COMMERZBANK

Disclosure Report 2009

Disclosure in accordance with the German Solvency Regulation as of December 31, 2009

Achieving more together

Contents

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

Introduction

Commerzbank Group

Commerzbank is one of Germany's leading banks for private and corporate customers. Following the merger of Dresdner Bank and Commerzbank in May 2009, customers will in future have access to around 1,200 branches, the largest branch network of any German private bank. The new Commerzbank has approximately 15 million private and corporate customers worldwide, who are now able to enjoy a broad and attractive range of products and advisory services.

Against the backdrop of the financial and economic crisis and the integration of Dresdner Bank, Commerzbank repositioned itself in spring 2009 in terms of its strategy, operations and staff. With its three-point-programme "Roadmap 2012", Commerzbank will reinforce its position as market leader in German private and corporate customer banking. Focus is on building a profitable core bank with the segments Private Customers, Mittelstandsbank, Corporates & Markets, and Central & Eastern Europe. Moreover, the bank is aiming to optimize its asset based lending business in Real Estate, Shipping and Public Finance within the Asset Based Finance segment while also actively managing the rundown of portfolios that are no longer part of its core business in the Portfolio Restructuring Unit (PRU). The PRU was set up in the middle of 2009 and exclusively manages assets that are categorized as non-strategic, such as various asset backed securities, other structured credit products, proprietary trading positions in bonds and equities and credit derivatives.

On the domestic market, Commerzbank AG manages a nationwide branch network serving all customer groups from its headquarters in Frankfurt am Main. The major domestic subsidiaries are Eurohypo AG, comdirect bank AG and Commerz Real AG. Outside of Germany, the Bank has 25 operational foreign branches, 33 representative offices and significant subsidiaries in a total of 46 countries. The focus of the Bank's international activities is in Europe. As of December 31, 2009, Commerzbank Group employed 62,671 staff.

A comprehensive review of the Commerzbank Group may be found in the 2009 Annual Report.

Objectives of the disclosure report

In this report Commerzbank Aktiengesellschaft as the ultimate parent company of the regulated banking group as defined by section 10a.1.1 of the German Banking Act (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 of December 31, 2009.

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:

- the Commerzbank Group's structure from both a regulatory and accounting perspective;
- the Group's capital structure;
- the 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, which is primarily designed to meet accounting standards, as it focuses on the supervisory perspective.

Scope

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

In accordance with the materiality principle set out in section 26a.2 KWG in conjunction with section 320.1 SolvV, this disclosure relates to the 21 largest entities within the 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 together account for approximately 98% of the Commerzbank Group’s total capital requirement. Details relating to the type of consolidation of the units of the Commerzbank Group as well as the business activities of the units included are shown in the Appendix.

The information in this disclosure report generally relates to the 21 Group companies mentioned above. Where this is not the case (e.g. with regard to the capital structure), this is explicitly stated. With the exception of Dresdner-Cetelem Kreditbank GmbH the companies included in the disclosure report are all fully consolidated, both for regulatory purposes and under IFRS. As a qualified minority participation Dresdner-Cetelem Kreditbank GmbH is consolidated pro rata for regulatory purposes. For accounting purposes, it is consolidated at equity.

Waiver rule pursuant to section 2a.1 KWG

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

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

comdirect bank AG and Eurohypo AG are both 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 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.

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[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.

The opportunity this offered for Commerzbank AG as the ultimate parent company of the Commerzbank Group to be exempted from the requirements at single-entity level has been utilized. Commerzbank AG is integrated in the 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.

Equity capital

I. 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 German Banking Act (KWG). Equity capital is relevant for determining the adequacy of regulatory capital. It serves as a cushion against risks taken (especially default, operational and market risks) and thus has a guarantee and confidence-building function for bank creditors. It also safeguards the institutions' ability to do business on an ongoing basis.

Capital is composed of core capital (Tier 1) as defined in section 10.2a KWG, supplementary capital (Tier 2) as defined in section 10.2b KWG and Tier 3 capital as defined in section 10.2c KWG. Core capital and supplementary capital together comprise the liable equity capital available to cover risks, the supplementary capital may not exceed the core capital. In the Commerzbank Group core capital, the qualitatively highest-ranking component of capital, mainly consists of subscribed capital, reserves and silent participations. Supplementary capital primarily includes long-term subordinated liabilities as defined in section 10.2b.5 KWG. Tier 3 capital, viewed as a lower-quality component of capital, consists of short-term subordinated liabilities. Tier 3 capital may only be used to back market risks and currently amounts to only €25m.

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

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

Table 1: Equity structure

Equity position	in € m
Paid-up capital excl. cumulative preference shares	6,863
Reserves	8,346
Other Tier 1 capital components	690
Distributable profit, interim profit	0
Participations by silent partners	17,604
Deduction items[1]	-3,983
thereof impairment losses and expected losses[2]	291
Tier 1 capital[3]	**29,520**
Tier 2 capital[4] and Tier 3 capital	11,917
thereof deduction items[5]	-998
Modified available capital[6]	**41,437**

[1] Pursuant to sec. 10.2a.2 KWG;
[2] Pursuant to sec. 10.6a.1 and 2 KWG;
[3] Pursuant to sec. 10.2a KWG;
[4] Pursuant to sec. 10.2b KWG after deducting items pursuant to sec. 10.2b.2 KWG;
[5] Pursuant to sec. 10.2b.2 KWG;
[6] Pursuant to sec. 10.1d.1 KWG and eligible Tier 3 capital pursuant to sec. 10.2c KWG

the Consolidated Financial Statements Reconciliation Regulation.[1] As of December 31, 2009, the Commerzbank Group reported the components of regulatory capital shown in the table.

In contrast to the materiality principle that applies in general in this disclosure report, where information is presented in respect of the 21 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.

Own funds raised externally are described as equity instruments. The Commerzbank Group uses various instruments to raise and manage its capital. The table below shows the main features of these instruments.

Table 2: Characteristics of equity instruments

Equity instruments	Total volume € m	Nominal amount € m	Maturity < 5 years € m	Maturity ≥ 5 years € m	Average maturity years	Average interest[1] %
Tier 1 (core capital)						
Ordinary shares	3,071	3,071				
Hybrid capital[4]	4,154	4,154	171	3,983	24.4[2]	4.51
Silent participations	18,020	18,020	0	18,020	unlimited	8.90
Tier 2 (supplementary capital)						
Long-term subordinated liabilities	10,558	11,970	3,774	6,783	5.7	5.53
Profit-sharing certificates	2,697	2,699	99	2,598	10.3[3]	4.55
Tier 3 capital						
Short-term subordinated liabilities	25	25	25	0	0.1	3.63

[1] The average interest refers to the respective nominal rate of interest.
[2] Hybrid capital amounting to €38m nominal is perpetual and hence not considered in the calculation of the average maturity.
[3] Profit-sharing certificates amounting to €1,67bn nominal are perpetual and hence not considered in the calculation of the average maturity.
[4] For the major part of the hybrid capital there are call options prior to maturity (mainly between 2011 and 2018).

The total volume of the instruments is calculated from the nominal value of the capital instruments eligible for regulatory purposes under the Solvency Regulation minus any accrued/deferred items or items that have to be deducted for regulatory purposes.[2] In contrast to the capital structure table, the table showing the features of equity instruments does 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. Details on revaluation effects may be found in the 2009 Annual Report.

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

Ordinary shares

The subscribed capital (share capital) of Commerzbank Aktiengesellschaft consists of no-par-value shares, each with an accounting par value of €2.60. The shares are issued in bearer form. Subscribed capital stood at €3,071m before deducting treasury shares and €3,069m after deduction of treasury shares as at the reporting date of December 31, 2009.

[1] The Consolidated Financial Statements Reconciliation Regulation (Konzernabschlussüberleitungsverordnung) dated February 12, 2007.
[2] E.g. due to the maturity-related restrictions on the eligibility of profit-sharing certificates and longer-term subordinated liabilities pursuant to section 10.5 and 5a KWG.

There are no preferential rights or restrictions on the payment of dividends at Commerzbank Aktiengesellschaft. All the shares in issue are fully paid up.

Hybrid capital

Hybrid financial instruments 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. Depending on their structure they may qualify as either Tier 1 or Tier 2 capital. The Commerzbank Group's hybrid capital qualifies as Tier 1 capital.

At the end of 2009, the following hybrid equity instruments were in issue:

Table 3: Material hybrid equity instruments

Issue date	€ m	Currency m	Issuer	Interest rate in %	Maturity	Callable on
2006	1,000	1,000 EUR	Commerzbank Capital Funding Trust I	5.012	umlimited	12.4.2016
2006	901	800 GBP	Commerzbank Capital Funding Trust II	5.905	umlimited	12.4.2018
1999	694	1,000 USD	Dresdner Capital LLC I	8.151	2031	30.6.2029
2003	600	600 EUR	Eurohypo Capital Funding Trust I	6.445	umlimited	23.5.2013
2006	300	300 EUR	Commerzbank Capital Funding Trust III	2.268	umlimited	12.4.2016
2005	300	300 EUR	Eurohypo Capital Funding Trust II	3.685	umlimited	8.3.2011

Silent participations

The Financial Market Stabilization Fund (SoFFin) provided Commerzbank with silent participations in the amount of €8.2bn each as at December 31, 2008 and June 4, 2009. Furthermore Commerzbank AG and Allianz concluded an agreement on the establishment of a silent partnership, on the basis of which Allianz, through a subsidiary, provided Commerzbank AG with a silent participation of €750m. Details regarding the conditions of the silent participations may be found in the 2009 Annual Report on page 268. In 2009 no costs for interest payment incurred as the conditions were not met.

Silent participations totalled €18bn at year-end 2009. The terms of the silent participations are unlimited.

Long-term subordinated liabilities

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

For parts of the subordinated liabilities Commerzbank has a call option.

At end-2009, the following material long-term subordinated liabilities were outstanding:

Table 4: Material long-term subordinated liabilities

Issue date	€ m	Currency m	Issuer	Interest rate in %	Maturity
2006	1,250	1,250 EUR	Commerzbank AG	4.125	2016
2007	750	750 EUR	Commerzbank AG	5.625	2017
2007	750	750 EUR	Commerzbank AG	1.485[1]	2017
2000	600	600 EUR	Commerzbank AG	6.500	2010
2001	500	500 EUR	Commerzbank AG	6.125	2011
2008	500	500 EUR	Commerzbank AG	6.250	2014
2009	347	500 USD	Commerzbank AG	7.250	2015
2001	250	250 EUR	Commerzbank AG	6.100	2011
2003	250	250 EUR	Eurohypo AG	5.000	2016
2009	250	250 EUR	Commerzbank AG	5.000	2017
2003	220	220 EUR	Eurohypo AG	5.000	2014
2006	198	300 CAD	Commerzbank AG	4.500	2016
1999	169	150 GBP	Commerzbank AG	6.625	2019
2002	150	150 EUR	Eurohypo AG	5.750	2012

[1] Variable interest

Profit-sharing certificates

Profit-sharing certificates outstanding form part of the Bank's liable equity in accordance with the specifications of section 10.5 KWG. This component of capital participates in losses in full. Interest payments are made only if the issuing institution achieves a distributable profit. The claims of holders of profit-sharing certificates to the repayment of principal are subordinate to those of other creditors.

At end-2009, the following major profit-sharing certificates were in circulation:

Table 5: Material profit-sharing certificates

Issue date	€ m	Currency m	Issuer	Interest rate in %	Maturity
2003	1,671	2,408 USD	DrK Holding LLC	3.267	unlimited
2006	750	750 EUR	Commerzbank AG	5.386	2016

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 the Commerzbank Group with respect to Commerzbank Europe (Ireland) only to a minor extent where capital transfers to entities belonging to the Group are subject to prior consent by the Irish supervisory authority.

II. Capital requirements

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

Table 6: Capital ratios of material Group entities

Company	Capital requirements € m	Overall capital ratio %	Core capital ratio %
Eurohypo AG	5 819	12.6	8.6
BRE Bank S.A.	1 062	11.5	6.6
Deutsche Schiffsbank AG	736	13.4	8.9
Kleinwort Benson Channel Islands Holdings Group	563	24.3	24.3
Commerzbank International S.A.	277	25.4	12.8
Commerzbank Europe (Ireland)	223	21.0	21.0
Joint Stock Commercial Bank „Forum“	134	16.7	9.0
Dresdner-Cetelem Kreditbank GmbH	124	11.4	11.4
Dresdner Bank Luxembourg S.A.	117	37.6	30.7
Allianz Dresdner Bauspar AG	76	12.9	9.5
Erste Europäische Pfandbrief- und Kommunal kreditbank Aktiengesellschaft in Luxemburg	74	39.5	36.3
Dresdner Kleinwort Ltd. Group	70	509.6	345.3
Commerzbank (Eurasija) SAO	66	28.9	25.3
Commerzbank Zrt.	52	15.5	12.9
Kleinwort Benson Private Bank Ltd. Group	16	302.4	298.2
Dresdner Bank Brasil SA Banco Multiplo	14	84.0	83.9
Dresdner Bank ZAO	9	82.9	61.0

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

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

The capital requirement for the entire Commerzbank Group amounted to €22,411m, representing a total capital ratio of 14.8% and a core capital ratio of 10.5%.

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

- **Commerzbank International S.A.** reduced its total lending last year and transferred part of its lending book to the Luxembourg branch. This raised the total capital ratio from 15.1% to 25.4% (and the core capital ratio from 7.5% to 12.8%) and resulted in a year-on-year fall of €176m in the capital requirement.

- **Erste Europäische Pfandbrief- und Kommunalkreditbank AG in Luxemburg** raised €300m of capital in March 2009. This raised the total capital ratio from 12.0% to 39.5% and the core capital ratio from 8.1% to 36.3%.
- The changes at **Dresdner Bank ZAO, St. Petersburg** resulted from a fall of approximately 65% in RWA in 2009. Although the changes in total and core capital were not material, the fall in RWA led to a sharp rise in the capital ratios. The total capital ratio rose from 29% to 82.9% (and the core capital ratio from 22.6% to 61%).
- **Joint Stock Commercial Bank "Forum"** raised fresh equity of UAH 500m (approximately €46m) in 2009 and assumed subordinated liabilities of USD 80m (approximately €60m). The regulatory requirements changed in Ukraine in 2009 with the result that subordinated loans are now fully eligible as core capital. The total capital ratio rose from 10.5% to 16.7% and the core capital ratio from 8.7% to 9.0%.
- The improvement of the capital ratios at **Commerzbank (Eurasija) SAO** resulted from a capital increase following a rise in net profit combined with a sharp fall of almost 70% in the loan book. The total capital ratio rose from 12.0% to 28.9% and the core capital ratio from 10.9% to 25.3%. The capital requirement fell by €76m.

The relatively high capital ratios of Kleinwort Benson Private Bank Ltd. Group and Dresdner Kleinwort Ltd. Group are the result of a different methodology for calculating the ratios. In calculating the total and core capital ratios for reporting to the national supervisory authority (the FSA), the capital requirements are not multiplied by 12.5 in the denominator, thus producing the higher ratios.

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

Capital requirements by risk type

Table 7: Capital requirements by risk type

	€ m
Default risks	**19,476**
thereof investments	207
thereof securitizations	400
Market risks	**1,095**
Operational risks	**1,517**
Total	**22,088**

The capital requirements set out here relate to the 21 material consolidated units included in the disclosure report and the contents are the same as those in the capital adequacy reports submitted to the Deutsche Bundesbank under Pillar 1.

In this section the regulatory capital requirement is shown for each risk type, broken down by calculation approach.

Around 88% of the Group's overall capital requirement relates to default risk exposures 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 of capital requirements for default risks €1.3bn relate to the trading book. Since the Solvency Regulation came into force Commerzbank has used the advanced IRBA (Advanced Internal Ratings Based Approach – "IRBA") to determine regulatory capital. Commerzbank has also applied the partial use option permitted by the Solvency Regulation. Accordingly capital requirements are currently still calculated under the

Table 8: Capital requirements for default risks in banking and trading book

	€ m
Standardized Approach to Credit Risk (SACR)	**5,964**
Central governments	37
Regional governments and local authorities	11
Other public sector bodies	89
International organizations (as defined by SolvV)	0
Banks	415
Multilateral development banks	0
Companies	3,549
Loans backed by real estate	353
Retail banking	733
Debt instruments backed by banks	13
Investment fonds shares	56
Other items	208
Overdue items	499
Advanced approach (IRBA)	**12,905**
Central governments	190
Banks	1,838
Companies	9,608
Retail banking	1,102
Other non-loan-based assets	166

rules of the Standardized Approach to Credit Risk (SACR) for a small part of the portfolios. Assets affected include qualified revolving retail banking assets, such as overdraft facilities and credit card receivables.

There is only an insignificant amount of processing risks as defined in section 15 SolvV within the Commerzbank Group; accordingly no capital charge is shown for them.

The 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. They have a risk weighting of 100%. The SolvV also allows items to be permanently excepted from the IRBA. Since December 31, 2009 Commerzbank has begun applying the partial use option pursuant to section 70.1.9b SolvV and is applying the SACR on a permanent basis to all IRBA investment positions which are not temporarily under above mentioned grandfathering option.

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

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

Table 9: Capital requirements for market risks

	€ m
Market risks	**1,095**
Standardized Approach	**51**
thereof currency risk	34
thereof interest-rate risk	17
thereof equity risk	0
thereof commodity price risk	0
thereof option risk	0
Internal model approach	**1,044**

Capital amounting to approx. €1.5bn has to be set aside for the operational risks of the 21 material reportable entities. Commerzbank uses an Advanced Measurement Approach (AMA) pursuant to section 278 SolvV throughout the Group to quantify operational risks. The integration of Dresdner Bank involved the merger of systems, processes and data in the operational risk areas and the development of a new common model for calculating the capital requirement for operational risk which was adjusted for the requirements of the new Commerzbank.

Table 10: Capital requirements for operational risks

	€ m
Operational risks	**1,517**
Basic Indicator Approach (BIA)	30
Advanced Measurement Approach (AMA)	1,487

Risk management process

I. Risk strategy

Risk planning is an integral part of the ongoing medium-term business planning process so that the overall risk strategy is derived directly from the business strategy. The overall risk strategy is detailed further in the form of sub-risk strategies for individual risk types which are then specified and "operationalized" through related policies, regulations and guidelines.

In the course of the planning process, the Board of Managing Directors decides the extent to which the Bank's risk-taking capability can be utilized. These deliberately defined capital parameters represent part of the Bank's total available risk cover. These parameters in the next stage are then broken down by sub-portfolios for the individual risk types and limits set.

II. Risk management organization

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

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

2009 was dominated for Commerzbank by the integration of Dresdner Bank which represented a major challenge to the performance of the new integrated risk management function. The top priority was to ensure that there were robust processes in place to identify, monitor and manage all the risks of the new portfolio created by the integration at all times.

Details on the risk management organization at Commerzbank and the integration of Dresdner Bank may be found in the Group Risk Report in the 2009 Annual Report.

III. Risk-taking capability

The aggregated overall risk profile of the portfolio is the focal point of the Bank's risk management. Risk-taking capability is monitored by comparing the capital requirement arising from the risk profile against risk cover, i.e. the amount of capital available to cushion any risks that materialize. To do this, a regulatory as well as an economic capital model is used to analyze the Group's capital requirement. Like the regulatory capital model, the economic capital model aims to quantify extreme, unexpected losses with a view to determining an adequate capital position. With a confidence level of 99.95%, the Bank's economic capital model goes beyond the regulatory requirements of 99.9% and also takes account of portfolio-specific interactions. For reasons of comparability with previous years, the definition of available risk cover in 2009 is based on the regulatory perspective and uses the statutory definition of core capital. The appropriateness of all assumptions and definitions is constantly checked.

Commerzbank uses comprehensive stress tests as early warning indicators and for estimating sensitivities. These tests assume a deterioration in all relevant risk parameters. In addition the hypothetical scenario is analysed where all the potential losses of each risk type occur simultaneously i.e. full correlation between risk types.

Commerzbank will continue to refine its methodology for simulating macroeconomic stress scenarios and their impact on the capital requirement, the revenue side and risk cover when conducting analysis across all risk categories.

The increase of risk cover at year-end compared to March 2009 was primarily attributable to additional capital-raising measures (including the second SoFFin tranche). In combination with the planned decline in capital requirements this also led to improved capital ratios. Economic RWAs were increased by roughly one half in the first quarter of 2009 as a result of the integration of Dresdner Bank. Furthermore a new risk factor model that was especially designed for the new Commerzbank portfolio is being used since January 2009. It produces a higher credit VaR, the result primarily of an improved, more conservative modelling of correlations and bulk risks.

Table 11: Risk-taking capability in the Commerzbank Group

€ bn	December 2009	March 2009	December 2008
Capital for risk coverage	**30**	**21**	**23**
Regulatory RWA	**280**	**316**	**222**
thereof credit risk	246	286	207
thereof market risk	14	13	5
thereof operational risk	20	17	9
Economic RWA excl. diversification	**283**	**302**	**132**
thereof credit risk	173	188	63
thereof market risk	63	74	46
thereof operational risk	31	26	15
thereof business risk	16	13	7
Diversification between risk types	**43**	**42**	**32**
Economic RWA incl. diversification	**240**	**260**	**100**
Economic RWA (stress scenario)	**358**	**358**	**203**
thereof credit risk	206	219	90
thereof market risk	79	78	69
thereof operational risk	53	45	34
thereof business risk	20	16	10
Tier 1 capital ratio	**10.5%**	**6.8%**	**10.1%**
Economic capital ratio incl. diversification	**12.3%**	**8.2%**	**22.6%**
Economic capital ratio excl. diversification	**10.4%**	**7.1%**	**17.1%**
Economic capital ratio (stress scenario)	**8.2%**	**6.0%**	**11.1%**

2008 figures: Commerzbank (before integration of Dresdner Bank) based on current methodology.

Specific risk management

Default risk refers to the risk of losses due to defaults by counterparties as well as to changes in this risk. Country risk, issuer risk and counterparty and settlement risk in trading transactions are also subsumed under default risk.

I. Default risk

1. Credit-risk strategy

The credit risk strategy is derived from the overall risk strategy. It is the central framework for the proactive and anticipatory credit risk management. The primary aim of the credit risk strategy and monitoring of the strategy throughout the year is to secure the Bank's profitability targets on a sustained basis subject to its risk-taking capability. The credit risk strategy details and operationalizes the Group's quantitative and qualitative guidelines at Group and segment level. Quantitative guidelines include setting limits for expected loss (EL limits) and safeguarding credit quality by setting guideline values for risk density. Furthermore, unexpected losses, bulk risks and concentrations of credit risks are measured and actively managed using an internal credit VaR model. All the above management parameters are an integral part of the credit process and are laid down in the credit authority regulations.

Independent Risk Controlling reports monthly through the Group Risk & Capital Monitor to the Board of Managing Directors on the utilization of limits and changes in default risk. As part of this reporting, Risk Controlling regularly formulates recommended actions and proposed decisions to secure the required target risk structure for the portfolio.

2. Risk quantification

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

Credit portfolio model

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

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

Rating architecture

Vital part of the rating architecture is the use of rating processes for each asset class by Commerzbank's "single point of methodology" rating landscape. This uniform process architecture not only facilitates risk management and monitoring but also prevents rating arbitrage within the Commerzbank Group.

The use of rating procedures is an essential component of risk evaluation in the Commerzbank Group irrespective of regulatory requirements. The results of the rating analyses are therefore used in the front- and back-office credit decision processes, in the internal processes to determine loan loss provisions under IFRS and in the internal measurement of Credit-VaR and risk-taking capability.

In addition to the approval of further parts of the portfolio for IRBA, previously approved procedures were further revised and improved in 2009. The main aim of this work was to achieve more accurate risk forecasts and improved management tools.

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

Table 12: IRBA rating method

Asset Class	Scope	Procedure	Hard facts	Soft facts	Overruling
Fin. Institutions	Banks	RFI-BNK	▪	▪	▪
Sovereigns	Countries	R-CR	▪	▪	▪
Sovereigns	Municipalities/federal states[1]	R-LRG	▪		▪
Corporate	Corporate customers	COSCO/R-CORP	▪	▪	▪
Corporate	Fin. institutions (NBFI)[2]	NBFI	▪	▪	▪
Retail	Private customers	CORES	▪		
Spec. Lending	Commercial Real Estate	RS-CRE	[▪]	▪	▪
Spec. Lending	Structured finance[1]	RS-CFD	▪	▪	▪
Spec. Lending	Ship financing[3]	DSB Darling	▪	▪	▪
Spec. Lending	ABS transactions (sponsors)	IAA	▪		

[1] Commerzbank (before integration), IRBA approval of sub-portfolios former Dresdner Bank planned for 2010
[2] Former Dresdner Bank, IRBA approval of sub-portfolios Commerzbank (before integration) planned for 2010
[3] Commerzbank (before integration) and Deutsche Schiffsbank, IRBA approval of sub-portfolios former Dresdner Bank planned for 2010

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

Soft facts refers to areas of analysis where the rating analyst needs to make an assessment and where there is therefore scope for discretion on a case-by-case basis, e.g. an assessment of management or the product quality of the customer being rated.

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

Apart from the Retail Class, the above procedures are already applied uniformly throughout Commerzbank (i.e. including the former Dresdner Bank). Commerzbank's master scale (see 2009 Annual Report, p. 285) allocates a non-overlapping range of probabilities of default that are stable over time to each rating class. The probabilities of default allocated to the ratings remain stable across all portfolios and over time in order to ensure comparability. As a guide the internal ratings are shown next to the ranges of external ratings. As the default rates observed with external ratings fluctuate over time, it is not possible to translate directly between the internal and external ratings systems.

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

Table 13: EaD-/RWA coverage for Group

in %	EaD coverage for Group[1]	RWA coverage for Group[1]
31.12.2008[2]	74	64
31.12.2009	80	72
31.12.2010	86	82

[1] 92% exit threshold of IRBA has to be achieved by December 31, 2012 in accordance with SolvV
[2] before merger with Dresdner Bank

Risk parameters

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

When forecasting EaD unused lines and contingent liabilities are included via credit conversion factors (CCFs). The CCF gives the probability of drawdown in the event of a default within the next 12 months depending on the transaction and the customer.

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

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

Commerzbank uses a specialized database application (CORPA) to maintain historic data on recoveries from loan defaults. In the first phase of building up this database data on past defaults which were processed and closed between 1997 and 2005 were laboriously entered manually in the database on the basis of the internal credit files. In the second phase that has been running in parallel since the end of 2005, new defaults are continuously recorded in CORPA in a largely automatic process and are made available for statistical analysis on completion of the processing. The data capture process also involves a large number of manual steps and automatic checking procedures to ensure the quality of the data.

Beside collecting internal data, Commerzbank also participates in various national and international data pooling initiatives to expand the opportunities for modelling. In Germany, the LGD Grading project of the Association of German Pfandbrief Banks (VdP) concentrates on collecting information on sales of property following loan defaults. The current data pool with over 20,000 data points enables a wide range of regional and property-specific analyses. At the international level, the Pan European Credit Data Consortium (PECDC) is the most significant EaD and LGD modelling initiative. There are now 28 European banks working on building up a joint data pool in the project that started in 2004. Commerzbank sits on the PECDC Management and Methodology Committee as representative of the German banks.

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

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

Validation

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

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

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

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

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

The Commerzbank Group's IRBA loan portfolio

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

The IRBA exposure (EaD) is the exposure as defined in section 99 SolvV. This gives the expected amounts of the IRBA positions that are exposed to a risk of loss. The position value of the off-balance position for default risk is calculated by weighting with a conversion factor.

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

Only the portfolios subject to the IRBA that are rated with a rating procedure approved by the supervisory authority are shown. Items in the asset classes of investments and other non-loan-related assets are not listed. The latter assets amounting to €2.1bn do not have any credit-related risks and are therefore irrelevant for the management of default risks.

Securitization positions under the IRBA are shown separately in sub-section 8 of this section.

The position values shown in this sub-section mainly differ from the exposures in the annual report as follows:

- There are differences in definitions for derivative items between the exposures reported in the annual report and those used for regulatory purposes in this report.
- There are also some transactions that are not included in the figure for risk-weighted assets (RWA) for regulatory purposes but are included in the EaD figures in the annual report and risk report.
- The figures reported in this disclosure report relate to the 21 entities within the Commerzbank Group considered material for the disclosure, while the figures in the annual report relate to all companies that have to be consolidated under IFRS.

Table 14: IRBA values (EaD) by rating classes

	EaD in € m	Central govern-ments	Banks	Compa-nies	Retail business: IRBA mortgage exposures	Retail business: Other retail lending	Retail business: Qualified revolv. IRBA-positions	Total
Investment Grade (0-0.68%)								
Rating 1 (0.00-0.08%)	EaD	20,417	79,056	20,795	4,221	1,145	50	125,683
	LGD in %	15.5	22.5	32.4	12.6	37.3	50.9	22.8
	PD in %	0.02	0.05	0.04	0.04	0.04	0.04	0.04
	RW in %	3.3	10.8	14.8	1.5	5.0	1.5	9.9
Rating 2 (0.08-0.68%)	EaD	8,282	39,519	86,712	30,521	6,267	453	171,753
	LGD in %	12.9	29.2	38.6	14.2	46.4	72.0	31.2
	PD in %	0.3	0.2	0.3	0.3	0.4	0.2	0.3
	RW in %	11.7	28.5	48.7	8.8	28.7	5.6	34.3
Non-Investment Grade (0.68-99.99%)								
Rating 3 (0.68-3.10%)	EaD	759	2,199	44,896	10,520	3,130	104	61,607
	LGD in %	21.0	28.7	39.9	13.9	38.0	71.0	34.8
	PD in %	1.5	1.3	1.4	1.5	1.5	1.5	1.4
	RW in %	36.3	60.2	94.1	22.9	45.8	35.1	77.4
Rating 4 (3.10-9.35%)	EaD	301	1,114	13,928	2,824	2,920	239	21,327
	LGD in %	22.4	38.1	33.2	9.0	31.5	73.8	30.4
	PD in %	5.5	4.2	5.2	3.7	5.3	4.2	5.0
	RW in %	57.5	110.6	116.0	53.3	41.7	80.4	96.0
Rating 5 (9.35-99.99%)	EaD	980	693	11,812	1,732	425	17	15,661
	LGD in %	8.2	16.1	27.6	16.3	44.6	69.7	25.1
	PD in %	29.7	25.3	19.2	19.3	20.7	19.0	20.2
	RW in %	28.6	79.7	129.0	87.4	102.3	156.6	115.3
Default (100%)								
Rating 6 (100%)	EaD	3	1,209	12,139	1,707	403	16	15,477
	LGD in %	37.6	41.4	41.0	26.2	59.1	81.6	39.9
	PD in %	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	RW in %	4.4	3.8	9.9	21.2	1.5	0.1	10.4
Total								
	EaD	30,742	123,790	190,282	51,524	14,289	879	411,507
	LGD in %	14.8	25.0	37.3	14.2	41.1	71.3	29.2
	PD in %	1.1	1.3	8.4	4.7	5.0	3.6	5.1
	RW in %	7.7	18.6	63.1	16.6	34.6	32.1	38.7

The following table shows the off-balance sheet IRBA positions.

Table 15 (1): IRBA values (EaD) of off-balance positions by rating classes[1]

€ m		Central governments	Banks	Companies	Retail business: IRBA mortgage exposures	Retail business: Other retail lending	Retail business: Qualified revolv. IRBA positions	Total
Investment Grade (0-0.68%)								
Rating 1 (0.00-0.08%)	Total exposure to commitments that have not yet been drawn	390	604	7 923	99	499	59	9,574
	Total exposure to other non-derivative off-balance sheet assets that have not yet been drawn	81	211	2,329	4	29	0	2,655
	Average position of loan commitments	55	8	32	0	0	0	25
	Average exposure to other non-derivative off-balance sheet assets	6	18	36	0	0	0	27
	Average CCF of loan commitments that have not yet been drawn in %	50	42	35	121	59	83	39
	Average CCF of other non-derivative off-balance sheet assets that have not yet been drawn in %	36	34	48	50	52	0	42
Rating 2 (0.08-0.68%)	Total exposure to commitments that have not yet been drawn	5	2,842	45,708	345	1,767	507	51,175
	Total exposure to other non-derivative off-balance sheet assets that have not yet been drawn	74	4,144	16,294	43	217	0	20,771
	Average position of loan commitments	0	19	38	0	0	0	35
	Average exposure to other non-derivative off-balance sheet assets	10	16	11	0	0	0	12
	Average CCF of loan commitments that have not yet been drawn in %	31	36	40	101	59	86	41
	Average CCF of other non-derivative off-balance sheet assets that have not yet been drawn in %	21	43	49	38	49	0	48
Non-Investment Grade (0.68-99.99%)								
Rating 3 (0.68-3.10%)	Total exposure to commitments that have not yet been drawn	118	183	14,718	162	669	62	15,913
	Total exposure to other non-derivative off-balance sheet assets that have not yet been drawn	31	1,194	4,292	13	70	0	5,600
	Average position of loan commitments	21	6	25	0	0	0	23
	Average exposure to other non-derivative off-balance sheet assets	1	11	4	0	0	0	6
	Average CCF of loan commitments that have not yet been drawn in %	63	44	52	137	68	72	53
	Average CCF of other non-derivative off-balance sheet assets that have not yet been drawn in %	21	36	45	37	53	0	43
Rating 4 (3.10-9.35%)	Total exposure to commitments that have not yet been drawn	0	144	3,041	48	203	95	3,531
	Total exposure to other non-derivative off-balance sheet assets that have not yet been drawn	33	784	1,001	5	33	0	1,855
	Average position of loan commitments	0	3	8	0	0	0	7
	Average exposure to other non-derivative off-balance sheet assets	2	5	3	0	0	0	4
	Average CCF of loan commitments that have not yet been drawn in %	0	46	40	147	72	92	45
	Average CCF of other non-derivative off-balance sheet assets that have not yet been drawn in %	23	37	55	51	60	0	47

Table 15 (2): IRBA values (EaD) of off-balance positions by rating classes[1]

	€ m	Central govern-ments	Banks	Compa-nies	Retail business: IRBA mortgage exposures	Retail business: Other retail lending	Retail business: Qualified revolv. IRBA positions	Total
Non-Investment Grade (0.68-99.99%)								
Rating 5 (9.35-99.99%)	Total exposure to commitments that have not yet been drawn	19	109	1,479	9	39	4	1,658
	Total exposure to other non-derivative off-balance sheet assets that have not yet been drawn	293	781	303	5	12	0	1,394
	Average position of loan commitments	4	3	15	0	0	0	13
	Average exposure to other non-derivative off-balance sheet assets	29	6	1	0	0	0	10
	Average CCF of loan commitments that have not yet been drawn in %	27	48	38	155	76	38	40
	Average CCF of other non-derivative off-balance sheet assets that have not yet been drawn in %	40	34	58	33	50	0	40
Default (100%)								
Rating 6 (100%)	Total exposure to commitments that have not yet been drawn	0	7	569	2	8	0	587
	Total exposure to other non-derivative off-balance sheet assets that have not yet been drawn	0	5	406	2	11	0	424
	Average position of loan commitments	0	1	15	0	0	0	15
	Average exposure to other non-derivative off-balance sheet assets	0	0	3	0	0	0	3
	Average CCF of loan commitments that have not yet been drawn in %	0	45	51	124	62	0	51
	Average CCF of other non-derivative off-balance sheet assets that have not yet been drawn in %	0	44	57	39	57	0	57
Total								
	Total exposure to commitments that have not yet been drawn	532	3,891	73,437	665	3,185	728	82,438
	Total exposure to other non-derivative off-balance sheet assets that have not yet been drawn	511	7,120	24,625	72	371	0	32,698
	Average position of loan commitments	52	13	33	0	0	0	29
	Average exposure to other non-derivative off-balance sheet assets	18	14	12	0	0	0	12
	Average CCF of loan commitments that have not yet been drawn in %	49	39	42	117	62	85	43
	Average CCF of other non-derivative off-balance sheet assets that have not yet been drawn in %	35	39	49	39	51	0	46

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

The table below shows the on-balance sheet IRBA positions.

The Commerzbank Group's SACR loan portfolio

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

For most positions (non securities) there do not exist any position-specific external credit rating. In these cases it is possible to transfer issue ratings subject to specific requirements to be taken into consideration. To determine the external credit rating to use, Commerzbank has implemented a binding algorithm according to section 43 ff SolvV.

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

- A definite ISIN can be allocated to the position:
  The process is based on the rules of section 44 sentence 3 and 4 SolvV for the credit assessment of rated SACR positions. A long-term rating for the issue is attributed to the asset via the ISIN. If there is no long-term rating for the issue, a short-term rating may only be attributed via the ISIN in the case of claims on companies. If there is no short-term rating available either, the asset is treated as if it does not have an ISIN.
- The position does not have an ISIN:
  The process is based on section 45.2 and 3 SolvV on the external credit assessment of unrated SACR positions. In these cases comparable exposures are used to derive a credit assessment. Comparable exposures are defined as issues by the same issuer that have a valid rating in the form of an unsecured long-term foreign-currency rating. The ratings of all comparable exposures with an SACR weighting higher than 100% ranking higher or pari passu 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 asset. In the latter case the allocation of general SACR risk weighting follows the SolvV specifications.

The risk weightings determined via external ratings or a flat weighting and the allocation of the exposures to these risk weightings are shown below. The figures in the table show the exposures of the entities included in the disclosure report whose risk-weighted exposures have been calculated in accordance with the SACR rules. The exposures are broken down into the various possible risk weightings under the SACR.

Table 16: Positions in the Standardized Approach to Credit Risk (SACR)

Risk weightings	Exposure (EaD) before CRMT | € m	Exposure (EaD) after CRMT | € m
0%	89,977	105,016
10%	984	984
20%	24,445	25,708
35%	7,868	7,868
50%	9,038	7,502
75%	12,990	12,218
100%	60,303	50,065
150%	4,016	3,640
Other risk weightings	4,027	4,027
Total	**213,646**	**217,028**

The two columns "Exposure (EaD) before CRMT (Credit Risk Mitigation)" and "Exposure (EaD) after CRMT" show the SACR exposures in accordance with section 8 SolvV before and after application of credit risk mitigation techniques. To mitigate credit risk under the SACR, the Commerzbank Group takes financial collateral and guarantees into account; these will be refered to again later. Security in the form of land charges also reduces the risk weighting.

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

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

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

No deductions from capital were made for SACR positions as of December 31, 2009.

3. Risk management

Commerzbank uses the risk parameters exposure at default (EaD), expected loss (EL), unexpected loss (UL = economic capital consumption with a confidence level of 99.95% and a holding period of one year), risk-weighted assets (RWA) and risk density (EL/EaD) to manage and limit default risk.

Limit systems

Starting from the Bank's risk-taking capability, the capital consumption of the Bank as a whole is limited across all types of risk through capital parameters laid down by the Board of Managing Directors. The capital parameters for the individual segments are derived from this risk appetite, taking the external requirements into account. The segment-specific capital parameters are translated into expected loss limits to operationalize the management of default risk. The group-wide parameters capital requirement and expected loss are also supplemented by specific parameters for particular sub-portfolios.

The aim of the limit process is to set operational guidelines in such a way that the segments operate in line with the strategic parameters laid down by the Bank as a whole while retaining the greatest degree of freedom.

Besides the segment-specific EL limits, limiting bulk, concentration and country risks is of crucial importance.

Limiting bulk and concentration risks

Concentrations of risk in bulks, countries, client groups and products are limited and actively managed in the light of the special characteristics of each segment. As a central element of risk policy, bulk risks are managed on the basis of economic capital. The main indicators of bulk risks include portfolio granularity and correlation assumptions for segment-specific, sector-specific and country-specific factors.

Bulk risks are determined by breaches of thresholds for the consumption of economic capital, loss at default (LaD) or exposure at default and limited with an overall limit. Bulks above a defined maximum threshold are regarded as undesirable over the medium to long term and are systematically reduced.

Country risk management

When calculating country risk, Commerzbank measures both transfer risks and the region-specific political and economic event risks that could potentially affect a country's economic assets. Country risk management includes all the decisions, measures and processes that draw upon the information provided by risk quantification and are intended to influence country portfolio structure in order to attain the business and return targets. Country risks are primarily managed and limited via the expected loss at country level.

Risk mitigation

At Commerzbank risk mitigation takes the form of guarantees, collateral and netting. The IRBA process recognizes procedures for offsetting collateral instruments, including in particular financial collateral, mortgage liens in the land register, other real collateral, guarantees and credit derivatives.

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

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

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

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

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

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

In the bulk of its subsidiaries the Commerzbank Group uses the market valuation method pursuant to section 18 SolvV for derivative default risk positions. Close-out netting as defined in section 207 SolvV is used to determine the net assessment basis pursuant to section 211 SolvV. For securities repurchase, lending and comparable transactions involving securities or goods, the net assessment basis is determined in accordance with section 215.1, taking into account any offsetting agreement in accordance with section 209 SolvV and the application of section 215.5 SolvV and sections 155 ff. SolvV. The double-default procedure as defined in section 86.3 SolvV is not applied. For derivative positions originating in the former Dresdner Bank, the credit equivalent amounts are determined by means of the internal model method (IMM) pursuant to section 223 SolvV. Representing the expected future exposure, the credit equivalent amounts are determined by simulating various market scenarios, taking netting/collateral into account. In addition

Table 17: Collateralized SACR position values

Asset class € m	Financial collateral	Guarantees	Credit derivatives	Mortgages	Total
Companies	2,281	9,095	438	3,758	15,573
Retail banking	680	92	0	7,440	8,212
Banks	625	190	0	0	814
Regional governments and local authorities	809	0	0	0	809
Other public-sector bodies	2	283	0	1	287
Central governments	8	0	0	0	8
Overdue positions	23	95	0	447	566
Total	**4,429**	**9,756**	**438**	**11,647**	**26,269**

to the substitution approach, the double-default procedure is also used here.

The above table shows the credit risk mitigation effects of financial collateral, guarantees, credit derivatives and mortgage liens under the SACR. The effectively secured exposures, i.e. taking into account all the "haircuts" applicable to the collateral item are classified here by SACR asset class.

In taking financial collateral into account as a technique for mitigating credit risk, Commerzbank generally uses the comprehensive method as defined in sections 186 to 203 SolvV. This stipulates that the assessment basis for calculating the default risk positions is reduced by the value of the financial security. For smaller entities, the simple method pursuant to section 185 SolvV is used in parallel.

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

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

The calculation of collateral is based on the fair values weighted with recovery rates. These recovery rates are based on empirical data and are a component of the LGD models. By definition, the

Table 18: Total collateralized IRBA position value (EaD) – financial and other collateral

Asset class € m	Financial collateral	Other IRBA collateral[1]
Companies	5,326	41,793
Retail banking: Sub-class IRBA exposures secured by mortgage liens	2,835	36,107
Retail banking: other IRBA exposures	1,321	1,514
Banks	1,047	87
Central governments	129	0
Total	**10,658**	**79,501**

[1] Positions secured by morgage liens on residential and commercial real estate do not build a special asset class in IRBA. Therefore they are subsumed under Other IRBA collateral. Liens of record also belong to this category.

rates cannot exceed 100%; accordingly the figures shown are generally lower than the fair values.

By contrast, under the IRBA the so-called PD substitution approach to offset guarantees and credit derivatives is used – both subsumed as guarantees in SolvV. The protection is therefore not reflected in the LGD as is the case with financial and other IRBA collateral but via the substitution

Table 19: Total collateralized IRBA position value (EaD) – guarantees[1]

Asset class € m	Guarantees	Credit derivatives
Companies	12,291	3,974
Retail banking: Sub-class IRBA exposures secured by mortgage liens	187	0
Retail banking: other IRBA exposures	210	0
Banks	2,205	76
Central governments	723	0
Total	**15,615**	**4,049**

[1] For reasons of immateriality, Commerzbank does not report secured investment positions.

of the debtor's PD with that of the guarantor.

4. Summary of default risks

This section provides an overview of the default risks applying to the total portfolio with an assessment basis of €711bn. For balance sheet positions distinction is made between the lending business and securities. Off-balance sheet positions, e.g. loan commitments and guarantees, other non-derivative off-balance sheet assets and derivative instruments are reported separately. The heading of other non-derivative off-balance sheet assets also includes securities repo and lending transactions.

The IRBA assessment basis as defined in section 100 SolvV is shown. In order to make everything as easy as possible for readers to follow, this applies regardless of whether the positions are SACR or IRBA positions. The IRBA assessment basis for loans is the amount drawn down by the customer. If valuation allowances have been recognized on the exposure to the customer, these are not deducted – in contrast to the volume of assets determined in accordance with IFRS accounting standards. Off-balance sheet positions relate to the amount committed to but not yet drawn down by the customer. There is no weighting with the conversion factor. For securities the IRBA assessment basis is the higher of historic cost and the sum of the book value plus the default risk-related write-downs. For derivative positions the credit equivalent amount as defined in section 17 in combination with section 18 ff. SolvV is reported. The volume of assets includes all positions subject to credit risk regardless of whether the positions are held in the banking or the trading book.

Positions that are effectively securitized are not included in the tables below. In accordance with section 232 SolvV, positions are considered to be effectively securitized if there has been an effective transfer of risk. This applies regardless of whether these are traditionally or synthetically securitized positions. Securitization positions arising from Group companies included in the disclosure report acting as investors or sponsors are also not reported. Owing to their special significance, these are shown in a separate Section 8.

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

Table 20: Volume of receivables by country clusters

	On-balance assets		Off-balance assets			Total
€ m	Loans	Securities	Commit-ments	Derivative	Non-derivative assets	
Germany	236,937	37,920	71,541	12,793	21,170	380,361
Countries in Western Europe (excl. Germany)	89,783	48,856	22,506	20,278	6,854	188,276
Countries in Eastern Europe	34,133	4,864	4,865	645	2,239	46,746
Countries in America	30,956	10,481	11,527	6,190	1,850	61,004
Countries in Asia	14,503	2,431	1,801	876	4,123	23,734
Other	6,046	1,345	1,222	733	1,514	10,859
Total	**412,356**	**105,898**	**113,462**	**41,515**	**37,749**	**710,980**

Table 21: Volumen of receivables by sectors

€ m	On-balance assets Loans	Securities	Off-balance assets Commit-ments	Derivative	Non-derivative assets	Total
Banking and insurance	99,422	53,886	12,096	32,268	10,621	208,290
Real estate, renting and business activities	81,546	45	11,960	3,005	2,213	98,769
Public sector, defence and social security	45,546	47,912	3,444	1,357	61	98,320
Manufacturing industry	38,352	421	36,627	1,913	14,451	91,764
Private households	70 924	0	15,114	63	546	86,651
Transport and communications	28,352	1,375	9,519	1,192	1,520	41,958
Trade, maintenance and repair of motor vehicles and consumer goods	12,787	147	10,376	311	2,584	26,205
Energy and water supply	8,252	602	6,854	700	1,607	18,014
Other public and personal service activities	8,140	583	2,267	228	1,142	12,359
Other	19,036	927	5,205	477	3,005	28,650
Total	**412,356**	**105,898**	**113,462**	**41,515**	**37,749**	**710,980**

The clusters of countries shown in the table correspond to the geographical classification of assets used internally.

The breakdown by sector is based on a system used internally by the Bundesbank. To make it easier to understand, total assets have been broken down by sectors with assets of more than €10bn. Sectors with assets below this level were aggregated under the Miscellaneous item.

The breakdown by maturity highlights the focus on relatively long-term financing transactions

Table 22: Volume of receivables by maturities

€ m	On-balance assets Loans	Securities	Off-balance assets Commitments	Derivative	Non-derivative assets	Total
(1) daily maturity	54,177	5	55,277	2,127	14,500	126,086
(2) > 1 day up to 3 months	42,357	6,099	3,128	1,730	4,719	58,032
(3) > 3 months up to 1 year	33,149	12,907	14,063	4,271	8,493	72,882
(4) > 1 year up to 5 years	111,409	30,909	36,820	17,095	8,649	204,882
(5) > 5 years	171,265	55,978	4,175	16,292	1,388	249,098
Total	**412,356**	**105,898**	**113,462**	**41,515**	**37,749**	**710,980**

or overnight receivables. Assets due on demand include call and overnight transactions and credit lines that can be terminated at any time.

5. Default risks arising from derivative positions

Derivative positions give rise both to market risks and default risks when a claim arises against the counterparty in the form of positive fair values.

The derivative positions shown in the tables below do not include securitization positions as

Table 23: Positive replacement values by risk type before netting/collateral

Risk type € m	Replacement values before netting/collateral
Interest-rate risk	284,009
Exchange rate risk	17,222
Equity risk	7,261
Precious metals risk	125
Commodity price risk	545
Credit derivatives	10,528
Collateral	19,714
Total	**339,404**

defined in the SolvV as these are shown in Section 8. In particular, this means that interest-rate and currency swap or credit derivative transactions entered into with securitization special-purpose vehicles are not included.

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

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

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

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

Similar to the master agreements are the collateral agreements (e.g. Collateral annex for financial futures contracts, Credit support annex), which the Bank concludes with its business partners to secure the residual net claim or liability after netting (receipt or provision of collateral). As a rule, this collateral management reduces credit risk by means of prompt – mostly daily or

Table 24: Positive Replacement values by risk types after netting/collateral

	€ m
Replacement values before netting/collateral	**339,404**
- Nettable value	284,510
- Eligible collateral	12,572
Replacement values after netting/collateral	**42,321**

weekly – measurement and adjustment of the customer commitment.

The – mostly cash – collateral and netting opportunities shown in the table below reduce the exposure to counterparties to €42bn.

The basis for determining the offset amounts for the default risk from derivative positions are not the positive fair values but instead the credit equivalent amounts.

Commerzbank uses the internal model method (IMM) to determine derivative default risk positions pursuant to section 223 SolvV and the market valuation method pursuant to section 18 SolvV.

Table 25: Credit equivalent amounts for derivative positions[1]

Counterparty default risk € m	Market valuation method	Internal model method
Counterparty default risk position	36,296	13,775

[1] Incl. listed derivatives

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

The table shows the amounts for the counterparty default risk to be taken into account, broken down by the methods used at Commerzbank to calculate the (net) figure. The figures shown reflect the credit equivalent amounts for derivative positions. Credit equivalent amounts are effectively equal to the exposures to default risk positions on the balance sheet as a credit conversion factor of 100% is applied to derivative positions. Transactions with central counterparties are not shown here as their assessment basis is zero and there is accordingly no capital requirement.

The credit derivatives portfolio of the Commerzbank Group

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

Table 26: Credit derivative business in the banking book

Type of credit derivative nominal value in € m	Buy position	Sell position
Credit Default Swap	16,457	1,445

having to sell or assign the loan.

The nominal value for credit derivatives in the banking book only relates to credit default swaps

Table 27: Credit derivative business in the trading book

Type of credit derivative in € m	Buy position	Sell position
Total Return Swap	3,612	13
Credit Default Swap	259,113	257,780
Total	**262,726**	**257,793**

used to reduce the credit risk for larger packages of assets.

The nominal values for derivative transactions in the trading book are shown by type of credit derivative under Total Return Swaps and Credit Default Swaps.

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

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

6. Intensive care / Charges against earnings arising from impairments

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

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

Default or non-performing loans are all assets defined as default according to Basle II regulations. The following events are crucial for the default of a customer:

- Impending failure to pay / payment overdue 90 days or more
- The Bank accompanies the financial restructuring of the customer with and without contribution to the restructuring
- The Bank calls the loan
- The customer has become insolvent.

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

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

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

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

The total amount of the provision for possible loan losses, insofar as it relates 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 lending risks.

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

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

Loans in arrears are defined as those that are overdue for up to 90 days taking into account the minimum buffer (2.5% of the limit and a maximum of €100, respectively).

To process non-performing commitments, the Bank has set up a separate Group unit, Intensive Care. This unit brings together the expertise needed to assist customers going through a restructuring and to successfully process commitments in default, including realizing any collateral.

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

The following definitions are used here:

- **SLLPs on-balance** is the sum of specific loan loss provisions for significant assets as determined by individual cash flow estimates.
- **PortLLPs impaired on-balance** is the sum of portfolio loan loss provisions for insignificant non-performing assets as determined on a portfolio basis with the aid of internal risk parameters.
- **SLLPs and PortLLPs impaired off-balance** is the total sum of loan loss provisions for significant and insignificant off-balance sheet assets. The method for determining these pro-

visions is analogous to that used for on-balance sheet assets.

GLLPs / PortLLPs non impaired on/off balance is the sum of general loan loss provisions relating to loans in default.

Table 28: Non-performing and in-arrears loans by sectors

Sector in Mio €	Non-performimg loans (with (need for provisioning)	SLLP on-balance	PLLP-impaired on-balance	SLL + PLLP impaired off-balance	Direct write-downs
Agriculture and forestry	137	71	3	0	3
Fisheries	0	0	0	0	0
Mining and quarrying	107	83	0	2	1
Manufacturing industry	3,458	1,495	64	94	75
Energy and water supply	167	69	1	12	0
Construction	624	219	33	28	21
Trade, maintenance and repair of motor vehicles and consumer goods	983	427	62	16	12
Hotels and restaurants	305	112	13	2	4
Transport and communication	1,373	378	12	26	21
Banking and insurance	2,831	1,298	10	15	42
Real estate, renting and economic service activities	7,271	2,287	100	70	81
Public sector, defense and social security	47	21	0	0	0
Education and training	24	6	1	0	0
Health, veterinary and social work	182	38	19	0	3
Other public and personal service activities	819	281	51	17	77
Private households	2,187	291	857	80	62
Non-profit organizations	7	4	0	0	0
Total	**20,522**	**7,079**	**1,226**	**363**	**404**

Sector € m	Loans in arrears (without need for provisioning)	GLLP/PLLP NI on & off- balance f. loans in arrears (without need f. provisioning)	Net additions	Entry of loans written down
Agriculture and forestry	10	1	43	0
Fisheries	0	0	-1	0
Mining and quarrying	24	1	78	0
Manufacturing industry	622	100	801	49
Energy and water supply	87	8	-23	0
Construction	122	4	69	0
Trade, maintenance and repair of motor vehicles and consumer goods	591	15	226	0
Hotels and restaurants	60	2	88	0
Transport and communication	1,305	28	438	0
Banking and insurance	983	8	515	0
Real estate, renting and economic service activities	1,615	39	1,214	4
Public sector, defence and social security	0	0	26	0
Education and training	2	0	4	0
Health, veterinary and social work	66	2	6	0
Other public and personal service activities	363	9	34	0
Private households	725	34	450	94
Non-profit organizations	9	0	1	0
Total	**6,588**	**251**	**3,969**	**149**

The net additions column **(Net additions)** shows the net position from additions to and reversals of loan loss provisions for on- and off-balance sheet business. It does not include write-downs, which are shown separately in the **direct write-downs** column.

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

Total non-performing assets and assets in arrears stand at €27.1bn, of which around €20.5bn relates to the default portfolio (non-performing assets) and around €6.6bn relates to assets in arrears. In addition to the loan loss provisions shown below, the Bank also holds collateral against its non-performing portfolio which is taken into account when calculating SLLPs, PortLLPs and GLLPs. Recoveries of €149m on written-down assets are booked as income in the loan loss provisions.

Table 29: Non-performing and in-arrears loans by country clusters

Country cluster € m	Non-performing loans (with need for provisioning)	SLLP on-balance	PLLP impaired on-balance	SLLP+PLLP impaired off-balance	Direct write-downs	Loans in arrears (without need f. provisioning)	GLLP/PLLP NI on/off-balance f. loans in arrears (without need f. provisioning)
Germany	10,273	3,184	938	298	253	3,490	183
Countries in Western Europe (excl. Germany)	4,769	1,743	12	46	86	1,712	36
Countries in Eastern Europe	1,824	740	273	9	3	500	12
Countries in America	3,341	1,304	2	10	59	722	15
Countries in Asia	313	109	0	0	3	107	3
Other	2	0	0	0	0	57	2
Total	**20,522**	**7,079**	**1,226**	**363**	**404**	**6 588**	**251**

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

Table 30: Development of loan loss provisions

Type of provision € m	Opening balance	Additions	Reversals	Utilization	Exchange rate changes	Other changes	Closing balance
SLLP on-balance	3,855	3,915	641	1,907	15	1,842	7,079
PLLP impaired on-balance	827	679	208	233	0	161	1,226
SLLP + PLLP impaired off-balance	316	208	264	1	0	105	363
GLLP/PLLP NI on/off-balance	1,029	562	260	0	20	394	1,744
Total	**6,027**	**5,364**	**1,373**	**2,141**	**34**	**2,502**	**10,412**

Changes in loan loss provisions do not take account of direct write-downs. In addition, the table only shows loan loss provisions relating to the lending business and how they have changed.

Accordingly only assets or loan commitments from the IFRS category LaR and their related loan loss provisions are shown here.

The following table shows the actual losses in the whole period and compares these with the expected losses calculated at the end of the period. The comparison to the 2008 values is based on pro forma figures for 2008. As losses incurred in the lending business, direct write-downs and utilization of valuation allowances for assets classified as IRBA positions under Basel II are included in these figures. Recoveries on written-down assets reduce the actual loss. The EL for the whole book of assets calculated under the IRBA in the disclosure report is very different from the figure of €2.4bn reported for EL in the annual report. This is almost entirely due to the inclu-

Table 31: Expected and realized losses

Asset class	2009		2008	
€ m	Expected loss as of 31.12.	Realized loss	Expected loss as of 31.12.	Realized loss
Companies	5,919	1,241	3,359	1,125
Retail lending	906	101	1,038	401
Banks	574	163	499	361
Central governments	35	0	7	3
Total	**7,434**	**1,505**	**4,904**	**1,890**

sion of loans in default in the disclosure report, which leads to very high figures for EL being reported as a result of the 100% probability of default. The annual report, however, only includes loans not in default in its figure for EL.

Another difference from the annual report is the fact that the expected loss reported in the disclosure report does not include SACR or securitization positions. Due to the change to SACR (permanent partial use according to section 70 SolvV) in 2009 the asset class equity investments is not shown here. In 2008 EL for equity investments amounted to €10m.

7. Investments in the banking book

Investment risks are the risks of 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 classified by its business importance, 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 and service functions for the Group as a whole (other strategic investments).

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

Responsibilities and organization

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

Valuation and accounting policies

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

Investments classified as AfS are reported with 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 with their historic costs if their fair value is not quantifiable.

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 in accordance with the impairment policy and tested for any significant qualitative or quantitative indicators (trigger events) of impairment. As soon as there are any indications of significant or lasting impairment, unrealized losses are written down.

Risks arising from unlisted holdings are subject to regular monitoring involving a database-supported year-end valuation, a monitoring of trigger events to each balance sheet reporting date and special monitoring of investments classified as critical. Various valuation methods (e.g. capitalised earnings value, net asset value, liquidation value) are used to quantify the risks, depending on the status (e.g. active, inactive or in liquidation) and type of business activity (e.g. operational, special purpose 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 if there are objective indications of a significant or lasting impairment. With companies valued using the equity method, the valuation is equal to the proportionate IFRS equity capital. This means that solely equity investments are shown that are not consolidated under regulatory specifications but relate to the companies in this report.

It should be noted at this point that the investments discussed in this Section are those as defined in sections 25.13 SolvV. This means that solely equity investments are shown that are not consolidated for regulatory purposes but relate to the companies in this report. 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

Table 32: Valuations of investment instruments

Investment category € m	Book value (IFRS)	Fair value	Market value
Segment-supporting investments total	**789**	**786**	**22**
thereof listed positions	22	19	22
thereof unlisted positions	767	767	–
Other strategic investments total	**58**	**58**	–
Other investments total	**795**	**876**	**601**
thereof listed positions	521	601	601
thereof unlisted positions	274	274	–
Funds and certificates	**938**	**938**	–
Investments total	**2,581**	**2,658**	**623**

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.

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 companies not listed book values under IFRS are used as fair value. Special purpose vehicles (SPVs) are not shown as they are no 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 of 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 of investment funds that invest wholly or partly in investment instruments are relevant. Shares of 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 50 listed investments. The approximately 770 unlisted and segment-supporting companies and the approximately 380 other investments mainly belong to Commerz Real AG and Commerzbank AG.

The other investments include proportional goodwill pursuant to section 10a.6 KWG of €227m

Table 33: Realized and unrealized gains/losses on investment instruments in 2009

€ m	Realized profit/ loss from sale/ liquidation	Unrealized revaluation profit/loss		
		Total	Thereof accounted for in Tier 1-capital	Thereof accounted for in Tier 2-capital
Total	**21**	**220**	**0**	**99**

(assetside differences).

Realized and unrealized gains/losses on investment instruments

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

The unrealized gains and losses comprise changes in the value of investments that are not recognized through profit or loss in the revaluation reserve. Over the past year Group companies considered material for the disclosure sold investments held in the banking book with the intention of achieving capital gains for a total gain of €21m. The gains consist of disposal proceeds over and above the IFRS book values. Write-downs and write-ups recognized through profit or loss in

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

2009 are not considered as realized gains or losses. Set against these is a deferred revaluation gain totalling €220m. Out of the unrealized revaluation gain, €99m is recognized in Tier 2 capital at Group level.

8. Securitizations

Securitization process

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

- Originator: Parts of the loan portfolio securitized by the Bank itself are placed selectively through securitization transactions on the capital markets. This occurs both by means of synthetic as well as true-sale securitization transactions. The aim s of these transactions basically is to manage regulatory and economic risk and capital, and in the case of true-sale securitizations there is also a funding aspect.

Table 34: Securitization transactions with regulatory capital relief

Securitization programme	Type[1]	Securitization pool	Maturity	Issue currency	Current volume € m
CoCo Finance 2006-1	S	Companies	2016	EUR	4,500
Cosmo 2007-1	S	Companies	2027	EUR	2,000
Cosmo 2008-1	S	Companies	2022	EUR	1,500
CB MezzCAP	T	Companies	2036	EUR	182
TS Co. mit One	T	Companies	2013	EUR	133
Total Commerzbank AG					**8,315**
Provide Gems 2002-1	S	RMBS	2048	EUR	322
Semper Finance 2006-1	S	CMBS	2084	EUR	818
Semper Finance 2007-1	S	CMBS	2046	EUR	591
Glastonbury Finance	T	CMBS	2047	GBP	412
Opera White Tower	T	CMBS	2016	EUR	510
Opera Finance Uni-Invest	T	CMBS	2012	EUR	766
Opera Finance MEPC	T	CMBS	2014	GBP	529
Opera France One	T	CMBS	2016	EUR	380
Opera Germany 1	T	CMBS	2015	EUR	146
Opera Germany 2	T	CMBS	2014	EUR	560
Opera Germany 3	T	CMBS	2022	EUR	528
Total Eurohypo					**5,562**
Total Group					**13,877**

1 S = synthetic, T = true-sale

The activity as originator, i.e. structuring securitization transactions on its own on the basis of the Group's own asset portfolios is focused on the Group units Commerzbank AG and Eurohypo. The table below shows the Commerzbank Group's securitization transactions that are currently in circulation in the capital markets and that the Bank uses to free up regulatory capital:
Other own securitization transactions which are not eligible to free up regulatory capital are Sigma-1 CLO 2007 (€898m), Silver Tower 125 RCL (€3bn), Rügen Eins (€1.6bn) and TS Lago One (€12.3bn).
In connection with (synthetic and true-sale) securitizations Commerzbank has cooperated with the rating agencies Standard & Poor’s, Moody's and Fitch. The securitized assets

belong to the Bank and derive from its lending business with the Mittelstand and large customers, as well as retail mortgage lending. In the case of Eurohypo's originator transactions, the underlying securitized assets are commercial real estate loans or commercial mortgage-backed securities and private residential mortgages.

- Sponsor: The securitization of the receivables portfolios of Commerzbank's customers is a key component of the structured finance product range. By securitizing their own portfolios of receivables, i.e. selling their receivables on a non-recourse basis, Commerzbank's customers are able to tap alternative sources of funding on the capital markets. The receivables portfolios generally derive from customers' working capital receivables, such as trade receivables due from small and medium-sized enterprises (SMEs) and retail customers or from car, machine and equipment leasing. The purchases of receivables are funded by the issue of short-term commercial paper under the Bank's asset-backed commercial paper programme conducted through its conduits. The commercial papers issued are rated by the rating agencies Standard & Poor's, Moody's and Fitch. As sponsor the Bank is responsible for structuring and, as a rule, for purchasing and refinancing the transactions.
  In the reporting period one new customer transaction was securitized via the Silver Tower conduit. Transactions refinanced via the Kaiserplatz conduit continued to be managed as part of normal business activity. The volume of securitizations via Beethoven was reduced substantially over the past year. The reason for this is that this conduit was largely used to fund asset classes who no longer conform to the Commerzbank's risk strategy. Commerzbank only participates to a limited extent in securitization programmes operated by other banks.
- Investor: In the past, the Commerzbank Group invested under both its regulatory trading book as well as its banking book in securitization positions. As part of its strategic realignment, Commerzbank did not invest in any new non-bank securitization transactions in 2009. Instead the focus is on restructuring and reducing the existing positions by the PRU unit. More details relating to securitization positions held are shown in the following.

Procedure for determining risk-weighted exposure

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

The internal ABS rating systems certified by the supervisory authority are applied to the Kaiserplatz, Silver Tower, and Beethoven multi-seller ABCP programmes sponsored by Commerzbank and the ABCP transactions of third parties. These determine the credit (asset) risks inherent in the securitized assets for each asset class. Other related risks, such as dilution risks (e.g. through discounting) and commingling risks (as a result of the actions of the originator) are also taken into account. Additional risk components are also assessed via structured scorecards. The result of the rating process is a tranche-specific rating which, depending on the asset class, is based on the PD or the EL for the tranche.

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

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

Accounting and measurement policies

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

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

Quantitative information on securitizations

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

The total volume of all securitization exposures (on- and off-balance sheet) retained or

Table 35: Acquired or retained securitization exposures by type of exposures

€ m	Originator	Investor	Sponsor
Receivables[1]	8,249	550	1,931
Securities[2]	250	12,355	360
Liquidity facilities	0	90	4,004
Derivatives[3]	0	199	108
Other positions off-balance[4]	4	94	443
Total	**8,503**	**13,288**	**6,846**

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

acquired amounted to €28.6bn on the reporting date. This amount corresponds to the IRB exposure after deduction of eligible collateral.

Table 36: Acquired or retained securitization exposures by type of asset

€ m	Originator	Investor	Sponsor
Loans to companies/SMEs	7,623	1,974	826
Commercial real estate	879	931	0
Residential real estate	1	2,660	135
Consumer loans	0	4,935	704
Securitized positions	0	1,040	269
Credit card receivables	0	487	0
Leasing receivables	0	288	1,461
Trade receivables	0	139	1,765
Other	0	835	1,686[1]
Total	**8,503**	**13,288**	**6,846**

[1] Includes €792m film receivables

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

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

The securitization exposures have their origin predominantly in Germany (46%), USA (35%) and UK/Ireland (8%).

The next table provides a breakdown of acquired and retained securitization exposures by risk weighting bands. Risk weightings are ascertained by applying the risk approach applicable to each securitization exposure as per section 255 SolvV, which sets out a hierarchy of regulatory

Table 37: Acquired or retained securitization exposures by risk weighting band (RBA)

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

approaches for IRB securitization exposures. For securitization exposures with an external rating of B+ or worse half of the exposure is being deducted from Tier 1 and half from Tier 2 capital. The capital requirements are determined by the exposure and its risk weighting after taking account of any impairments.

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

Table 38: Securitized assets outstanding

	Amount of securitized receivables	
€ m	traditional	synthetic
Residential real estate	0	322
Commercial real estate	2,923	1,409
Loans to companies/SMEs	182	8,000
Total	**3,105**	**9,731**

Table 39: Non-performing and in-arrears securitized assets[1]

€ m	Non-performing loans	Loans in arrears
Residential real estate	30	12
Commercial real estate	17	15
Loans to companies/SMEs	16	96
Total	**62**	**123**

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

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

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

The aim of the only new transaction during the financial year, "Rügen Eins", a true-sale securitization transaction, is to generate securities eligible for open market operations in order to access the refinancing provided by the ECB. The transaction consists of two tranches, with the senior tranche meeting the requirements of the ECB. On the reporting date the senior tranche had an AAA rating. The notes issued by the SPV are held in their entirety by Commerzbank, which means there is no risk transfer for regulatory purposes. This transaction is based on a portfolio of loans predominantly to SME borrowers.

The securitization transaction Promise-K 2006-1 was dissolved as of June 30, 2009 through exercise of the clean-up call. This was a synthetic securitization of loans to SMEs originally totalling €2.1bn. As at June 30, 2009, the reference portfolio amounted to €134m. The notes were repaid at June 30, 2009 at their nominal value without loss allocation.

The issue of commercial paper by the ABCP conduit "Kaiserplatz", which is administered by Commerzbank as sponsor, enabled the securitization of customer receivables of €1.0bn as at the reporting date. The ABCP conduits "Silver Tower" and "Beethoven" were able to refinance customer receivables of €3.3bn and €1.2bn respectively as at the reporting date through the issue of commercial paper. The risks assumed by Commerzbank as sponsor and taken into account in the regulatory capital calculation are contained in the tables above showing acquired and retained securitization exposures by type of asset and by type of exposure.

Five transactions financed via the Silver Tower conduit were dissolved in 2009 through regular termination (value of securitization exposure at December 31, 2008 was €438m). In August 2009 a new transaction was structured by Commerzbank and has since been funded through Silver Tower. As at December 31, 2009, the securitization exposure retained by Commerzbank for this transaction was €368m. The underlying assets consist of consumer loans.

No new transactions were refinanced through the Beethoven conduit during the financial year. 15 special purpose entities representing securitization exposures of €1.6bn as at December 31, 2008 exited the conduit, largely as a result of regular termination of the transactions. A small proportion of the transactions are being directly funded by Commerzbank at the reporting date.

II. Market risk

Market risk refers to the risk of potential financial losses as a result of changes in market prices (interest rates, spreads, commodities, exchange rates, share prices) or in parameters that affect prices such as volatilities and correlations. Furthermore market liquidity risk considers the period it takes to close or hedge risk positions to the extent desired.

1. Market risk strategy

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

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

The key quantitative targets for the Commerzbank Group (especially value at risk and stress test limits) in the market risk strategy are derived from the Group's risk-taking capability for risk, which is expressed as economic capital and is laid down in the Group's overall risk strategy. These limits are broken down to the individual segments and business areas in line with the business strategy during the planning process. In addition the bank manages and limits market risk through scenario analyses and analyses of sensitivities.

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

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

2. Risk quantification

Value at risk

As a result of the takeover of Dresdner Bank and with the agreement of BaFin, Commerzbank is temporarily using two parallel market risk models which have both been approved by the supervisory authorities for determining its regulatory capital requirements. Integration into a uniform market risk model is due to follow by the end of 2010.

For the former Commerzbank AG (before integration of Dresdner Bank), its foreign branches and the Luxembourg subsidiary CISAL the internal model to calculate the regulatory capital requirements for market risk is based on a value at risk (VaR) metric. The Bank uses a 1-year historical simulation for general market risk and the variance-covariance method as part of the calculation of credit spread value at risk (CS VaR) for the specific interest rate risk. Normal distribution is assumed in aggregating the two key risk figures. For all other subsidiaries of the old Commerzbank the standardized approach is used.

Commerzbank is temporarily continuing to use Dresdner Bank's internal value at risk model to calculate the regulatory capital charge for market risk positions in Dresdner Bank. Measurement of market risks is based here on an analytical delta-gamma value at risk model which takes account of both general and specific risks.

Both internal models are based on a holding period of ten days with a confidence level of 99% in compliance with the requirements of the Solvency Regulation. Both internal models have been checked and approved by the Federal Financial Supervisory Authority (BaFin).

Table 40: VaR of portfolios in the trading book

99% | holding period 10 days	€ m
Minimum	175
Median	271
Maximum	358
Year-end figure	200

The internal models' reliability is checked on a daily basis using backtesting methods. The VaR as calculated is compared with the P&L generated by the price changes that actually occurred on the market. This provides the basis for the evaluation of the internal risk models by the supervisory authorities. It is called a back test outlier if the price change-indicated P&L is greater than the risk forecast by the VaR model.

Analyzing the backtesting results gives important clues for reviewing parameters and improving the market risk model. In addition, all outliers are classified under a traffic-light system laid down by the supervisory authorities and reported immediately to the authorities at Group level with details of the size and cause of the failure. In the course of 2009, seven outliers were measured with the Dresdner Bank model and one with the Commerzbank model for their respective portfolios.

Dresdner Bank's delta-gamma model at a confidence level of 97.5% and a holding period of one day is used for internal reporting of the value at risk for market risks. Commerzbank's positions and the Dresdner Bank model were linked at an early stage of the integration and so ensured a uniform view of market risk. On this basis a comprehensive internal limit system down to the lower levels of portfolios was implemented promptly.

Stress tests

As the VaR metric only provides a forecast on the assumption of "normal" market conditions, it is supplemented by stress tests which simulate possible extreme market movements. Extensive group-wide stress tests and scenario analyses are carried out as part of the risk monitoring process. The goal is to simulate the impact of crises, extreme market conditions and major changes in correlations and volatilities on Commerzbank's overall market risk position. The impact on the various components of comprehensive income – income statement, revaluation reserve and hidden reserves or liabilities – is quantified in this exercise. The stress test calculations throughout the Bank are based on a combination of historical and hypothetical (forward-looking) scenarios for the various asset classes (equities, interest rates, credit spreads and currencies, e.g. 10% falls in share prices, 50 bp parallel shift in the yield curve).

3. Risk management

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

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

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

4. Interest rate risk in the banking book

Strategy and organization

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

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

Quantification

Measuring interest rate risks in the banking book is completely integrated into the daily risk measurement and monitoring of the Bank. Similar to the measurement of trading book risks, a value at risk is calculated on the basis of the internal model (delta-gamma approach). VaR is calculated daily on an NPV basis for all interest rate risk-sensitive positions in the banking book including derivatives (e.g. swaps).

Prepayment risks (customers' rights to repay early) and basis risks between swap and government bond market interest rates are included in this calculation. In addition, stress tests and scenario analyses are carried out on a daily and monthly basis depending on the market situation.

Table 41: Interest rate risk in the banking book

	€ m	
Currency	**-190***	**130***
EUR – Euro	-175	113
GBP – Pound Sterling	6	-1
JPY – Yen	9	-5
CHF – Swiss Franc	13	-9
USD – US dollar	51	-24
Other	-3	3
Total	**-99**	**76**

* Interest rate shock in bp

For regulatory purposes the impact of an interest rate shock on the economic value of the Group's banking book is simulated on a monthly basis. The applicable change in interest rates is currently +130 basis points and -190 basis points. As of December 31, 2009, the bulk of the interest rate positions in the banking book are denominated in euros. A shift in interest rates of -190 basis points leads to a loss of €99m while a shift in interest rates of +130 basis points produces a profit of €76m. The limit laid down by regulators is well adhered to.

Management

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

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

In Treasury and ALCO, the interest rate exposure in the banking book was largely stable during 2009.

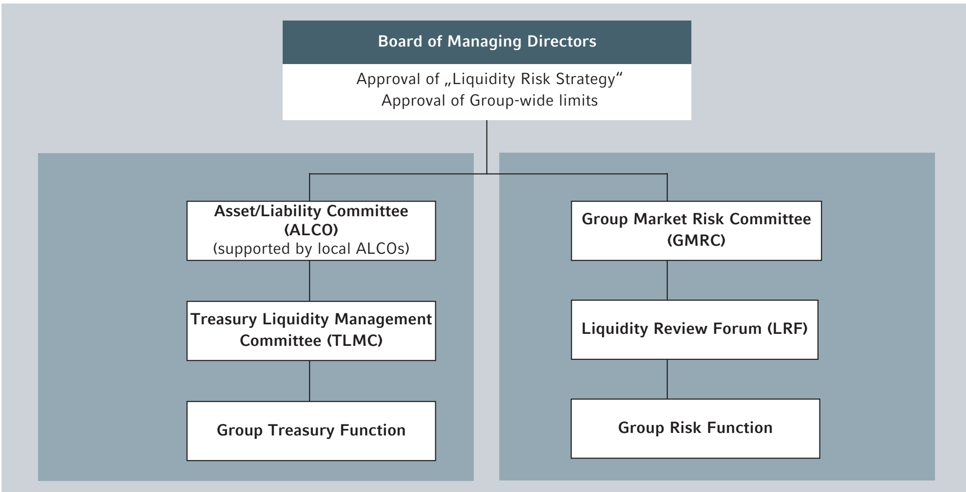
III. Liquidity risk

Liquidity risk in the narrow sense is the risk that Commerzbank will be unable to meet its current and future payment obligations as and when they fall due. In the wider sense it includes the risk that in the event of a liquidity crisis funds can only be borrowed at very high market rates or that assets can only be liquidated at a discount to market rates, as well as the risk of limited access to funding sources such as the capital market, money market and deposits.

1. Liquidity risk strategy

The global framework for liquidity risk management is the liquidity risk strategy, which was newly formulated during the year under review. It is derived from the Bank's business and risk strategy and takes account of the increasing regulatory requirements with respect to liquidity risk.

The following chart shows the organization of liquidity risk monitoring and management.



Current emergency planning ensures that the Bank is able to act promptly and flexibly to safeguard Group liquidity in the event of a general or institution-specific crisis situation. This lays down in particular who is responsible for what and the procedures to be followed, enabling immediate execution of defined measures.

2. Risk quantification

Ensuring Commerzbank's ability to meet its payment obligations is quantified and monitored on the basis of two interlinked concepts; since the end of the first quarter of 2009 the business volumes of Dresdner Bank have been integrated in this analysis by means of an interim solution:

- Period up to 1 year: Available Net Liquidity (ANL)
- Period over 1 year: Stable Funding

Available net liquidity

Commerzbank's internal liquidity risk model is the basis for liquidity management and reporting to the Board of Managing Directors. This internally developed liquidity risk measurement approach calculates the available net liquidity (ANL) for the next 12 months on the basis of contractual and economic cash flows (Forward Cash Exposure – FCE or Dynamic Trade Strategy – DTS) and liquid assets (Balance Sheet Liquidity – BSL).

The use of the ANL as a management tool is backed up by the limits imposed within the Group. Setting limits is the responsibility of the risk function and is coordinated with central liquidity management in Group Treasury. Setting the ANL and currency limits ensures that there is sufficient liquidity over a period of at least one year even under the assumption of stress events.

Starting with Group limits, the limit structure extends to the main subsidiaries, business units and sub-units. As part of the ANL limit currency limits in all currencies must also be adhered to in the various locations (including the Group) in order to limit the funding risk in foreign currencies.

One important component of the internal liquidity risk model is stress testing, which highlights the impact of unforeseen events on the liquidity situation, simulating institution-specific and/or market-related events. The results of stress testing feed into the definition of the limit concept and the preparation of an effective emergency plan. The stress scenarios are recalculated daily. The underlying assumptions are reviewed regularly and adjusted in line with changes in the market environment as required.

Commerzbank's liquidity and solvency were adequate at all times during the period under review – even under the assumptions of stress scenarios. At 1.2, Liquidity Regulation (Liquiditätsverordnung) ratio as of December 31, 2009 was significantly higher than the minimum regulatory requirement of 1.0.

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 regularly analyzes the structure of the various sources of funding for liabilities in order to actively manage the funding profile.

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

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

3. Risk management

Group Treasury is responsible for liquidity management within the Group. Following the integration of Dresdner Bank and the associated organizational realignment of the Group, Group Treasury has been part of Group Management since the beginning of 2009, reporting directly to the Chairman of the Board of Managing Directors. Group Treasury is represented in all major locations in Germany and abroad and has reporting lines in all subsidiaries.

Liquidity management comprises both operational and strategic elements. Operational liquidity management encompasses management of daily payments, planning for expected payment flows and managing access to central banks. Liquidity management also deals with access to unsecured and secured sources of funding on the money and capital markets and the management of the liquidity portfolio. Strategic liquidity management involves drawing up and evaluating a maturity profile for all assets and liabilities relevant for liquidity purposes, including modelling the proportion of customer deposits which will be available on a permanent basis (the "core deposit base"), the Group's resulting issuance strategy, and the calculation and allocation of liquidity costs, which feed into the management of the Bank's business activities.

In order to compensate for unexpected short-term outflows of liquidity, Group Treasury has a central liquidity portfolio of highly liquid securities eligible for central bank borrowing purposes, backed by medium to long-term funding. Commerzbank also has a liquidity reserve consisting of freely disposable cash and liquid securities positions.

IV. Operational risk (OpRisk)

Commerzbank defines operational risk as the risk of loss resulting from the inadequacy or failure of internal procedures, systems and people or from external events. This definition includes legal risks, but not reputational or strategic risks.

1. OpRisk strategy

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

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

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

The operational risk organization has a clear allocation of responsibilities and duties and creates the organization and especially the structures required for effective and targeted operational risk control and management at all hierarchical levels in the Group's segments and in the central Services and Group Management divisions. The corresponding Dresdner Bank units were integrated into the operational risk organization in 2009.

The operational risk organization rests on three pillars:

1. the operational risk managers who, as staff working in the segments, predominantly within the COO function, support the active management of operational risks;
2. the units dealing with OpRisk-specific themes (Group Legal, Group Compliance, Group Security, etc.)
3. the Corporate Center function in Group Risk Controlling & Capital Management (GRM-CC) which is responsible for ensuring the availability of comprehensive and integrated data, methods and reports on operational risk and monitoring operational risk throughout the Group

and the overarching committees relevant to operational risk:

The Group OpRisk Committee chaired by the Group CRO with representatives of the segments and relevant inter-segment functions (e.g. Group Audit, Group Legal) deals mainly with the management of OpRisk within the Group and fundamental methodological issues. The

OpRisk Committee meets at least once a quarter with the goal of optimizing the expected loss from OpRisk from a cost/benefit perspective and minimizing the potential impact of the unexpected loss. An end-to-end view of the processes within the Bank ensures that risks are recognized in a timely manner. The OpRisk events that came to light in the financial industry during the year under review underline the importance of this particular objective.

The segment OpRisk committees deal with segment-specific issues and meet at least once a quarter ahead of the Group OpRisk Committee meeting.

2. Risk quantification

To quantify operational risks, Commerzbank generally uses an advanced measurement approach (AMA) throughout the Group pursuant to section 278 SolvV. The only exceptions to this are AKA Ausfuhrkredit GmbH, Deutsche Schiffsbank and Bank Forum in Ukraine . The plan is for Deutsche Schiffsbank and Bank Forum to also introduce the AMA; however they will use the Basic Indicator Approach (BIA) during a transitional phase. The capital requirements for the operational risks of these three banks are added on to the AMA capital figure.

In the wake of the integration of Dresdner Bank, a common OpRisk model for calculating capital requirements was developed, which was adjusted for the requirements of the new Commerzbank. Until this model has been certified by the regulatory authorities, the capital requirement for both institutes will be calculated separately for regulatory and internal reporting purposes and then reported as a total figure.

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

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

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

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

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

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[1] Dresdner-Cetelem Kreditbank GmbH is another exception, as its contribution to the AMA is allocated on a pro rata basis because it is also consolidated on a pro rata basis.
[2] The BIA accounts for less than 3% of total capital requirements.

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

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

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

Besides the regulatory capital commitment, a figure for the economic capital commitment is also calculated. Both figures come from basically the same mathematical model and use largely the same data. The main difference is in the confidence level. Whilst SolvV only requires a confidence level of 99.9%, Commerzbank bases its internal risk assessment on the considerably more conservative figure of 99.95%. Because of OpRisk's fat tail, i.e. the very rare occurrence of large losses, the level of economic capital committed for OpRisk as of the end of 2009 amounts to around 60% more than the figure for regulatory purposes.

3. Risk management

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

The risk strategy is implemented by defining capital and EL limits and the risk appetite for operational risks in a top-down approach. Based on risk-taking capability, the annual planning process sets OpRisk limits for the Group, which are monitored by GRM-CC.

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

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

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

A structured central and local reporting ensures that management of the Bank and of the individual segments, the members of the OpRisk Committee and the supervisory bodies receive regular, timely and comprehensive reports on operational risks. OpRisk reports are prepared both monthly and quarterly and contain the latest risk assessment by the segments, the main loss events, latest risk analyses, changes in capital requirements and the progress of measures that have been taken. The central reports on a monthly basis are part of the Group Risk & Capital Monitor Report while the quarterly reports are separate. The local reports are based on the needs of the management of the particular segment for managing operational risks.

V. Other risks

On top of the risk categories explicitly considered in SolvV (see above), Commerzbank Group also systematically and actively manages a number of additional risk types. Details on the other risks may be found in the Group Risk Report in Commerzbank Group's 2009 Annual Report.

Appendix

Consolidation matrix and material Group entities

The consolidation matrix below summarizes the regulatory and IFRS consolidation categories for the various companies in the Commerzbank Group. The material Group entities included in the disclosure report are shown in the upper part of the matrix. In contrast to last year's disclosure report all companies, including affiliates of sub-groups, are shown.

The non-material companies which are of relatively minor financial importance in accordance with the definition of materiality are shown in the bottom section of the matrix.

Table 42: Consolidation matrix

Company	Classification acc. to KWG	Sub-classes	No.	Regulatory treatment			Consolidation under IFRS
				Consolidation	Deduction method	Risk-weighted investment	
Material Companies							
Commerzbank AG	Banks	Universal banks	1	full			full
			11		yes		-
		Specialised banks	27		yes		-
	Financial companies	Investment companies	4	full			full
			18		yes		-
			1		yes		at equity
		Holding companies	1	full			full
			14		yes		-
		Other	1	full			full
			1			yes	full
			7		yes		full
			30		yes		-
			3		yes		at equity
	Financial services institutions		1	full			full
			1		yes		full
			5		yes		-
			1		yes		at equity
	Special purpose vehicles		101				full
	Other companies	Capital investment cos.	1		yes		at equity
		Other	28			yes	full
			3			yes	at equity
BRE Bank S.A.	Banks	Universal banks	2	full			full
		Specialised banks	1	full			full
	Financial companies	Investment companies	1	full			-
			2		yes		-
		Other	4	full			full
			9		yes		-
	Financial services institutions		1	full			full
			1		yes		-
	Insurance companies		1		yes		-
comdirect bank AG	Banks	Universal banks	1	full			full
	Financial services inst.		1		yes		-

Table 42: Consolidation matrix

Company	Classification acc. to KWG	Sub-classes	No.	Regulatory treatment: Consoli-dation	Regulatory treatment: Deduction method	Regulatory treatment: Risk-weighted investment	Consoli-dation under IFRS
Material companies							
Commerz Real AG	Banks	Specialised banks	1	full			-
	Financial companies	Investment companies	5	full			full
			39	full			-
			3		yes		-
		Holding companies	4	full			full
			106	full			-
			12		yes		-
		Other	10	full			full
			11	full			-
			8		yes		-
			1		yes		at equity
	Financial services institutions		1	full			full
			1		yes		at equity
	Provider of secondary services		1	full			full
			2			yes	full
	Other companies	Capital investment cos.	2	full			full
		Other	2	full			-
			39			yes	full
			8			yes	at equity
			2		yes		-
Commerzbank Europe (Ireland)	Banks	Universal banks	1	full			full
	Financial companies	Other	1		yes		-
Commerzbank International S.A.	Banks	Universal banks	1	full			full
	Financial services inst.		1		yes		-
Commerzbank Eurasiyes SAO	Banks	Universal banks	1	full			full
Commerzbank Zrt.	Banks	Universal banks	1	full			full
Dresdner Bank Luxembourg S.A.	Banks	Universal banks	1	full			full
	Financial companies	Other	1		yes		at equity
Dresdner Bank Brasil S.A.	Banks	Universal banks	1	full			full
Dresdner Kleinwort Holdings LLC	Financial companies	Other	1	full			full
	Provider of secondary services		1	full			-
Dresdner Kleinwort Limited	Banks	Universal banks	1	full			full
	Financial companies	Investment companies	2	full			full
			1		yes		-
		Other	23	full			full
			2	full			-
	Financial services inst.		4	full			full
	Prov. of second. services		2	full			full
Dresdner Bank ZAO	Banks	Universal banks	1	full			full
Dresdner Cetelem-Kreditbank GmbH	Banks	Universal banks	1	pro rata			at equity
Deutsche Schiffsbank AG	Banks	Specialised banks	1	full			full
Erste Europäische Pfandbrief- und Kommunalkreditbank AG	Banks	Specialised banks	1	full			full

Table 42: Consolidation matrix

Company	Classification acc. to KWG	Sub-classes	No.	Regulatory treatment			Consolidation under IFRS
				Consolidation	Deduction method	Risk-weighted investment	
Material companies							
Eurohypo AG	Banks	Universal banks	2	full			full
		Specialised banks	1	full			full
	Financial companies	Investment companies	3		yes		full
			3		yes		-
		Holding companies	2	full			full
			1	full			-
			1	full			at equity
			3		yes		-
		Other	5	full			full
			2		yes		full
			1		yes		-
			1		yes		at equity
	Provider of secondary services		2	full			full
			25			yes	full
			2			yes	at equity
	Other companies		4			yes	full
Joint Stock Comm. Bank „Forum“	Banks	Universal banks	1	full			full
Kleinwort Benson Channel Islands Holding Ltd.	Banks	Universal banks	2	full			full
	Financial companies	Other	12	full			full
			1		yes		full
	Financial services inst.		1	full			full
	Provider of secondary services		6	full			full
Kleinwort Benson Private Bank Ltd.	Banks	Universal banks	1	full			full
	Financial companies	Other	4	full			full
	Financial services inst.		2	full			full
Allianz Dresdner Bauspar AG	Banks	Specialised banks	1	full			full
Immaterial companies							
Banks		Universal banks	7	full			full
			3		yes		-
		Specialised banks	1	pro rata			-
Financial companies		Investment companies	13	full			full
			6		yes		-
			1		yes		at equity
		Holding companies	7	full			full
			2	full			-
			5		yes		-
		Other	73	full			full
			5	full			-
			6		yes		full
			8		yes		-
			4		yes		at equity
			1	pro rata			at equity
Financial services institutions			9	full			full
Provider of secondary services			1	full			-
			15	full			full
Other companies		Capital investment comp.	1	full			full
		Other	1			yes	full

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

The banks classification is broken down into universal banks and specialist banks, with development banks, guarantee banks, loan guarantee associations and real estate credit institutions included in the specialist banks sub-segment. Financial companies are broken down into investment companies, holding companies and other financial companies.

Asset management companies are shown separately under other companies as they are the only sub-segment included under other companies that has to be consolidated for regulatory purposes. The special purpose vehicles are mainly securitization vehicles and special funds consolidated under IFRS. There is currently no regulatory requirement to consolidate these special purpose vehicles.

Sub-groups are listed by name in the “Company” column in the consolidation matrix for material companies. The number of companies belonging to each sub-group is shown, broken down into segments and sub-segments and classified by consolidation type under the headings “Regulatory treatment” and “Consolidation method under IFRS”.

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

The material entities in the Group are shown below:

- **Allianz Dresdner Bauspar AG**, Bad Vilbel was formed in mid-2002 from the merger of Allianz Bauspar AG and Dresdner Bauspar AG.
- **BRE Bank S.A.** is one of Poland’s leading universal banks. The BRE Bank sub-group includes the following subsidiaries of BRE Bank S.A. BRE Leasing Sp. zo.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 largest mortgage bank).
- **comdirect bank AG** is the market leader among Germany’s online brokers, with more than 1.4 million private customers; at Comdirect Group level, the number of customers rose to a total of 2.2 million in 2009.
- **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 International S.A. (CISAL)** 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.

- **Commerz Real AG** is one of the world’s largest real estate asset managers and providers of leasing and investment solutions.
- **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.
- **Dresdner Bank Brasil SA Banco Multiplo**, Sao Paulo is specialized in local and international capital markets, foreign exchange trading and treasury.
- **Dresdner Bank Luxembourg S.A.**, Luxembourg, is mostly involved in private wealth management. In the first quarter of 2010 it was merged to Commerzbank International S.A. (CISAL).
- **Dresdner-Cetelem Kreditbank GmbH**, Munich is a joint venture between BNP Paribas Personal Finance S.A. and Commerzbank AG. Its range of finance products includes instalment credits and innovative card products, individual advice and other customer finance services.
- **Dresdner Kleinwort Holdings LLC Group, Dresdner Kleinwort Ltd. Group and Dresdner Bank ZAO** were integrated into Commerzbank’s Corporates & Markets investment banking division as part of the acquisition of Dresdner Bank by Commerzbank in January 2009.
- **Erste Europäische Pfandbrief- und Kommunalkreditbank AG in Luxembourg** is focused on financing the public sector through loans to states, Länder, 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 the parent company of the Eurohypo sub-group. It 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.
- **The Joint Stock Commercial Bank “Forum”** is one of Ukraine’s leading banks. Its main business is with private and corporate customers, focusing on small and medium-sized companies (SMEs).
- **Kleinwort Benson Channel Island Holdings Ltd. Group**,Guernsey, provides specialist products and services for private individuals and companies as well as trustee services.
- **Kleinwort Benson Private Bank Ltd. Group**, with registered offices in London and Birmingham, provides wealth management services, such as asset management, investment advice, structured investment products, real estate and banking services.

List of tables

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	Basic Indicator Approach
BSL	Balance Sheet Liquidity
CCF	Credit Conversion Factor
CDS	Credit Default Swap
CISAL	Commerzbank International S.A., Luxembourg
CMBS	Commercial Mortgage Backed securities
COO	Chief Operating Officer
CORPA	Commerzbank loan default database
CP	Commercial Paper
CRE	Commercial Real Estate
CRMT	Credit Risk Mitigation
CRO	Chief Risk Officer
CS-VaR	Credit Spread Value at Risk
Credit VaR	Credit Value at Risk
DTS	Dynamic Trade Strategy
EaD	Exposure at Default
EEPK	Erste Europäische Pfandbrief- und Kommunalkreditbank AG, Luxembourg
EL	Expected Loss
ECB	European Central Bank
FCE	Forward Cash Exposure
FSA	Financial Services Authority
GLLP	General Loan Loss Provisions
HGB	Handelsgesetzbuch (German Commercial Code)
IAA	Internal Assessment Approach
IAS	International Accounting Standards
ID	Identification
IFRS	International Financial Reporting Standards
IRBA	Internal Ratings Based Approach
ISDA	International Swaps and Derivatives Association
ISIN	International Securities Identification Number
KRI	Key Risk Indicators
KWG	Kreditwesengesetz (German Banking Act)
LaR	Loans and Receivables
LGD	Loss Given Default I
LIP	Loss Identification Period
LRF	Liquidity Review Forum
MaRisk	Mindestanforderungen an das Risikomanagement (Minimum Requirements for Risk Management)

NBFI	Non-Bank Financial Institution
OpRisk	Operational Risk
OpRiskCo	OpRisk Committee
ORX	Operational Riskdata eXchange Association, Zurich
P&L	Profit & Loss
PD	Probability of Default
PECDC	Pan European Credit Data Consortium
PI	Portfolio Impaired
PortLLP	Portfolio Loan Loss Provisions
PRU	Portfolio Restructuring Unit
QSA	Quality Self-Assessment
RMBS	Residential Mortgage Backed Securities
RWA	Risk Weighted Assets
S&P	Standard & Poor´s
SACR	Standardized 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 Stabilization)
SolvV	Solvabilitätsverordnung (German Solvency Regulation)
Sp. z o.o.	Polish legal form of limited company
SPV	Special Purpose Vehicle
UL	Unexpected Loss
VaR	Value at Risk
VdP	Verband deutscher Pfandbriefbanken (Association of German Pfandbrief Banks)
Zrt.	Hungarian legal form of a limited company

Disclaimer

Reservation regarding forward-looking statements

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

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