in recent years, Commerzbank did not invest in any new securitisation transactions originating outside the Bank in 2011. Instead, the focus is on restructuring and reducing the existing positions by the PRU.

Risk management process:

The internal processes for monitoring the risk profile of securitisation investments are based on the principles of the Minimum Requirements for Risk Management (MaRisk) as amended in addition to section 25a and sections 18a and b KWG and apply equally to all securitisation positions, irrespective of whether they are part of the regulatory trading or banking book.

The processes put in place by the Bank take account of the individual risk profile of securitisation exposures on the basis of a wide range of information sources and ensure that risks are monitored in a continuous and timely manner. This includes regular stress testing.

- **Originator:** The credit process for loans to customers does not distinguish between loans which the Bank will securitise at a later date and those for which it will continue to assume the risk. If the Bank retains securitisation exposures from its own securitisations, these remain subject to an ongoing credit process. The credit process is the same as that applying to investor positions. The amount retained in securitisation transactions in accordance with section 18a KWG is reviewed at least once annually or as circumstances require and is published in the Investor Report. A potential placement risk for Commerzbank's transactions is completely accommodated, as the receivables are included in full in the Bank's risk and capital management process up until the actual risk transfer by means of securitisation and placement.

- **Sponsor:** The customer transactions funded via conduits are subject to an ongoing credit process. A risk analysis of the transactions is conducted when the transactions are structured and again in regular reviews which are carried out annually and as circumstances require. This includes assigning a rating using the ABS rating systems certified by the banking regulators (internal assessment approach). This analysis covers all significant risk drivers of the securitised receivables portfolio (e.g. type of receivable, default rates, collateral provided, diversification, dilution risks, commingling risks) and of the securitisation structure (e.g. whether the creditor claims have a waterfall structure, credit enhancements). Qualitative risk drivers ascertained from an on-site visit to the seller of receivables as well as the seller's financial position are also taken into account. Other factors which are not inherent in the structure of the securitisation but nevertheless affect its risk profile, for example potentially negative developments in the market environment which could have an impact on the securitisation transaction, are also included in the analysis. Before any purchase of customer receivables, the minimum conditions agreed in the contract documentation are reviewed and any non-qualifying receivables are excluded. After the receivables have been bought, their quality is reviewed continuously. If any potential problems come to light a full credit analysis of the structure is carried out.
- **Investor:** New purchases of securitisation exposures are currently subject to strict internal regulations. The purchase of ABS, CMBS and RMBS positions, and structures derived from them, which have not been structured by the Bank itself or jointly with other arrangers is prohibited across the Group. In the credit process applied to the Bank's securitisation portfolio, the risk profile of the securitisation positions is analysed continuously or as circumstances require. This process looks, for example, at the performance reports for the securitised receivables, changes in external ratings and movements in the market value of the securitisation exposures. In the case of resecuritisations, the analysis relates not just to the securitisation exposures contained in the pool but also covers the underlying portfolios on a risk basis ("look through" principle). As with securitisation exposures, the ranking of the individual tranches contained in the pool within a securitisation structure are taken into account in this analysis. Our ultimate credit assessment uses a securitisation-specific ratings system which has been developed internally within the Bank at the level of the individual tranche.

The liquidity risks of ABS transactions are modelled conservatively in the internal liquidity risk model. Firstly, a worst case assumption is made that Commerzbank has to take on the entire funding of the Silver Tower and Beethoven conduits. Secondly, the Bank's holdings of securitisation transactions only qualify as liquid assets if they are eligible for rediscount at the European Central Bank. These positions are only included in the liquidity risk calculation after applying conservative discounts.

Procedure for determining risk-weighted exposure

Securitisation positions in the banking book For regulatory purposes Commerzbank applies the regulations of the advanced IRBA. In accordance with the principle of accessory relationship prescribed for securitisations in the Solvency Regulation (SolvV), the regulatory rules of the IRBA apply to securitisation positions, irrespective of the particular type of securitisation exposure.

- **Originator:** The ratings-based approach is used for externally rated securitisation exposures that have been retained from the Commerzbank Group's own securitisation transactions. Capital is also held against synthetic securitisation tranches that have been placed on the market based on the risk weighting of the party providing the collateral. In one case the supervisory formula approach (SFA) is used and capital deductions are made for several other securitisation positions due to a lack of external ratings. The provisions of section 262 SolvV do not apply due to the structure of the Commerzbank Group's transactions.
- **Sponsor:** The internal assessment approach (IAA) is used for the Silver Tower and Beethoven conduits sponsored by Commerzbank, which largely involves ABS rating systems certified by the supervisory authority. In 2011, Commerzbank used its own rating systems for the following classes of receivables: trade receivables, car finance and leasing, equipment leasing, consumer loans, film rights and capital commitments. The rating systems are developed in accordance with the stipulations of MaRisk, independently of the market side by Commerzbank's risk function. In accordance with the SolvV the methodology follows the rating agencies Standard & Poor's, Fitch and Moody's. The systems were certified at the outset by BaFin and the Bundesbank and are subject to a regular review by the supervisors. In addition, the internal assessment approach is subject to an annual validation by Commerzbank's risk function. The internal and external auditors also perform a regular review.

  The various internal assessments take account of all features of the securitised receivables portfolio identified by the rating agencies as significant risk drivers as well as the specific structuring characteristics of the securitisation exposure. Other quantitative and qualitative risk components that are regarded as material by Commerzbank are also included in the assessment. These include, in particular, seller risks and qualitative risk drivers that are evaluated via structured qualitative questionnaires. The result of the rating process is a tranche-specific rating derived from the quantitative and qualitative results of the assessment approach which is based, depending on the approach, on the probability of default or expected loss (EL) of the securitised tranche. No external ratings from the above-mentioned rating agencies are available for the securitisation exposures subject to the internal assessment approach. As well as being used to determine regulatory capital requirements, the results of the internal assessment approach are also used within the internal capital model, in portfolio monitoring and in setting limits (ICAAP processes).

  The approaches to modelling probability of default or expected loss (EL) for securitisation tranches differ depending on the type of securitised asset class. In the case of the asset classes trade receivables, car finance and leasing, equipment leasing and consumer lending, a range of different stress factors used by the rating agencies (e.g. concentration risks, default risks, dilution risks and interest rate risks), as well as additional quantitative and qualitative modelling components devised by the Bank, are used depending on the main risk drivers for the relevant transactions. When calculating loss buffers, stress factors

are determined individually for different securitised asset types on the basis of the risk profiles of the securitisation transactions. The quantitative assessment of the risk of securitisation positions based on securitised capital commitments and receivables from film rights is based on a Monte Carlo model. As a result, pre-defined stress factors are not used to derive loss buffers for any of these internal assessment procedures.

- **Investor:** For investor positions, external ratings are generally available, which lead to the ratings-based approach (RBA) being applied. Commerzbank takes account of all available external ratings from the three rating agencies Moody's, Standard & Poor's and Fitch irrespective of the type of receivables securitised and the type of securitisation exposure. The EIF (European Investment Fund) has provided a bilateral, directly-enforceable and irrevocable guarantee for a part of Eurohypo's investor positions. The underlying assets of the guaranteed securitisation exposures are loans to small and medium-sized companies from various European countries. The guarantee is taken into account in the calculation of RWAs by substituting the risk weighting of the EIF for the risk weighting of the securitisation. In only a few cases is the supervisory formula approach (SFA) used or is there a capital deduction as a result of the lack of an applicable external rating.

  Companies which are consolidated within the Commerzbank Group for regulatory purposes may, as part of the Group-wide business and risk strategy, on occasion act as investors in securitisation transactions in which the Bank is acting as sponsor or originator. Commerzbank AG, Eurohypo AG and Commerzbank Europe (Ireland) currently hold securitisation exposures from securitisation transactions where the Group is acting in the role of sponsor or originator. All retentions or repurchases of securitisation exposures from the Bank's own securitisation transactions with recognised regulatory risk transfer and securitisation exposures from transactions where Commerzbank has acted as sponsor are subject to regulatory reporting. In the case of transactions without recognised regulatory risk transfer, the regulatory capital requirement is determined for the securitised portfolio.

Securitisation exposures in the trading book As part of the PRU's newly adjusted capital optimising strategy, Commerzbank carried out a review of the attribution of securitisation positions to the banking and trading books at the year-end. As of December 31, 2011, only securitisation positions which are hedged against performance-induced market risks by means of credit default swaps and total return swaps with counterparties of good credit quality are included in the trading book. In addition, synthetic CDO, CDS index and nth-to-default positions and their hedges which meet the requirements set out in section 303 5(c) to 5(f) SolvV were assigned to the correlation trading portfolio (CTP). The capital adequacy requirements are determined by application of section 303 in conjunction with section 255 SolvV.

Accounting and measurement policies

In true sale or synthetic securitisation transactions via special purpose vehicles, the IFRS accounting regulations require the Bank to review, in accordance with SIC 12, whether or not the securitising special purpose entities need to be consolidated. This review process is centralised 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:** 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 asset is not derecognised. If the special purpose vehicle does not have to be consolidated, in true sale securitisations the possible derecognition of the securitised asset 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 securitisations, the underlying assets always remain on the balance sheet and, as with securitised assets in true sale securitisations which are not derecognised, are reported in their original IFRS category. These assets continue to be accounted for in accordance with the rules for this IFRS category. When securitised assets are derecognised, any resultant gains or losses are reported in the income statement. In some cases, the derecognition of assets may lead to the first-time recognition of new exposures, for example bonds issued by special purpose vehicles. Under IFRS these exposures are categorised on the basis of the intention with which the securities were acquired and the type of securities in one of the three IAS 39 categories (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. No securitisation transactions leading to a derecognition of assets were carried out in 2011. As a result, no gains or losses were realised from the sale of assets in connection with securitisation transactions during the reporting period.

  The special purpose entities for the following transactions are currently consolidated for accounting purposes: Cosmo Finance II-1, Cosmo Finance 2007-1, Cosmo Finance 2008-1, CB MezzCAP, TS Co. mit One, Semper Finance 2006-1 and Semper Finance 2007-1, Rügen Eins and TS Lago One. However, these entities are not consolidated for regulatory purposes. The securitising 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 France One, Opera Germany 1, Opera Germany 2, Opera Germany 3. If assets are earmarked for securitisation, this has no direct impact on their accounting treatment or measurement within the applicable IFRS categories.

- **Sponsor:** Under IFRS the funding entity Beethoven Funding Corporation is consolidated. In the case of Silver Tower, the funding entities Silver Tower Funding Ltd. and Silver Tower US Funding LLC are not consolidated, but some purchasing entities are consolidated. However, for regulatory purposes, no purchasing or funding entities for the Beethoven or Silver Tower programmes are consolidated. If a special purpose entity is not consolidated under IFRS, the liquidity line provided to it is recorded in the Notes as a contingent liability in its full unutilised amount. Any utilised amount is recognised as a claim in the IFRS category loans and receivables.
- **Investor**: Under IFRS investor positions are categorised on the basis of the intention with which the securities were acquired and the type of securities in one of the three IAS 39 categories (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. If the securitisation exposures are traded on liquid markets with observable pricing, they are valued on the basis of independent market prices. If a direct measurement at market prices is not possible, the value of the securitisation exposure is determined with the help of valuation models. This involves the application of a discounted cash flow approach, with the cash flows and the other relevant parameters being based on data observable on the market. Moreover, the approach is calibrated with market data for application to similar securitisation structures. There were no significant changes in the methods used to value securitisation positions in 2011.

The following sections contain detailed information on the securitisation exposures held by Commerzbank.

Quantitative information on securitisations

Securitisation exposures in the banking book 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 securitisation transactions for which capital relief is available for regulatory purposes.

The total volume of all retained or acquired securitisation exposures (on- and off-balance-sheet) was €24.6bn on the reporting date. This amount corresponds to the IRBA exposure after deducting eligible collateral. As a result of the review of the attribution of securitisation exposures to the banking and trading books, significant holdings were reclassified from the trading book to the regulatory banking book. The reclassified exposures were mainly securities holdings in the USA, where Commerzbank is acting as investor.

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

Table 26: Retained or acquired securitisation exposures in the banking book by type of exposure

	Originator		Investor		Sponsor	
€m	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Receivables[1]	4,592	8,055	144	239	1,598	912
Securities[2]	402	516	12,004	9,557	581	270
Other positions on-balance	0	0	1	0	0	36
Liquidity facilities	5	5	149	134	2,559	4,545
Derivatives[3]	6	9	2,427	134	14	124
Other positions off-balance[4]	0	0	129	103	1	0
Total	**5,005**	**8,584**	**14,854**	**10,167**	**4,754**	**5,886**

[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 securitisation exposures shown above by type of underlying assets.

Table 27: Retained or acquired securitisation exposures in the banking book by type of asset

	Originator		Investor		Sponsor	
€m	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Loans to companies/SMEs	4,348	7,639	2,511	1,679	612	985
Commercial real estate	459	677	427	427	55	73
Residential real estate	1	1	2,610	1,739	157	118
Consumer loans	0	0	4,532	4,393	0	45
Securitised positions	197	267	3,638	583	207	185
Leasing receivables	0	0	17	27	1,583	868
Trade receivables	0	0	91	86	1,716	1,647
Other	0	0	1,028	1,231	425[1]	1,965[2]
Total	**5,005**	**8,584**	**14,854**	**10,167**	**4,754**	**5,886**

[1] Including €161m film receivables.
[2] Including €517m film receivables.

Geographically speaking, the securitisation exposures originate predominantly from USA (45%), Germany (33%) and UK/Ireland (8%). Due to the reclassification of securitised positions from trading book to banking book, banking book exposures shifted in 2011 from Germany (2010: 48%) to the USA (2010: 34%).

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

Table 28: Retained or acquired securitisation exposures in the banking book by risk weighting band

2011	RBA		IAA		SFA	
Risk weighting band €m	**Position value**	**Capital requirement**	**Position value**	**Capital requirement**	**Position value**	**Capital requirement**
≤ 10%	5,904	34	1,640	11	920	5
> 10% ≤ 20%	5,426	57	1,550	20	0	0
> 20% ≤ 50%	433	11	146	4	259	6
> 50% ≤ 100%	1,078	64	451	36	24	2
> 100% ≤ 650%	505	119	0	0	0	0
> 650% < 1250%	0	0	0	0	3	2
Total	**13,346**	**286**	**3,787**	**71**	**1,207**	**15**

2010	RBA		IAA		SFA	
Risk weighting band €m	**Position value**	**Capital requirement**	**Position value**	**Capital requirement**	**Position value**	**Capital requirement**
≤ 10%	10,108	65	1,659	11	0	0
> 10% ≤ 20%	5,881	64	1,740	21	0	0
> 20% ≤ 50%	595	18	328	9	0	0
> 50% ≤ 100%	888	47	815	56	31	1
> 100% ≤ 650%	418	94	0	0	0	0
> 650% < 1250%	0	0	0	0	20	9
Total	**17,890**	**287**	**4,541**	**97**	**50**	**9**

As at December 31, 2011 the value of the securitisation exposures (including resecuritisations) deducted from equity was €3,642m (2010: €2,155m). After taking account of impairments, the capital deduction amounted to €1,648m (2010: €913m). The increase of capital deduction compared to 2010 is largely due to reclassification of securitised positions from trading book to banking book.

The next table provides a breakdown of acquired and retained resecuritisation exposures by risk weighting bands. The capital requirement values do not consider hedge positions or insurances.

Table 29: Retained or acquired resecuritisation exposures in the banking book by risk weighting band

2011	RBA		SFA	
Risk weighting band €m	Position value	Capital requirement	Position value	Capital requirement
≤ 10%	0	0	0	0
> 10% ≤ 20%	112	2	1,622	26
> 20% ≤ 50%	442	11	0	0
> 50% ≤ 100%	68	5	0	0
> 100% ≤ 650%	379	65	0	0
> 650% < 1250%	9	2	0	0
Total	**1,009**	**84**	**1,622**	**26**

The table below shows the outstanding volumes of Commerzbank Group's own securitisation transactions as originator with recognised regulatory risk transfer.

Table 30: Securitised assets outstanding

	Traditional		Synthetic	
€m	2011	2010	2011	2010
Residential real estate	0	0	170	238
Commercial real estate	2,967	3,725	1,029	1,232
Loans to companies/SMEs	211	229	4,510	8,000
Total	**3,178**	**3,954**	**5,710**	**9,470**

On the reporting date, the securitised portfolios included non-performing assets or assets in arrears to the extent shown below. No losses were incurred in the portfolio during the reporting period.

Table 31: Non-performing and in-arrears securitised assets[1]

	Non-performing loans		Loans in arrears	
€m	2011	2010	2011	2010
Residential real estate	11	21	6	6
Commercial real estate	24	28	2	13
Loans to companies/SMEs	75	29	85	119
Total	**111**	**77**	**93**	**138**

[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.

One new customer transaction was structured by Commerzbank in 2011 and has since been funded through Silver Tower. As at December 31, 2011 the exposure value of the liquidity facilities provided by Commerzbank for this transaction was approximately €163m. The underlying assets consist of trade receivables.

Securitisation exposures in the trading book The information in this section relates to securitisation exposures in the trading book for which risk-weighted exposure values are determined in accordance with sections 294-318 SolvV. This comprises securitisation exposures where Commerzbank acts as sponsor or investor.

The total net exposure of all retained or acquired securitisation exposures which are not included in the correlation trading portfolio was €273m at the reporting date, including hedge by credit derivatives according to section 299 SolvV. There are no further off-balance hedge positions. In addition, securitisation exposures with a net value of €45m were assigned to the correlation trading portfolio.

The table below shows the retained and acquired securitisation exposures which are not assigned to the correlation trading portfolio:

Table 32: Retained or acquired securitisation exposures in the trading book by type of exposure

	Investor
€m	**2011**
Securities	96
Derivatives	177
Total	**273**

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

Table 33: Retained or acquired securitisation exposures in the trading book by type of asset

	Investor
€m	**2011**
Securitised positions	38
Residential real estate	68
Commercial real estate	20
Loans to companies/SMEs	95
Other	52
Total	**273**

Most of these securitisation exposures (74%) originate from the USA.

The next table provides a breakdown of acquired and retained securitisation exposures that are not assigned to the correlation trading portfolio by risk weighting bands. Risk weightings are ascertained by applying the risk approach applicable to each securitisation exposure as per section 255 SolvV in conjunction with section 303 SolvV, which sets out a hierarchy of regulatory approaches for IRB securitisation exposures. If a securitisation exposure has an external rating of B+ or worse half of the exposure is deducted from Tier I capital and half from Tier II capital. The capital requirements are determined by the net exposure and the position's risk weighting.

Table 34: Retained or acquired securitisation exposures in the trading book by risk weighting band

2011	RBA	
Risk weighting band €m	**Position value**	**Capital requirement**
≤ 10%	23	0
> 10% ≤ 20%	45	1
> 20% ≤ 50%	14	0
> 50% ≤ 100%	0	0
> 100% ≤ 650%	0	0
> 650% < 1250%	0	0
Total	**83**	**1**

The next table provides a breakdown of acquired and retained resecuritisation exposures that are not assigned to the correlation trading portfolio by risk weighting bands :

Table 35: Retained or acquired resecuritisation exposures in the trading book by risk weighting band

2011	RBA	
Risk weighting band €m	**Position value**	**Capital requirement**
≤ 10%	0	0
> 10% ≤ 20%	46	1
> 20% ≤ 50%	83	2
> 50% ≤ 100%	0	0
> 100% ≤ 650%	10	1
> 650% < 1250%	0	0
Total	**139**	**4**

As at December 31, 2011 the value of the securitisation exposures (including resecuritisations) deducted from equity and the capital requirement were both €51m.

Intensive Care

The processing of non-performing commitments is carried out by the in-house Intensive Care unit. This unit combines the necessary expert knowledge for the accompaniment of customers undergoing a phase of restructuring and for a successful processing of default commitments including collateral realisation.

The lending risks reported under the IFRS category LaR are taken into account by forming specific loan loss provisions (SLLP), portfolio loan loss provisions (PLLP) and general loan loss provisions (GLLP) for on- and off-balance sheet loan assets on the basis of the provisions according to IAS 37 and 39.

When determining loan loss provisions, the fundamental criteria include whether the claims are in default or not and whether the claims are significant (over €1m) or insignificant (up to €1m).

All claims which are in default under the Basel regulations are defined as in default or non-performing. The following events are decisive in determining the default of a customer:

- Imminent insolvency (over 90 days past due).
- The Bank is assisting in the financial rescue/restructuring measures of the customer with or without restructuring contributions.
- The Bank has demanded repayment of its claim.
- The customer becomes insolvent.

A portfolio loan loss provision (PLLP impaired) is recognised for non-significant defaulted claims on the basis of internal parameters. For significant defaulted claims, the net present value of the expected future cash flows is used to calculate both specific valuation allowances and specific loan loss provisions (SLLP). The cash flows include both the expected payments and the expected proceeds from realising collateral and other recoverable cash flows. The loan loss provision is equal to the difference between the claim amount and the net present value of all the expected cash flows. The calculation of the general loan loss provision (GLLP and PLLP non-impaired) for on-balance sheet and off-balance sheet transactions takes place at the level of each individual transaction using internal default parameters (PD, LGD) and taking the LIP factor into account (LIP = loss identification period). Country risks are not accounted for separately under IFRS but are included for the purposes of the SLLP calculation via the individual cash flow estimates or are given a flat-rate value in the LGD parameters when calculating portfolio loan loss provisions.

Impairment tests are also performed for securities classified as available for sale (AfS) and loans and receivables (LaR) if the fair value is below the amortised acquisition costs due to the credit rating. At each balance sheet date, it will be reviewed whether there is objective evidence (trigger event) of an impairment and whether this will impact on the expected cash flows. The trigger event will be reviewed on the basis of the creditworthiness of the borrower/issuer or the issue rating, e.g. for Pfandbriefe (mortgage bonds) and ABS transactions. Trigger events may include:

- Arrears/default in payments of interest or principal on the part of the issuer/borrower.
- Restructuring of the debt instrument due to significant financial difficulties on the part of the issuer (of a security) or debtor (of a loan).
- Increased probability of a restructuring procedure.
- Increased probability of insolvency.

The trigger events are operationalised through a combination of rating and fair value changes. To achieve this, the individual securities are split into three groups (listed and unlisted equity instruments and debt instruments) that are the basis for further individual impairment reviews. If trigger events are found, an impairment affecting the income statement is made and the corresponding claim is deemed to be non-performing. If no trigger event is found but the fair value is below the amortised acquisition cost, the revaluation reserve is charged. The impairment amount is determined from the difference between the amortised acquisition cost and the fair value.

The total amount of the loan loss provisions, insofar as they relate to claims on the balance sheet, is deducted from the respective balance sheet items. However, provision for risks in off-balance-sheet business – guarantees, endorsement liabilities, lending commitments – is shown as a provision for credit risks.

In accordance with the Group's write-down policy, impaired positions are written down to the net present value of the claim two years after the termination using existing valuation allowances (SLLPs/PLLPs impaired). Amounts recovered on claims written down are recognised in the income statement.

The tables below on loan loss provisions show the total amount of non-performing claims or those in arrears in the IFRS categories LaR (loans) including the related loan loss provisions with the corresponding write-downs grouped by sector and country of residence of the respective borrower.

Loans in arrears refer to all loans that are overdrawn by at least one day up to 90 days and are not defined as loans in default under consideration of the minimum threshold (2.5% of the limit or €100).

The table below sets the on-balance and off-balance sheet total claims from non-performing claims and those in arrears against the loan loss provisions, net allocations and direct write-downs. The following definitions are used here:

- **SLLP on-balance** is the sum of specific loan loss provisions for significant claims, determined on the basis of individual cash flow estimates.
- **PLLP impaired on-balance** is the sum of portfolio loan loss provisions for insignificant non-performing claims, determined on the basis of internal risk parameters per portfolio.
- **SLLP and PLLP impaired off-balance** is the total sum of provisions for significant and insignificant off-balance sheet claims. These provisions are determined in the same way as on-balance sheet claims.
- **GLLP/PLLP non-impaired (NI) on-/off-balance** is the sum of general loan loss provisions relating to claims in arrears.
- The **net additions** column shows the net position from additions and reversals of loan loss provisions for on-balance and off-balance sheet transactions. This does not include direct write-downs. These are shown separately in the **direct write-downs** column.

Table 36: 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-up/ -downs
Agriculture and forestry	39	20	4	0	1
Fisheries	0	0	0	0	0
Mining and quarrying of stone	10	6	0	0	0
Manufacturing industry	2,578	1,078	58	173	126
Energy and water supply	172	69	1	5	1
Construction	458	179	26	36	25
Trade, maintenance and repair of motor vehicles and consumer goods	918	426	58	14	43
Hotels and restaurants	225	81	12	3	7
Transport and communication	2,824	854	10	9	– 1
Banking and insurance	1,357	503	5	0	47
Real estate and housing[1]	7,509	2,487	75	71	141
Public sector[2]	0	0	0	0	0
Education and training	28	2	2	7	1
Health, veterinary and social work	280	69	13	1	8
Other public and personal service activities	418	120	45	23	29
Private households	1,932	155	666	4	161
Non-profit organisations	1	1	0	0	0
Total 2011	**18,749**	**6,050**	**974**	**346**	**590**
Total 2010	**21,584**	**7,107**	**1,199**	**383**	**450**

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	5	0	4	0
Fisheries	0	0	– 2	0
Mining and quarrying of stone	2	0	0	0
Manufacturing industry	440	3	219	74
Energy and water supply	19	0	2	0
Construction	55	0	82	0
Trade, maintenance and repair of motor vehicles and consumer goods	264	3	102	0
Hotels and restaurants	6	0	34	0
Transport and communication	1,276	9	318	0
Banking and insurance	249	2	– 299	0
Real estate and housing[1]	494	2	493	5
Public sector[2]	44	0	– 2	0
Education and training	4	0	8	0
Health, veterinary and social work	9	0	52	0
Other public and personal service activities	30	0	48	0
Private households	434	17	116	102
Non-profit organisations	8	0	– 11	0
Total 2011	**3,339**	**35**	**1,163**	**181**
Total 2010	**4,545**	**119**	**2,538**	**183**

[1] Including the rental of movable property and the provision of business services.
[2] Including defence and social security.

Commerzbank bases its definition of the total sum of non-performing claims and claims in arrears on its accounting. Pursuant to section 315a (1) of the German Commercial Code, the Commerzbank Group issues consolidated financial statements based on International Financial Reporting Standards (IFRS). For this reason, the book values according to IFRS are applied for the total amount of non-performing claims and claims in arrears. Credit risk mitigation techniques which can mitigate risks for the purposes of determining the capital requirement are not relevant for the determination of the claim amount for accounting procedures.

The total non-performing claims and claims in arrears (loans and securities) amount to €22.1bn, whereby €18.7bn falls to the default portfolio (non-performing claims) and approximately €3.3bn falls to claims in arrears. In addition to the loan loss provisions presented below, collateral value is also held against the total non-performing claims, which is taken into account accordingly in the calculation of the SLLP, PLLP and GLLP. The amounts recovered from written-down claims amounting to €181m are booked as income in the loan loss provisions.

In 2011 a write-down of €2.2bn on the bonds issued and guaranteed by Greece was recognised in the income statement. Details are shown in the notes of the Annual Report, page 232 in the section "Impact of the European sovereign debt crisis".

Table 37: 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-up/-downs	Loans in arrears	GLLP/PLLP NI on-/off-balance for loans in arrears
Germany	9,196	2,635	686	248	472	2,033	12
Western Europe (excluding Germany)	5,539	1,940	11	77	77	481	4
Central and Eastern Europe	2,026	848	275	10	0	689	18
North and South America	1,642	484	1	10	30	28	1
Asia	334	133	1	0	9	95	0
Other	11	9	1	0	2	14	0
Total 2011	**18,749**	**6,050**	**974**	**346**	**590**	**3,339**	**35**
Total 2010	**21,584**	**7,107**	**1,199**	**383**	**450**	**4,545**	**119**

The breakdown by country cluster reflects the Commerzbank Group's focus on Germany and selected markets throughout Europe. This means that the vast majority of the loan loss provisions fall to borrowers based in these geographical locations. In addition to Germany and Europe, the sum of specific loan loss provisions is also significant in North America. This is due to a higher number of individual default cases during the financial market crisis.

Table 38: Development of loan loss provisions

Type of provision €m	Opening balance	Additions	Reversals	Utilisations	Exchange rate changes	Other changes	Closing balance
SLLP on-balance	7,107	2,259	1,278	1,688	23	–373	6,050
PLLP impaired on-balance	1,199	486	243	401	–22	–45	974
SLLP+PLLP impaired off-balance	383	354	360	7	4	–28	346
GLLP/PLLP NI on-/off-balance	1,325	216	587	0	–7	–2	945
Total	**10,014**	**3,316**	**2,469**	**2,096**	**–3**	**–448**	**8,315**

Direct write-downs are not taken into account in the development of loan loss provisions. Furthermore, the table only shows the development of loan loss provisions relating to the lending business. For this reason, only claims or loan commitments under the IFRS category LaR and their corresponding loan loss provisions are shown here. Details on the development of the loan loss provisions can be found in the 2011 Group Risk Report.

The table below shows the actual losses over the entire period and compares these with the calculated expected losses at the end of the period. Losses incurred in the lending business refer to direct write-downs and the utilisation of valuation allowances for claims classified as IRBA positions according to Basel II. Amounts recovered on written-down claims reduce the actual loss. The level of EL for the entire book of claims calculated under the IRBA in the disclosure report deviates from the EL of the Commerzbank Group shown in the Annual Report 2011 amounting to €1.7bn. This is almost entirely due to the inclusion of defaulted loans in the disclosure report, which show very high EL figures due to their 100% probability of default as considered in the model. The annual report, however, only includes non-defaulted loans in the EL calculation.

Table 39: Expected and realised losses

	2011		2010		2009		2008	
Asset class €m	Expected loss as at 31.12.	Realised loss	Expected loss as at 31.12.	Realised loss	Expected loss as at 31.12.	Realised loss	Expected loss as at 31.12.	Realised loss
Companies	5,293	926	6,115	1,166	5,919	1,241	3,359	1,125
Retail lending	548	429	926	440	906	101	1,038	401
IRBA exposures secured by mortgage liens	*328*	*343*	*589*	*311*	*520*	*109*		
Qualified revolving IRBA-positions	*0*	*41*	*1*	*55*	*24*	*31*		
Other IRBA exposures	*219*	*46*	*336*	*73*	*362*	*–39*		
Banks	580	42	527	21	574	163	499	361
Central governments	37	0	32	0	35	0	7	3
Total	**6,458**	**1,398**	**7,601**	**1,626**	**7,434**	**1,505**	**4,904**	**1,890**

A further difference versus the annual report is the fact that the expected loss reported in the disclosure report does not include SACR or securitisation positions. Due to the change to SACR (permanent partial use pursuant to section 70 SolvV) in 2009, the asset class 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. Market liquidity risk is the risk of the Bank not being able to liquidate or hedge risky positions in a timely manner, to the desired extent and on acceptable terms as a result of insufficient liquidity in the market.

Market liquidity risk is measured by creating a liquidation profile for each portfolio in order to classify the portfolios in terms of convertibility into cash using a market liquidity factor. The market risk based on a one-year-view is weighted with the market liquidity factor to calculate the market liquidity risk.

At the end of 2011, Commerzbank provided €0.7bn in economic capital to cover market liquidity risks. Securities, which are more liable to liquidity risk, include in particular asset-backed securities and specific positions in the equity investment portfolio.

Market risk strategy

Strategy

The market risk strategy is derived from the overall risk strategy and the business strategies of the individual segments and determines the market risk management objectives with regard to Commerzbank's key business activities. The core tasks of market risk management are the identification of all key market risks and drivers of market risk for the Group, the independent measurement and evaluation of these risks, and the risk/return-oriented management for the Commerzbank Group based on these results and evaluations.

Based on our experience from the financial market crises, comprehensive guidelines relating to the management and monitoring of market price risks were implemented with the market risk strategy. These guidelines are focused on a wide range of qualitative and quantitative tools.

The quantitative parameters of Commerzbank Group's market risk strategy (value at risk limits in particular) are derived from the basic data defined in the overall risk strategy which ensures risk-taking capability based on the economic capital requirement. Within the scope of the planning process, this data is broken down into the individual segments/business areas giving consideration to the business strategies. Furthermore, the Bank controls and limits the market risk via scenario and sensitivity analyses.

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

The qualitative and quantitative factors limiting market risk are determined by the Board of Managing Directors and the Group Market Risk Committee. The assessment and monitoring of market risk takes place on a daily basis.

Organisation

The Board of Managing Directors of Commerzbank is responsible for ensuring effective management of market price risk for the entire Commerzbank Group. Specific levels of authority and responsibility in relation to market risk management were assigned to the appropriate market risk committees.

Within the Bank, various market risk committees are established in which segment representatives discuss current risk positioning issues and management measures with the Risk Function and with Finance. The Segment Market Risk Committee meets weekly and focuses on Corporates & Markets, Public Finance, PRU and Treasury. The Group Market Risk Committee, which meets monthly, deals with the market risk position in the Commerzbank Group. The discussion is based on the monthly Market Risk Report. In addition to the Market Risk Committee, this report also offers the Board of Managing Directors in-depth information on the most important market risk developments from an aggregate perspective and forms the basis for the creation of a report on these issues within the scope of the internal risk report covering all risk types.

The risk management process (risk identification, risk measurement, management, monitoring and reporting) is the responsibility of Market Risk Management in functional terms. A centralised market risk management function is supplemented by decentralised market risk management units at segment level, in both regional units and subsidiaries. As the central and local risk management is closely interlocked with the business units, the risk management process starts in the front office units. These front office units are particularly responsible for the active management of the market risk positions (e.g. mitigating or hedging measures).

Risk quantification

Value at risk

For the internal management of the market risk, a standardised market risk model which incorporates all positions is used. The value at risk (VaR) market risk model used for this purpose is based on a historical simulation (one-year interval of historical market data) with a confidence level of 97.5% and a one-day holding period. This ensures a consolidated view of the market risk at all times. A comprehensive internal limit system broken down to portfolio level is implemented and forms an important part of the internal market risk management.

In December 2011, the German Financial Supervisory Authority (BaFin) granted Commerzbank authorisation to use the VaR market risk model with an enhanced identification of specific interest risks for the calculation of regulatory required capital.

In light of the time-consuming nature of the authorisation procedure, the Supervisory Authority approved the temporarily simultaneous use of both of the old certified models for the calculation of the regulatory capital requirement. Up until September 2011, the Bank used the Delta-Gamma model of the former Dresdner Bank and Commerzbank's existing model based on a historical simulation for the calculation of the regulatory capital require-

ment. Since September 2011 and after the migration of all positions into the target architecture, the calculation of the regulatory required capital has exclusively been carried out using Commerzbank's old model.

The use of the enhanced internal model for the calculation of regulatory required capital since December 2011 has allowed for a consistent risk measurement across the whole Group.

The following table shows the aggregation of the value at risk data from both internal (old) models (until 09/2011 and 11/2011) and the new internal model (since 12/2011) based on a confidence level of 99% and a one-day holding period.

Table 40: VaR of trading book portfolios (based on regulatory capital requirement)

VaR | €m	2011	2010
Minimum	38	55
Average	66	75
Maximum	102	101
Year-end figure	**59**	**81**

The enhanced Market Risk Model meets the requirements of Basel 2.5. In particular, this includes the calculation of "stressed VaR", which evaluates the risk arising from the current positioning in the trading book with market movements in a crisis period. In addition, the "incremental risk charge" and "equity event VaR" ratios quantify the risk of a deterioration in creditworthiness and event risks in trading book positions.

Table 41: Stressed VaR of trading book portfolios

VaR | €m	2011
Minimum	49
Average	58
Maximum	72
Year-end figure	**52**

Table 42: Incremental Risk Charge

Capital requirement | €m	2011
Minimum	222
Average	277
Maximum	322
Year-end figure	**254**

The following table shows the incremental risk charge by sub-portfolio not considering diversification effects.

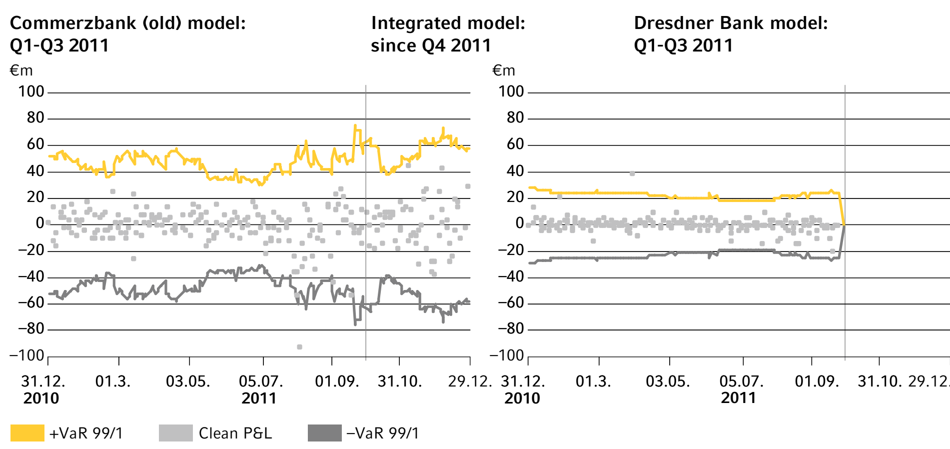
Table 43: Incremental Risk Charge by sub-portfolio

Sub-portfolio	IRC €m	Average regrouping horizon months
Corporates & Markets	126	5.7
Portfolio Restructuring Unit	49	11.9
Treasury	82	12.0
Mittelstandsbank	36	6.3
Other	172	12.0

The reliability of the internal models is checked on a daily basis using backtesting methods. The calculated VaR data is compared with the profits and losses generated from actual price changes on the market. This provides the basis for the assessment of the internal risk models by the supervisory authorities. If the resulting loss exceeds the risk predicted using the value at risk model, this is referred to as a negative backtesting outlier. If, however, the resulting profit exceeds the predicted risk, this is referred to as a positive backtesting outlier.

Analysing the results of backtesting provides important guidance for checking parameters and improving the market risk model. Furthermore, all negative outliers at Group level are classified under a traffic-light system laid down by the supervisory authorities and are reported immediately to the supervisory authorities with details on the extent and cause of the failure. Throughout the course of 2011, three backtesting outliers were measured using the old models. No negative outliers have been measured for the respective portfolios since the introduction of the new internal model in December 2011.

Backtesting results



Furthermore, the internal model is regularly being stripped down to its individual components which are then validated, i.e. through distribution tests. All of the validations performed are being reported on a quarterly basis to the Segment Market Risk Committee and the Board of Managing Directors. The identification and elimination of any model shortcomings are of particular importance.

Measurement of financial instruments

The fair value of a financial instrument is the amount for which it could be exchanged between competent, willing, independent parties in an arm's length transaction. The most suitable measure of fair value is the quoted price for an identical instrument on an active market, e.g. an exchange. In cases where no quoted prices are available, valuation is based on quoted prices for similar instruments in active markets. To reflect the price at which an asset could be exchanged or a liability settled, asset positions are valued at the bid price and liability positions are valued at the offer price.

Where quoted prices are not available for identical or similar financial instruments, fair value is derived using an appropriate valuation model where the data inputs are obtained, as far as possible, from observable market sources. Occasionally, financial instruments are valued using valuation models where no sufficient observable market data is currently available for the inputs. These valuations include a greater level of management judgement. However, such valuations seek to use market or third-party inputs to the maximum extent possible and rely as little as possible on company-specific inputs.

When determining fair values for those securities of Eurohypo group and EEPK that have been rededicated into loans and receivables (IFRS) (see the appendix of the Annual Report 2011, note (80) Fair Value of financial instruments) the applicability of a valuation model in case of inactive markets is being checked in a two-step process. If this process in accordance with the Fair Value hierarchy of IAS 39 provides that an active market does not exist, a valuation model is being used to determine the fair value of the securities.

Valuation models must be consistent with accepted economic methodologies for pricing financial instruments and must incorporate all factors that market participants would consider appropriate in setting a price. All fair values are subject to Commerzbank Group's internal controls and procedures which set out the standards for independently verifying or validating fair values. These controls and procedures are managed by the Independent Price Verification (IPV) Group within the finance function. The valuation models are independently reviewed and validated by the risk function on a regular basis.

Commerzbank's IPV process is founded on a risk-based approach. This approach also takes account in particular of internal factors such as changes in business strategy, the expansion or downsizing of business activities and external factors such as developments in markets, products and related valuation models. The regular independent price testing consists of two main components:

- analysis of the prices and parameters
- determination of the associated fair value/P&L change

In the IPV process a "price" is defined as a directly observable price, e.g. the settlement price of a future or the market price of a share. The products are valued at the bid or offer price as appropriate, depending on whether they are a long or a short position. A "parameter" is defined as an input to a valuation model for determining fair value, e.g. implied volatilities or dividends to value a share option. Derivatives valued using models are measured and tested at mid-market, plus any possible bid-offer reserves.

Stress test

As the VaR concept gives a prediction on the assumption of "normal" market conditions, it is supplemented by the calculation of stress tests in order to take possible extreme market fluctuations into account. Extensive group-wide stress tests and scenario analyses are carried out within the scope of risk monitoring. Stress tests are intended 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 capital and income statement is also quantified in these tests.

The bank-wide stress test calculation is based on a combination of short-term stress test scenarios and scenarios based on macro-economic variables. The stress test framework is completed by portfolio-specific stress tests and ad-hoc scenario analyses. The stress test calculations determine how strong fluctuations in the individual asset classes for shares, interest rates, credit spreads, currencies and raw materials (e.g. a 10% drop in share prices, a parallel shift of the interest-rate curve) impact on the portfolio value.

In order to manage and monitor risks, short-term scenarios are calculated daily and reported to the Board of Managing Directors. The longer-term scenarios are calculated on a monthly basis and discussed in the respective committees.

Risk management

Commerzbank determines its market risk limits for value at risk and stress testing at Group level using a top-down approach under consideration of the economic capital requirement (risk-taking capability). The allocation of limits to individual business areas and portfolios then takes place on the basis of the expected and achieved risk/return ratio, the market liquidity of assets and the business strategy. The limit utilisation is reported daily to the Board of Managing Directors and the various heads of divisions by the independent risk control unit.

The market risk units continuously monitor the risks and the positions of the business units. For this purpose, daily market risk information on the entire Group is generated for all of the relevant portfolios of Commerzbank. In addition to the various daily reports at portfolio level, market risk figures at Group level are also presented to the Board of Managing Directors and senior management on a daily basis. The daily reporting is supplemented by weekly and monthly reports to the responsible market risk committee and the Board of Managing Directors.

Interest rate risk in the banking book

Definition

The interest rate risk is one of the most significant financial risks posed by banking operations. This particularly includes the risk of value adjustments as a result of interest rate fluctuations over time. The maturity of interest positions and their refinancing structure are fundamental factors in the management of interest rate risks. The model includes assumptions on early repayments as well as on investor behaviour when deposits are open-ended. Furthermore, the risk of a flat or steep interest rate curve is covered via the management tool. The interest rate curve indicates the interest level over different maturities. Interest rate risks may also arise if positions are closed as a result of hedging transactions with a different pricing type to the underlying transaction (basis risks). Interest rate risks relate to Commerz-

bank's banking book and trading book. The interest rate risks of both books result in Commerzbank's overall interest rate risk.

Organisation

The interest rate risk in the Commerzbank Group's banking book primarily results from the commercial business of the Group. Interest risks in commercial business arise if interest positions in the customer business are not hedged or are only partially hedged. Interest risks also arise from the investment models used by the central ALCO (Asset Liability Committee) which comprise in particular the investment and/or refinancing of products without contractually fixed interest rates (e.g. for equity capital, savings and sight deposits).

In Commerzbank Group, the interest rate risk in the banking book lies in the responsibility of Group Treasury within the scope of the business strategy. In addition to the positions of the central Group Treasury, the treasury activities of branches and all subsidiaries are also taken into consideration.

The Treasury's main tasks include the management of the balance sheet structure and of liquidity risks. The aim is to generate a positive interest margin from interest income and refinancing expenses. This gives rise to interest rate risks if positions are not refinanced with matching maturities and matching currencies.

Quantification

Commerzbank jointly manages the interest rate risk from both the trading and banking book. The measurement of the interest rate risk of both books is completely integrated into the Bank's daily measurement and monitoring of risk. As with the measurement of trading book risks, the risk quantification in the banking book is also calculated using the value at risk method. Stress tests and scenario analyses are also calculated on a daily and monthly basis. For this purpose, the aforementioned stress test calculations are used. This standardised procedure is intended to ensure transparency of the interest rate risks in both the trading and banking book.

A further control variable for interest rate risks in the banking book are interest rate sensitivities. These indicate how the interest income varies following a change of the interest level by, for example, one basis point (bp). Interest rate sensitivities are also monitored on a daily and monthly basis. This monitoring takes place at both a portfolio and segment level as well as for Commerzbank Group. For management purposes, the interest sensitivities are limited to the various maturity bands at both a Group and segment level. The focus is particularly placed on interest sensitivities relating to long maturity periods.

For regulatory purposes, the influence 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 has been adjusted by the supervisory authorities to +200 basis points and −200 basis points at year-end 2011. On this basis, an interest rate shift of +200 basis points would give a potential loss of €2,052m, a shift of −200 basis points would give a potential gain of €1,829m. The potential gain and loss respectively are almost fully caused by the movement of the EURO interest rate curve. Other currencies do not show a noteworthy impact. These numbers include positions hold by Commerzbank AG as well as the subsidiaries Eurohypo AG and comdirect bank AG. The numbers represent a clear undershooting of the defined threshold value for a potential reduction in equity capital (20% for so-called outlier banks). As Commerzbank manages its interest rate risk on the basis of total bank positions (including the trading book) the pure examination of the banking book is of only restrictive significance. This has to be kept in mind when assessing the simulation results.

Table 44: Interest rate risk in the banking book

€m	2011		2010	
	−200 bp[1]	+200 bp[1]	−190 bp[1]	+130 bp[1]
Total	**1,829**	**−2,052**	**7**	**7**

[1] Interest rate shock.

Management

Management takes place using the corresponding limit systems within the scope of the risk management process for the banking and trading book. The risks are consolidated in the central risk management process. The central risk management is supplemented by a risk management unit for treasury within the market risk function.

Interest rate risks in the banking book are managed in line with the business strategy by means of maturity- and currency-congruent refinancing and the use of interest rate derivatives, e.g. interest rate swaps, which have sufficient market liquidity and allow prompt action to be taken. For long-term Bank products without fixed maturities, the Bank implements models to control the interest rate risks and stabilise the earnings performance (e.g. for savings and sight deposits or equity capital). These models are regularly monitored. The level of interest rate risks is both strategically and operatively restricted through risk policies and position limitations respectively.

Liquidity risk

In a narrower sense, Commerzbank defines liquidity risk as the risk that the Group will be unable to meet its daily payment obligations. In a broader sense, liquidity risk describes the risk that future payments cannot be funded to the full amount, in the required currency and at standard market conditions, as and when they are due.

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. The liquidity risk strategy is resolved by the Board of Managing Directors and contains guidelines for liquidity risk management and risk tolerance. It also takes the increasing regulatory requirements for liquidity risk management into account. As the ability to meet payment obligations at all times serves as an existential requirement, liquidity management focuses on a combination of risk provisioning and risk limitation. The guidelines of the liquidity risk strategy are supplemented by regulations such as the Liquidity Risk Policy, the Model Validation Policy and the Model Change Policy as well as the Limit Policy.

Group Treasury at Commerzbank is responsible for managing liquidity risks. Liquidity risks occurring over the course of the year are monitored by the independent risk function using a bank-internal liquidity risk model. Key decisions on liquidity risk management and monitoring are made by the central Asset Liability Committee (ALCO). This includes, for example, the definition of liquidity risk limits and liquidity reserve. At an operative level, additional sub-committees are responsible for dealing with liquidity risk issues at a local level and with methodological issues regarding the quantification and limitation of liquidity risks that are of lesser significance for the Group.

Within the scope of the contingency plan, the Group ALCO can decide upon different measures to secure liquidity. This contingency plan is based on an integrated process which consists of the liquidity risk contingency plan and the supplementary liquidity contingency measures of the Treasury. This concept enables a clear allocation of responsibility for the process to be followed in emergency situations as well as the adequate definition of any action that may need to be taken.

Risk quantification

As with the future Basel III ratios, ensuring Commerzbank's ability to meet its payment obligations is quantified and monitored on the basis of two interdependent concepts:

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

Available net liquidity concept

Commerzbank's internal liquidity risk model is the basis for liquidity management and reporting to the Board of Managing Directors. Based on a reference date this risk measurement approach calculates the available net liquidity (ANL) for the next 12 months under various scenarios. Commerzbank's available net liquidity is calculated for various stress scenarios using the following three components: deterministic, i.e. contractually agreed cash flows (forward cash exposure, FCE), statistically expected economic cash flows for the relevant scenario (dynamic trade strategy, DTS), and the realisable assets in the relevant scenario (balance sheet liquidity, BSL).

The stress scenario underlying the model which is relevant for management purposes allows for the impact of both a bank-specific stress event and a broader market crisis. This assumes liquidity outflows from the withdrawal of investments and drawdowns on credit lines as well as a severely restricted liquidity of assets due to a market crisis. The parameterisation of the stress scenario is derived from the risk tolerance that is determined in accordance with the overall risk strategy and updated as required. This also includes the definition of scenarios that are no longer covered by risk tolerance. The stress scenario is used to draw up detailed contingency plans. The stress scenarios are run daily and reported to management. The underlying assumptions are checked regularly and adjusted to reflect changed market conditions as necessary. In 2011, the liquidity assumptions for liquid assets were particularly revised within the scope of the ongoing model validation. In order to adequately reflect the ongoing European sovereign debt crisis in our liquidity risk projections, further adjustments were made to the internal liquidity risk model in addition to the continuous model adjustments due to validation results in the third quarter. Amongst other things, higher demands were placed on liquid assets just as in the stress scenario, deposits from some institutional investor groups were classified as less stable and the internal early warning level was tight-

ened. In accordance with current guidelines, these adjustments were formally documented and approved, depending on their potential impact, by the relevant committees.

After the system migration of Dresdner Bank over the Easter weekend in 2011, the former Dresdner Bank business was completely integrated into the internal liquidity risk model.

In order to ensure solvency in every currency, the limit system of the internal liquidity risk model also comprises currency-specific limits. Due to the prompt and frequent informing of the Board of Managing Directors and the integration of ALCO, possible liquidity gaps can be recognised at an early stage and impeded using suitable measures. The calculated liquidity surpluses for the entire business year of 2011 were consistently above the limits set by the Board of Managing Directors. Commerzbank's solvency was therefore guaranteed at all times, not only in terms of the external regulatory requirements of the German Liquidity Regulation (ratio as of December 30, 2011: 1.17), but also in terms of internal limit provisions.

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 also regularly analyses the structure of the various sources of funding of liabilities in order to actively manage the funding profile.

Long-term funding is mainly ensured by means of structured and non-structured capital market products that may or may not be collateralised, 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 to the Bank over the long term (including core customer deposit bases). The results derived from this form the basis for the planning of issues on the capital market. The aim is to finance the Bank's illiquid assets and core business as much as possible with long-term liabilities in terms of volume and maturity.

Stress tests

In order to ensure a sufficient basis for the prevention of possible liquidity bottlenecks even under difficult market conditions, Commerzbank continuously carries out stress tests. A distinction is in particular made between bank-specific, general stress scenarios and scenario combinations which are regarding all relevant projection periods.

In addition to the stress tests based on the ANL concept, the Bank conducts separate survival period stress calculations in terms of the MaRisk.

In the year under review, the regular stress tests were supplemented by additional inverse and adverse scenario analyses which exceeded the defined risk tolerance. Amongst other things, these scenarios examine the breaking-off of customer deposits and the USD refinancing.

Central bank securities are used to cover the liquidity requirement in a stress scenario and these are brought into the calculation of available net liquidity (ANL) as balance sheet liquidity. In order to hedge against sudden unexpected payment obligations, e.g. from drawdowns on liquidity lines, the Treasury maintains a portfolio of disposable liquid securities which are held by the central bank.

Risk management

Group Treasury is responsible for the Group's liquidity management. Group Treasury is represented in all major locations of the Group in Germany and abroad and has reporting lines into all subsidiaries. Liquidity management comprises both operational and strategic components. 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 maturity profiles for liquidity-relevant assets and liabilities, including modelling the proportion of customer deposits which will be available on a permanent basis (the core deposit base), the resulting issuance strategy of the Group, as well as the determination and allocation of liquidity costs, which is included in the management of the Bank's business activities.

Further development of liquidity risk management and Basel III

With a view to the further development of liquidity risk monitoring and the current reporting system, we have made it a particular priority to follow various regulatory initiatives to harmonise international liquidity risk standards. Commerzbank calculates and evaluates the effect of the liquidity risk ratios defined in Basel III and is actively taking part in constructive dialogue with the supervisory authorities. In addition, the bank is increasing the available analysis options for liquidity risk reporting via the continuous development of the organisation's infrastructure used.

The Bank initiated a strategic project in the third quarter of 2011 to coordinate and further develop central issues arising from Basel III, the cross-charging of liquidity costs and liquidity risk management using the internal liquidity risk model.

Operational risk

Commerzbank defines operational risk (OpRisk) according to 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 litigation risks; it does not cover reputational or strategic risks.[1]

OpRisk strategy

Commerzbank's group-wide operational risk strategy is approved on an annual basis by the Board of Managing Directors after it has been discussed and voted upon in the OpRisk Committee. The management bodies of the various units are responsible for the implementation of the OpRisk strategy, the guidelines and procedural instructions within the scope of their OpRisk management tasks. Cost-benefit aspects are of importance for the implementation of the strategy.

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

- To largely prevent high OpRisk losses (before they materialise) using proactive measures and therefore to protect the Bank against serious negative effects.
- To largely minimise risks (to restrict their damaging effects) for example through the use of risk-mitigation measures.
- The disclosure of potential problem areas in the process organisation therefore providing a basis for the optimisation taking cost-benefit aspects into account.

The operational risk organisation has a clear allocation of responsibilities and tasks and therefore creates the basic organisational framework and structures for a targeted and effective operational risk control and management in the segments and service and support areas.

OpRisk monitoring and management is based on three consecutive levels:

- The Bank's segments assume direct responsibility for operational risk in their areas of responsibility and therefore ensure an effective and prompt segment risk management.
- Risk Control is responsible for managing operational risk at Group level, group-wide controlling and overseeing the implementation of regulatory requirements.
- As an independent body, Group Audit reports on risk-relevant 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 in particular with the management of OpRisk within Commerzbank and fundamental methodological issues. The OpRisk Committee meets regularly with the objective of optimising the expected loss from OpRisk from a cost/benefit perspective and minimising the potential damage from the unexpected loss. An end-to-end view of the banking processes ensures that risks are recognised at an early stage. The segment OpRisk committees deal with segment-specific issues and meet prior to the Group OpRisk Committee.

[1] In the definition of capital formation for OpRisk, compliance risks are taken into consideration in the form of events; the management of this risk takes place through a separate compliance risk strategy.

Risk quantification

In order to determine regulatory RWA and the economically required capital (ErC), Commerzbank uses an advanced measurement approach (AMA) according to the German Solvency Regulation (SolvV). Within the scope of the legally permissible deadlines for Group reporting, individual subsidiaries can retain the basic indicator approach (BIA) for a transitional period. For local reporting, subsidiaries integrated in the AMA can report according to the BIA or the standard approach (STA) within the scope of local provisions.

During the integration of Dresdner Bank, a collective OpRisk model was developed to calculate the capital requirement and this was adapted to the requirements of the new Commerzbank. Until this model has been certified by the supervisory authorities, which is planned for 2012, the capital requirement for both banks will continue to be calculated separately for regulatory and internal reporting purposes and then reported as a whole figure. In coordination with the supervisory authorities, a premium is added to these total amounts to cover possible residual uncertainties stemming from the separate model calculation.

In addition to qualitative framework directives and procedural instructions, the basis for an effective operational risk control and management is formed by qualitative and quantitative methods and tools. The tools implemented by Commerzbank support a causally-based management of operational risks.

The group-wide collection of loss data according to Basel II and SolvV, starts at a threshold value of €5,000 and records all insurance-relevant information (master data, damages incurred and insurance coverage). A modelling of insurance and alternative OpRisk transfers currently does not take place.

In order to model the "fat tail" of the loss distribution – i.e. the financial risk from infrequent major losses – external loss data from the operational Riskdata eXchange Association, Zurich (ORX), a data consortium of international banks, is used in addition to internal data. Herefrom further impulses may be derived for managing operational risks.

With the help of systematic inter-process quality self-assessments (QSA), the quality of the workflows, internal controls and business environment are evaluated locally and analysed centrally, based on end-to-end processes. The results are used to identify potential areas of weakness and serve as important qualitative components in the AMA model.

The quality of the process rating defined by QSA determines the amount of external data used for the calculation of capital. This is based on the expectation that good processes tend to lead to fewer losses in the future whilst bad processes lead to more losses. For the determination of capital commitment, the historically derivable experience of the distribution over time and the likelihood of the different loss events occurring simultaneously throughout the course of the year are taken into account.

In addition to the anonymised external data from ORX, public external data is analysed (Fitch database). This is particularly used for the development of appropriate scenario analyses within the scope of structured workshops in which Commerzbank's main operational risks are recorded. The OpRisk Committee will be provided with an overview of the identified risks and a detailed report on significant individual risks.

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

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

The expected loss (EL), regulatory RWA and economic capital (ErC) are derived from the same actuarial AMA model of Commerzbank AG. The model contains correlation assumptions between the segments and event categories within the segments. RWA and ErC are distinguished by their respective confidence levels.

Compared to the above mentioned description, Dresdner Bank’s model is more focussing on scenario analyses. Hereby so-called business environment and control factors are indirectly taken into account. RWA and ErC are based on different data bases; the EL is not being subtracted.

Risk management

In order to manage operational risks in an anticipative manner, key risk indicators and particularly scenario analyses are used (compare with risk quantification section above).

The risk strategy is implemented through the definition of capital and EL guidelines for operational risks. On the basis of risk-taking capability and within the scope of the annual planning process, an economic risk capital requirement limit is determined at Group level alongside RWA and EL guidelines at Group and segment levels and monitored by the independent risk controlling unit.

The implementation of risk-mitigation measures is the responsibility of the respective segments. In the event of serious risks, an initial evaluation of the planned or already implemented activities is performed by the risk function. Major events with a loss value of over €1m are monitored via the OpRisk suite. Internal Audit performs more profound tests of the measures to determine their effectiveness in the segments.

The identification of intra-risk concentrations is carried out via the evaluation of the Group's OpRisk profile. In this process, the loss events (realised losses and reserves), the management ratios generated from the capital model (EL, ErC and RWA) and future-oriented scenarios are evaluated particularly according to the event category and the causing organisational unit and reported to the OpRisk Committees of the Group. The results of the evaluation are benchmarked with the external data of the Operational Riskdata eXchange (ORX). Furthermore, risk concentrations are identified and analysed on a monthly basis through an evaluation of the reported effects.

A structured centralised and decentralised reporting procedure ensures that the management of the Bank and the individual segments, the members of the OpRisk Committee and the supervisory authorities receive regular, prompt and comprehensive reports on operational risks. OpRisk reports are prepared on a monthly and quarterly basis and form part of the risk reporting process to the Board of Managing Directors. They contain the latest risk assessments of the segments, their main loss events, current risk analyses, development of the capital requirement as well as the progress of implemented measures.

Other risks

In addition to those risks explicitly defined in the German Solvency Regulation, further risk types are also systematically and actively managed within Commerzbank Group. For details on other risks please refer to the Group Risk Report in the 2011 Annual Report.

Appendix

Consolidation matrix and material Group entities

While the Commerzbank Group's annual report is based on the group of consolidated entities under IFRS definitions, the information in this disclosure report relates to the entities consolidated for regulatory purposes.

Subsidiaries or controlled companies for the purposes of IFRS accounting that are not in the financial sector are not consolidated for regulatory purposes. They are, however, consolidated in the Group financial statements under IFRS.

The consolidation matrices (I+II) on page 79 f. show the regulatory consolidation categories for the various companies in the 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 lesser financial significance in accordance with the definition of materiality are shown in the lower part of the matrix.

The classification of the companies is based on section 1 KWG, supplemented by insurance undertakings and fund management companies. The Commerzbank Group's investments that are not consolidated for regulatory purposes are not shown.

The banks classification includes both universal banks and specialist banks. Financial companies include investment companies, holding companies and other financial companies.

The special purpose vehicles that are deemed to be controlled by Commerzbank AG under the criteria of SIC 12 are mainly securitisation vehicles and special funds consolidated under IFRS. 160 special purpose vehicles were consolidated under IFRS at the reporting date; there is currently no requirement to consolidate these vehicles for regulatory purposes.

Material companies of the Commerzbank Group are listed by name in the “Company” column in the consolidation matrix. The number of subsidiaries as well as the investments of material companies which are relevant for regulatory purposes is shown, broken down into segments, by consolidation type in the “Consolidation” column. 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 deduction for investments pursuant to section 10.6 KWG, equity investments in institutions and financial companies may also be voluntarily consolidated on a pro rata basis.

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

- BRE Bank SA 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 2.6 million in 2011.
- 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).
- Commerz Real AG is one of the world’s largest real estate asset managers and providers of leasing and investment solutions.
- 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 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 Holdings (UK) Limited, London, was integrated into the segment Corporates & Markets on the course of the integration of Dresdner Bank.
- 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 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.
- 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. Deutsche Schiffsbank AG has been wholly owned by Commerzbank since November 2011 and will be merged into Commerzbank AG in 2012.
- 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 45: Consolidation matrix (I)

Company	Classification acc. to KWG	No.	Consoli-dation
Material companies			
Commerzbank AG	Provider of secondary services	10	full
	Financial services institutions	2	full
	Financial companies	41	Deduction
		1	pro rata
		47	full
	Capital investment companies	2	full
	Banks	14	Deduction
		1	pro rata
		1	full
	Special purpose vehicles	158	-
BRE Bank SA	Financial services institutions	4	full
	Financial companies	3	Deduction
		3	full
	Banks	2	full
	Insurance companies	1	Deduction
	Special purpose vehicles	1	-
comdirect bank AG	Financial services institutions	1	Deduction
	Banks	2	full
Commerz Finanz GmbH	Banks	1	pro rata
Commerz Markets LLC	Financial services institutions	1	full
Commerz Real AG	Financial services institutions	2	Deduction
		7	full
	Financial companies	235	Deduction
		31	full
Commerzbank Eurasija SAO	Banks	1	full
Commerzbank Europe (Ireland)	Banks	1	full
Commerzbank Holdings (UK) Limited	Provider of secondary services	1	full
	Financial services institutions	4	full
	Financial companies	24	full
	Banks	1	full
Commerzbank International S.A.	Financial services institutions	1	Deduction
	Financial companies	2	Deduction
	Banks	1	full
Commerzbank Zrt.	Banks	1	full
Deutsche Schiffsbank AG	Provider of secondary services	1	full
	Banks	1	full
Erste Europäische Pfandbrief- und Kommunalkreditbank AG	Banks	1	full

Table 45: Consolidation matrix (II)

Company	Classification acc. to KWG	No.	Consoli-dation
Material companies			
Eurohypo AG	Provider of secondary services	5	full
	Financial companies	13	Deduction
		8	full
	Banks	3	full
	Special purpose vehicles	1	-
Public Joint Stock Company "Bank Forum"	Banks	1	full
Immaterial companies			
	Provider of secondary services	7	full
	Financial companies	14	Deduction
		28	full
	Banks	2	Deduction

Risk-weighted investments shown in the consolidation matrix are investments that are consolidated under IFRS but not for regulatory purposes. They are allocated to the equity investments asset class under the Solvency Regulation and are treated like any other investment position in this asset class.

Table 46: Investments consolidated according to German Commercial Code

Classification according to KWG	No.	Consolidation under IFRS
Provider of secondary services	1	at equity
Provider of secondary services	19	full
Financial companies	2	at equity
Capital investment companies	1	at equity
Other companies	12	at equity
Other companies	68	full

Information on the group consolidation of Commerzbank AG is set out in the notes to the 2011 Annual Report (Note 106: Holdings in affiliated and other companies).

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 and risk weighted assets by risk type
Table 8: Risk-taking capability in Commerzbank Group
Table 9: IRBA rating procedure
Table 10: IRBA exposures (EaD) by rating class – on-balance and off-balance
Table 11: IRBA exposures (EaD) of off-balance sheet positions by rating class – unutilised lending commitments
Table 12: IRBA exposures (EaD) of off-balance positions by rating class – other unutilised non-derivative off-balance sheet assets
Table 13: Exposures in the Standardised Approach to Credit Risk before CRMT
Table 14: Exposures in the Standardised Approach to Credit Risk after CRMT
Table 15: Collateralised SACR exposures
Table 16: Total collateralised IRBA exposures (EaD) –financial and other collateral/guarantees
Table 17: Assessment basis by asset class
Table 18: Assessment basis by country cluster
Table 19: Assessment basis by sector
Table 20: Assessment basis by maturity
Table 21: Positive replacement values by risk type before/after netting/collateral
Table 22: Breakdown of credit derivative business in the banking and/or trading book
Table 23: Valuations of investment instruments
Table 24: Realised and unrealised profits/losses from investment instruments
Table 25: Securitisation transactions with regulatory capital relief
Table 26: Retained or acquired securitisation exposures in the banking book by type of exposure
Table 27: Retained or acquired securitisation exposures in the banking book by type of asset
Table 28: Retained or acquired securitisation exposures in the banking book by risk weighting band
Table 29: Retained or acquired resecuritisation exposures in the banking book by risk weighting band
Table 30: Securitised assets outstanding
Table 31: Non-performing and in-arrears securitised assets
Table 32: Retained or acquired securitisation exposures in the trading book by type of exposure
Table 33: Retained or acquired securitisation exposures in the trading book by type of asset

Table 34: Retained or acquired securitisation exposures in the trading book by risk weighting band
Table 35: Retained or acquired resecuritisation exposures in the trading book by risk weighting band
Table 36: Non-performing and in-arrears loans by sector
Table 37: Non-performing and in-arrears loans by country cluster
Table 38: Development of loan loss provisions
Table 39: Expected and realised losses
Table 40: VaR of trading book portfolios (based on regulatory capital requirement)
Table 41: Stressed VaR of trading book portfolios
Table 42: Incremental Risk Charge
Table 43: Incremental Risk Charge by sub-portfolios
Table 44: Interest rate risk in the banking book
Table 45: Consolidation matrix
Table 46: Investments consolidated according to German Commercial Code

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
CDO	Collateralised Debt Obligation
CP	Commercial Paper
CCF	Credit Conversion Factor
CISAL	Commerzbank International S.A., Luxemburg
CMBS	Commercial Mortgage-backed Securities
CP	Commercial Paper
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, Luxemburg
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
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, Zürich
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
SACR	Standardised Approach to Credit Risk
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

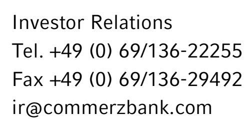
Disclaimer

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 is 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.

Commerzbank AG
Head Office
Kaiserplatz
Frankfurt am Main
www.commerzbank.com

Postal address
60261 Frankfurt am Main
Tel. +49 (0) 69/136-20
info@commerzbank.com



Investor Relations
Tel. +49 (0) 69/136-22255
Fax +49 (0) 69/136-29492
ir@commerzbank.com