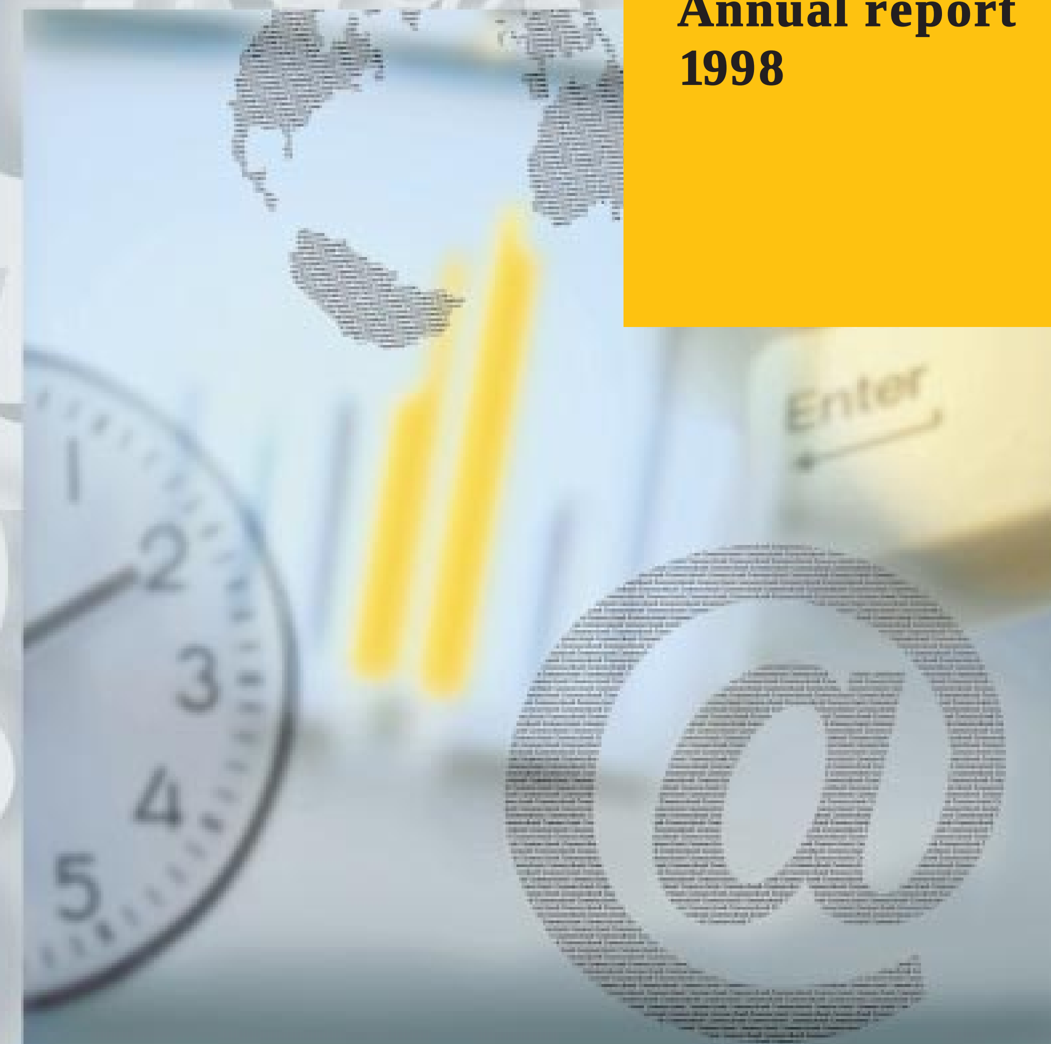
Commerzbank Group

Annual report 1998



COMMERZBANK

Annual report 1998

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Commerzbank Group

Income statement

euro million	1.1.-31.12. 1998	1.1.-31.12. 1997	Change in %
Interest received	15,886	14,575	9.0
Interest paid	12,813	11,226	14.1
Net interest income	3,073	3,349	–8.2
Provision for possible loan losses	–881	–953	–7.6
Net interest income after provisioning	2,192	2,396	–8.5
Commissions received	1,773	1,583	12.0
Commissions paid	102	126	–18.7
Net commission income	1,671	1,457	14.7
Trading result	413	288	43.3
Result on financial investments	553	248	–
Operating expenses	3,612	3,172	13.9
Other operating result	23	–78	–
Profit from ordinary activities	**1,240**	**1,139**	**8.8**
Extraordinary result	–	–	–
Pre-tax profit	**1,240**	**1,139**	**8.8**
Taxes on income	298	489	–39.1
Net profit	**942**	**650**	**44.8**
Profit/loss attributable to minority interests	–50	–10	–
Distributable profit	**892**	**640**	**39.4**

Balance sheet

Assets euro million	31.12.1998	31.12.1997	Change in %
Cash reserve	6,734	6,522	3.3
Claims on banks	58,161	45,090	29.0
Claims on customers	184,254	162,761	13.2
Provision for risks	–4,855	–4,272	13.6
Assets held for dealing purposes	34,237	30,947	10.6
Financial investments	41,725	27,896	49.6
Intangible assets	386	420	–8.3
Fixed assets	2,074	1,694	22.4
Tax assets	955	897	6.4
Other assets	2,540	2,476	2.6
Total assets	**326,211**	**274,431**	**18.9**

Liabilities euro million	31.12.1998	31.12.1997	Change in %
Liabilities to banks	67,733	50,097	35.2
Liabilities to customers	93,587	93,322	0.3
Securitized liabilities	121,812	97,183	25.3
Liabilities from dealing activities	21,530	13,431	60.3
Provisions	2,209	2,326	–5.0
Tax liabilities	906	737	23.0
Other liabilities	2,268	2,570	–11.7
Subordinated capital	5,512	5,632	–2.1
Minority interests	594	368	61.4
Equity	10,060	8,765	14.8
Total liabilities	**326,211**	**274,431**	**18.9**

1 euro = DM1.95583

Our full Annual Report and also an abridged version is available in German and English.
ISSN 0414-0443.

Annual Report 1998

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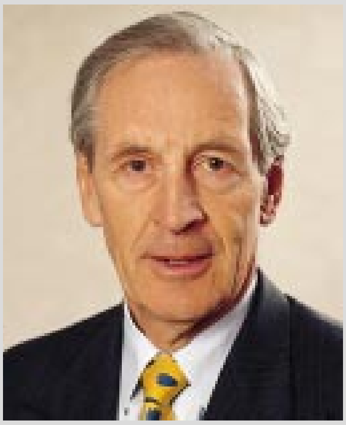
Dear shareholders,



Martin Kohlhaussen

Walter Seipp

Financial crises are nearly always the result of crises of confidence. And up to now, it has not been possible to rebuild confidence that a number of the world's regions – Asia, Russia and Latin America – will return to a sustained development. As long as this is not the case, prices in the goods and financial markets will reflect this uncertainty in the form of strong volatility. Political attempts to interfere with this core area of the market-economy system through agreements which contravene it by fixing prices – e.g. exchange-rate targets or target ranges – are doomed to failure right from the outset. Any assistance provided by the industrial countries must tackle the roots of the problem rather than its symptoms.

Thanks to our strict risk management, we have reduced our exposure in virtually all problem countries since the Asian crisis broke in autumn 1997 and we have not been lured into several apparently high-yield transactions. For this reason, we were not affected last year by the spectacular losses and problems surrounding both rouble bonds and hedge funds. On no account, though, should this policy be interpreted as a retreat from the international scene. Quite the contrary, our participation in Korea Exchange Bank, Seoul, and our only recently opened Commerzbank (Eurasija) SAO in Moscow underline the Bank's continuing expansion even in difficult markets.

Our earnings performance was influenced in 1998 as well by the financial crisis. Its direct impact is revealed in the further value adjustments made to loans outstanding in the problem regions. Indirectly, the crisis affected commissions and net interest income, as the emphasis on quality in the loan portfolio naturally leads to lower margins, while smaller volumes reduce earnings. At the same time, we are now expanding our investment banking activities in Asia more slowly than originally planned.

With the goal of competing successfully in the 21st century as well, and thus raising our earnings over the long term, we took important strategic decisions last year.

The emphasis was on a new orientation in our *Allfinanz* strategy. In November, we signed a cooperation agreement with the Italian Generali insurance group; shortly afterwards, our new partner acquired a 5.25% interest in Commerzbank. By the year 2001, we intend to take up a stake worth roughly the same amount in Generali; at current market rates, this would imply a shareholding of just under 2.5%.

Cooperation with Generali and also with Aachener und Münchener Versicherungsgruppe will begin as soon as the two sides have terminated existing arrangements with their previous partners. For us, this means by February 2000 at the latest. In this connection, we have to negotiate a dissolution of the joint participations in WinCom Versicherungs-Holding and possibly in Commerz Grundbesitz-Invest.

The decision to cooperate with the Generali Group did not only provide us with a new insurance partner. Rather, it also entailed a fresh orientation in the home loan savings area through Badenia Bausparkasse, which belongs to the AMB Group.

In December, we disposed of our 40% interest in Leonberger Bausparkasse to its other major shareholder, Württembergische Versicherungsgruppe. Immediately afterwards, the marketing agreement with Leonberger was terminated. Since the start of this year, we have been selling Badenia products.

With the new *Allfinanz* cooperation, we have taken a big step forward. It offers us the opportunity to explore international dimensions and to secure and build upon our position, above all in Euroland.

The capital-raising measures which we are proposing to you at this year's Annual General Meeting serve the same objective. Like the possibility to buy back our own shares, these measures are intended to enable us to shape our future flexibly.

At our Annual General Meeting on May 21, 1999, for which we invite you once again to Frankfurt, we will be available to provide further explanations and to answer your questions. Should you be unable to attend, we urge you to have your shares represented by proxy. You will find more details on individual points of the agenda, such as the election of new members to the Supervisory Board, in the invitation to the AGM enclosed in this Annual Report.

In the coming years, our AGM will take place on May 26, 2000 and May 25, 2001 – both to be held in Frankfurt am Main.

End-March 1999

Dr. h.c. Martin Kohlhaussen
Chairman of the Board
of Managing Directors

Dr. Walter Seipp
Chairman of the
Supervisory Board

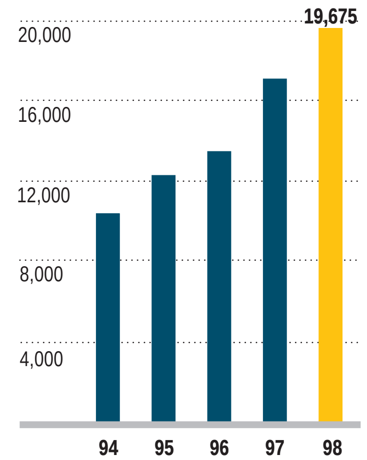
Survey of the Commerzbank Group

The contours of the Commerzbank Group's strategic orientation became more distinct last year. We came closer to our goal of being a strong European universal bank through expansion of our base in domestic branch banking – more customers, higher market shares – and also through the development of our internationally oriented investment banking and technological infrastructure. At the same time, we developed a fresh orientation in both the *Allfinanz* field and cooperation agreements in the European financial sector.

These efforts together with various special projects, such as the changeover to the euro, the technical measures to accommodate the statutory minimum requirements for trading activities and the Year 2000 issue, caused our operating expenses to climb substantially. However, as we can be quite satisfied with our operative business, we produced a good result altogether in 1998. It enables us to pay an unchanged dividend of DM1.50 per share on the Bank's higher capital and also to make an encouragingly strong allocation to retained earnings.

Steady increase in equity

Commerzbank Group, DM m



As from 1997, according to IAS

Commerzbank Group's customers

1994	1995	1996	1997	**1998**
3,533,800	3,579,000	3,661,500	3,775,000	**4,210,000**

Short-term upturn before launch of euro

The continuing link between economic growth and employment has been demonstrated by the United States for years, and by Germany as well in 1998. With GDP growth of 2.8% in Germany – the strongest rate in the nineties – the jobless total declined by 360,000. In the meantime, though, the upturn is losing force, particularly in view of the absence of convincing forward-looking decisions at the political level.

The years of preparation for the start of European monetary union on January 1, 1999, made a smooth transition to the euro possible. Technically, the changeover in the capital markets functioned just as smoothly as the convergence process in interest rates. In the course of the past year, it became evident that a more constant and stable development of exchange rates represented a kind of "euro dividend" for the Emu countries.

First consolidated accounts based on International Accounting Standards

In the course of the year, the Commerzbank Group's balance-sheet total expanded by a strong 18.9%, or DM101bn, to DM638bn. In this first presentation of our figures according to the International Accounting Standards (IAS), some amounts appear which were not shown in the balance sheet in the former presentation based on the German Commercial Code – HGB. Leonberger Bausparkasse, previously shown at a good DM3bn to reflect the percentage of its capital held by the Bank, is no longer included, as we disposed of our interest last December.

On the assets side, interbank lending rose by 29% to DM114bn, and claims on customers by 13% to DM360bn. Expansion in loans to customers was almost exclusively in the long-term bracket, compared with lending at short and medium term to other banks.

Parent Bank and major subsidiaries

	Balance-sheet total		Operating result	
in DM m	1997	**1998**	1997	**1998**
Commerzbank AG	309,807	387,070	2,172	1,861
comdirect bank GmbH	2,245	3,202	–28	6
Commerz Grundbesitz-Investmentgesellschaft mbH	45	41	10	10
CommerzLeasing und Immobilien GmbH	292	338	22	55
Hypothekenbank in Essen AG	69,375	89,179	153	207
RHEINHYP Rheinische Hypothekenbank AG	88,649	105,846	291	322
Caisse Centrale de Réescompte, S.A.	6,579	8,972	46	40
Commerzbank (Budapest) Rt.	855	1,001	1	3
Commerzbank Europe (Ireland)	5,520	8,023	40	66
Commerzbank International S.A.	24,447	24,137	249	992
Commerzbank (Nederland) N.V.	5,172	6,308	29	26
Commerzbank (Switzerland) Ltd	1,387	1,227	44	58
Commerzbank (South East Asia) Ltd.	2,420	2,011	–57	–366
Jupiter International Group PLC	310	425	89	161
Montgomery Asset Management, LLC	379	348	10	3

Based on individual financial statements; currencies translated at year-end rates.

However, we were generally cautious about expanding our risk-weighted assets; in addition, we used various instruments to place risks off the balance sheet.

Financial investments much higher
Whereas we raised assets held for dealing purposes by only 10.6% to DM67bn, financial investments expanded by a hefty 49.6% to DM82bn. For the most part, the increase is due to the Parent Bank and its two mortgage subsidiaries making use of favourable market conditions to invest in fixed-income securities. The addition to our equity investments, such as the interest which we acquired during the summer in Korea Exchange Bank, Seoul, should also be mentioned here.

On the liabilities side, our interbank borrowing rose by a notable 35.2% to DM132bn. By contrast, customers' deposits advanced by no more than 0.3% to DM183bn. More marked increases were registered for demand and short-term time deposits.

On the other hand, we used the persistently low level of interest rates, which was largely responsible for the weak rise in customers' deposits, to take up more funds through the issue of bonds. Securitized liabilities expanded by a good 25% to DM238bn.

The equity shown at year-end was boosted by the issue of shares to our staff, the exercising of conversion and option rights, as well as by the higher profit and the allocation to reserves. The most important source, though, was November's authorized capital increase of a nominal DM122.5m, which was taken over by Generali. The new shares were subscribed to at a price close to the market price and provided us with just over DM1.2bn of new equity. All told, we now have equity of DM19.7bn; in a year-on-year comparison, this represents a rise of 14.8%, or a good DM2.5bn.

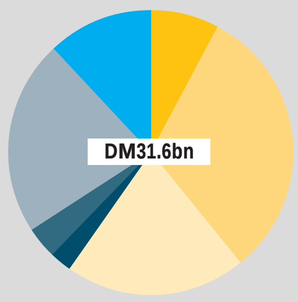
Satisfactory earnings from operative business
As regards the Group's earnings performance, the successful operations once again of our two mortgage banks and also of our asset-management companies should be mentioned. We are especially proud that in 1998, one year earlier than planned, comdirect bank managed to reach break-even point, producing an operating profit of DM4.5m.

In the Group as a whole, net interest income before provisioning was down by 8.2% to just over DM6bn. But after adjustment for the special items booked in both years, a small increase of 1.6% emerges. As the balance sheet grew by 19%, this is not a satisfactory result. However, it reflects our efforts steadily to improve the quality of our loan portfolio. This brings margins under pressure.

Stock of provisions reaches DM9.8bn
We again made generous provision for possible loan losses by allocating a net DM1,723m. Compared with the DM1,864m set aside a year earlier, the burden imposed was almost 8% lower. Once more, the need for provisions differed in national and international lending.

Liable funds

Commerzbank Group, end-1998



Despite the still difficult risk situation in Germany, we managed to reduce the need to provide for borrower risks on the domestic front. Through active loan portfolio management, we cut the burden on net income by 35% and improved risk structures. In our lending to German corporate customers, we followed up the good result of the preceding year and reduced provisioning by about 40%. The 12% decline registered in retail banking was more modest. All the same, despite new problems created by the reform of insolvency law, it is definitely proving possible to limit credit risks on a broad basis. Our mortgage subsidiaries were able to hold net provisions at their year-ago level.

Last year, once again, the shock waves which spread from Asia to other emerging markets set the tone for international lending risks. We took account of this development by selectively and systematically giving preference in our portfolio to low-risk business. Our approach to valuation is conservative and cautious and is geared to secondary-market prices. One emphasis in our provisioning was again on the Asian emerging economies (including China for the first time) and Russia.

Compensation fund

In connection with the debate on the claims of holocaust and forced labour victims, German business plans a compensation fund. We take a positive view of the fund's objectives. Commerzbank intends to participate once the open questions have been clarified, the legal position is secure, as all those involved have insisted, and individual claims have been settled.

Sizeable rise in commission income

Net commission income climbed by 14.7% to practically DM3.3bn. We continued to achieve strong expansion in securities transactions on behalf of our customers; at the same time, commissions from underwriting business and asset management were decidedly positive.

We can be very satisfied by the trading result of DM808m; here we achieved an increase of just over 43%. Dealing in foreign exchange and precious metals as well as dealing in interest-rate risks yielded higher results than in 1997, at DM619m. At DM189m, equities trading did not quite match its year-earlier result of DM249m.

Structure of provision for possible loan losses

Commerzbank Group, DM m	1996*	1997	1998
Germany	–1,705	–1,189	–772
Abroad	31	–596	–770
Global provision	–3	–79	–181
Total net provision	**–1,677**	**–1,864**	**–1,723**

* according to HGB

Parent Bank's shareholdings of over 5%: broad range of industries

Alno AG Pfullendorf	**29.4%**
Buderus AG Wetzlar	**10.0%**
Heidelberger Druckmaschinen AG Heidelberg	**9.9%**[1])
Linde AG Wiesbaden	**10.2%**
MAN AG Munich	**6.5%**[2])
Sachsenring Automobiltechnik AG Zwickau	**10.8%**[2])
Salamander AG Kornwestheim	**10.7%**
Thyssen AG Duisburg	**5.3%**[2])

1) held directly and indirectly
2) held indirectly
As of December 31, 1998

Our result on financial investments produced a surplus of DM1.08bn, as against DM486m a year previously. This includes the result on equity investments of DM789m, which was primarily achieved through the tax-free realization of hidden reserves in Luxembourg. In addition, the sale of our interest in Leonberger Bausparkasse generated a profit of DM133m. Our securities portfolio of financial investments produced earnings of DM292m.

Operating expenses reflect large investment for the future

Operating expenses amounted to practically DM7.1bn, 13.9% more than in 1997. However, the rate of increase became flatter in the course of the year and also fell short of our projections, as we reduced the pace of expansion somewhat, given the changed situation in the markets. Personnel costs rose by 8.5%, while other operating expenses advanced by 22.8% and depreciation on fixed assets was 18.6% higher.

At DM45m, the other operating result is positive; in particular, this includes income and expenses from leasing transactions. A year earlier, we registered a minus of DM153m here.

As the balance of all income and expense items, we show a pre-tax profit of DM2.4bn, 8.8% more than in the previous year. After taxes of DM583m and minority interests of DM97m have been deducted, a net profit for the year of DM1,744m remains for the payment of a dividend and allocation to reserves.

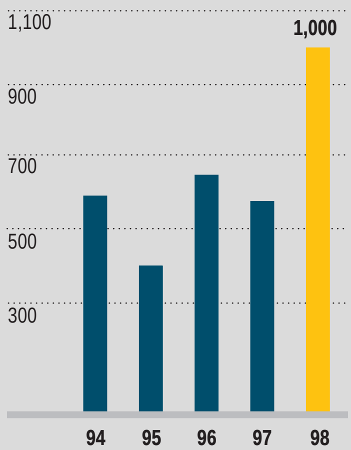
The regional breakdown of our operating result (see also p. 74) underlines the efforts which we have undertaken to broaden our European base. This becomes particularly clear if we consider operating expenses, which rose by a mere 10% in Germany compared with 60% abroad. The breakdown by division (see also p. 73) shows that we have come very close to realizing some of our strategic goals. All divisions are developing positively; above all, we were able to curb rising costs in Domestic Branch Banking. The surge of costs was strong, however, in Investment Banking. Yet since income expanded here, according to plan, the burden imposed was tolerable.

DM1.50 dividend per share

Despite many difficulties, we made progress in our operative business last year; but the good overall result is rather the outcome of special transactions, not necessarily repeatable. We therefore wish to propose to the Annual General Meeting that an unchanged dividend of DM1.50 (plus a tax credit of DM0.64 per share) be paid for each Commerzbank share. A record allocation of one billion D-marks is to be made to retained earnings. In this way, we will considerably add to the Bank's internal strength, not least in the interest of our shareholders.

Record allocation to reserves in 1998

Commerzbank Group, DM m



As from 1997, according to IAS

Group management and services

In the corporate division Group Management, all Commerzbank's central staff and management functions are concentrated. Here basic strategic decisions are worked out; here, too, corporate planning and risk control are situated. In addition, the division is responsible for coordinated corporate communication and a modern personnel policy. The corporate division Services provides information technology, payments transactions, back-up technology for securities business, and procurement, which are used by all sections of the Bank.

Board responsibility for Group Management is shared by (from left to right) Martin Kohlhaussen (Chairman), Erich Coenen, Klaus Müller-Gebel and Axel Frhr. v. Ruedorffer; Norbert Käsbeck is responsible for the division Services.

Group-wide risk control
Due not least to the expansion of our investment banking activities, we have further strengthened our central strategic risk management. In addition to taking measures to meet the regulatory requirements, we are focusing on the internal processing of information and on analyses to support trading. We have underlined the ever greater significance of risk control by setting up a special department, quite separate from the Bank's other controlling functions.

The risk control unit not only processes the risk figures and results of trading activities on a daily basis, but also provides the entire Group with information from the areas of asset/liability management and lending. The measurable market-price and credit risks are aggregated to form an overall risk position and set off against the Group's economic capital for covering risks.

For the daily measurement of market-price risks, especially those arising from proprietary trading, we apply modern value-at-risk models. The underlying statistical parameters are based on an observation period of the past 250 trading days, a one-day exposure and a confidence level of 97.5%. These models are constantly being refined.

On the basis of the risk figures, the Group manages the market-price risks for all its operative units by setting risk limits, primarily limits for the value at risk and stress scenarios, as well as stop-loss limits. These are worked out on the basis of both the risk cover available at Group level and the budgeted figures; they are then assigned to the operative units.

The risk position of the Group's trading portfolio at year-end shows the value-at-risk (VaR) and stress scenario figures, broken down by banking department. This breakdown corresponds to our own internal risk management and replaces the previous, exclusively product-related presentation. The values at risk show the losses which will not be exceeded, with the respective degrees of probability (95%, 97.5%, 99%). The stress-scenario figures indicate the potential extra loss on the basis of scenario analyses for different portfolios.

The analyses of credit risks and also the potential impact of crisis situations are reflected in both our overall portfolio management and the pricing and also profitability calculations.

Value at risk (VaR) of the trading portfolio

Commerzbank Group, DM m, as of Dec. 31, 1998

Portfolio	Holding period*)	VaR at confidence interval of			Capital for stress scenarios
		95%	97.5%	99%	
Global Bonds	10 days	20.11	26.48	38.46	64.52
Global Equities	10 days	41.15	49.18	58.46	36.81
Treasury	10 days	45.20	53.07	64.52	185.69
Group	10 days	90.90	116.45	144.89	287.02

*) pursuant to Principle I, KWG

In 1998, we added to and refined our model for working out the risks to the Group's overall loan portfolio. Parallel to this, we are currently implementing applications, among other things in order to be prepared for amendments to Principle I of the German Banking Act – KWG. In various national and international associations, we are involved in discussing both changes in the legal requirement as regards the equity backing for credit risks and – during the transition period – the introduction of mere modifications of the existing principle and the introduction of a standard model.

In the course of this year, we intend to go over to daily risk measurement using the VaR approach in some areas of lending. In addition, the risk-adjusted return on capital (RORAC) system is being extended.

Risk management for loan portfolio
The professional management of our credit risks is entrusted to the Credit Risk Management department. In addition to developing general lending principles and ensuring a positive credit culture, it also takes individual loan decisions, reflecting the Group's differentiated structure of loan approval powers. All banking products (loans, securities and derivatives) significant for the assessment of borrower risks are taken into account before a decision is made.

We believe we are well-positioned for the challenges of the European market: strong decentralized loan approval powers throughout the branch network at home and abroad shorten procedures and lead to quick decisions. We set ever greater store by a sector-oriented approach to processing applications.

In view of the international character of our business, country risks play an important role. The crises in East Asia and Russia, as well as the repercussions above all in South America, made great demands on the management of country risks. With our guideline system for credit exposure and with further selective steering measures, we influence the risk-oriented geographical distribution of our foreign loan portfolio.

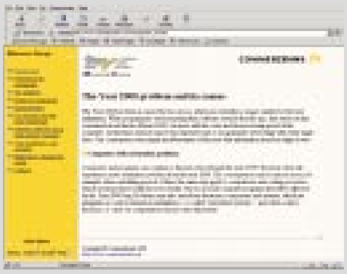
A separate section of Credit Risk Management monitors and steers the counterparty risks in our worldwide investment-banking activities. Here we have established a central risk-management system which, on the one hand, offers dealers real-time information on the global utilization of limits for all products, and, on the other, meets the regulatory and internal requirements on global risk measurement and monitoring. At the same time, we have refined the methods for quantifying risks, adapting them above all to the higher volatility of the markets.

Information technology faces great challenges
As at virtually all banks, one of the main activities in the IT area last year was to ensure that systems could cope with the euro as from January 1, 1999. Altogether, 112 systems had to be adjusted by year-end so that our customers could effect transactions in euros from day one onwards.

In view of the great importance of data processing in a modern bank like Commerzbank with worldwide activities, the elimination of Year 2000 risks in the IT area has the highest priority. For this reason, the Bank launched its Millennium Change project in the data-processing section as early as 1995 with the objective of cataloguing, analysing, converting and, last but not least, testing Commerzbank's hardware and software, operating systems, applications, and also its telecommunications equipment and networks.

At the same time, Commerzbank's structural and operational infrastructure has to be got ready for the year 2000 and prepared for risks, which may arise either through the Bank's own systems or from outside.

In order to cope with the tasks, Commerzbank has organized projects; seven individual projects are steered from a central office. The overall project covers all Group units in Germany and abroad and has a full-time staff of 300. For the Parent Bank alone, DM250m has been budgeted to cover costs.



Test of Year 2000-compliance

By end-1998, the Bank had completed the conversion of virtually all the systems vital to business. Extensive tests are to ensure that everything runs smoothly. For this purpose, separate test environments, quite independent of current business activities, have been set up enabling us to check whether applications will deliver correct results in the year 2000 as well. Commerzbank will also take part in tests planned by the Bundesbank and the stock exchange to examine the clearing systems for payments and securities, as well as participating in global clearing tests for payments systems. The tests will be completed by mid-1999.

In the area of infrastructure, all the critical installations have been covered and measures have been introduced to ensure Year 2000-compliance. Once the conversion work is over, extensive tests will be carried out – even for equipment whose compliance has been confirmed by the manufacturer – in order to demonstrate that the Bank's operational installations and technical systems will function.

For the purpose of analysing the risks arising from contact with clients, roughly 60,000 of Commerzbank’s business customers were sent a questionnaire at end-1998 that had been developed by the Association of German Banks. The replies that are received will be registered and analysed during the first quarter in order to react promptly to the risks that emerge.

Despite all the care taken in preparing for the millennium change, a residual risk will still remain. The Bank is therefore expanding its existing emergency plans considerably in the areas of information technology and infrastructure. Potential business risks are also being pinpointed and evaluated with the Bank's operative units.

Structure of the Commerzbank Group

Board of Managing Directors

The corporate divisions at head office

Group Management	Domestic Branch Banking	International Finance	Investment Banking	Group Services

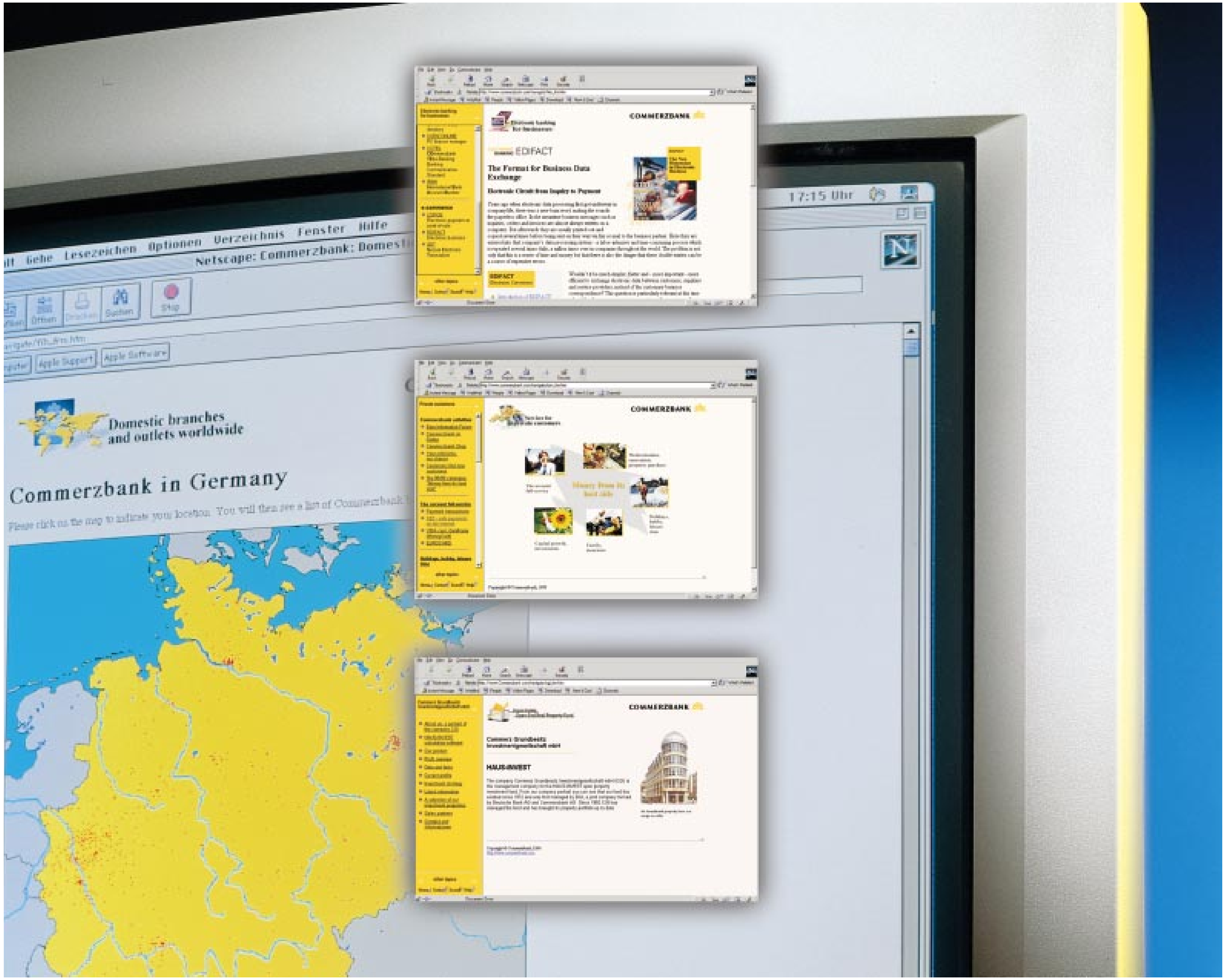
comprise the following banking, staff and service departments:

Accounting and Taxes Compliance and Security Corporate Communications and Economic Research Credit Risk Management Human Resources Internal Auditing Legal Services Risk Control Strategy and Controlling	Corporate Banking Private Banking Real Estate Organization	Corporate Finance International Bank Relations Relationship Management Human Resources International Finance/ Investment Banking	Asset Management Global Bonds Global Equities Treasury	Information Technology Global Operations

The corporate divisions include:

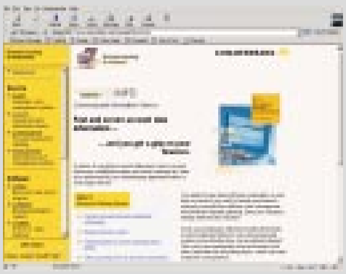
RHEINHYP Rheinische Hypothekenbank AG Hypothekenbank in Essen AG Bankhaus Bauer AG	20 main branches 155 regional branches 753 branches • comdirect bank GmbH Commerz Finanz-Management GmbH Commerz Service GmbH CommerzLeasing und Immobilien GmbH Commerz Grundbesitz-Investment-gesellschaft mbH • *Allfinanz* partners	Commercial banking activities at 21 foreign branches 30 representative offices Commerzbank (Budapest) Rt. Commerzbank (Eurasija) SAO Commerzbank International S.A. Commerzbank (Nederland) N.V. Commerzbank (South East Asia) Ltd. Bank Rozwoju Eksportu S.A. Banque Marocaine du Commerce Extérieur Korea Exchange Bank P.T. Bank Finconesia Unibanco – União de Bancos Brasileiros S.A.	ADIG Allgemeine Deutsche Investment-Gesellschaft mbH Commerzbank Investment Management GmbH ADIG-Investment Luxemburg S.A. Caisse Centrale de Réescompte Commerzbank Capital Markets Corporation Commerzbank Capital Markets (Eastern Europe) a.s. Commerzbank Europe (Ireland) Commerzbank (Switzerland) Ltd Commerz International Capital Management GmbH Commerz Securities (Japan) Co. Ltd. Hispano Commerzbank (Gibraltar) Ltd. Jupiter International Group PLC Martingale Asset Management, L.P. Montgomery Asset Management, LLC • Commerz Futures Corporation	

Domestic branch banking



The central topics in domestic branch banking last year were further improvements to the products and services offered by the Bank and also to our efficiency in processing transactions. Preparing for the euro was another priority. On the one hand, our customer advisers were called upon to work out what information and concrete action was needed; on the other, new business opportunities arose. The number of customers in Germany alone was raised by over 200,000. In all segments, we moved closer to achieving our targets. A year earlier than planned, comdirect bank reached the break-even point.

The board members Erich Coenen (from left to right), Dietrich-Kurt Frowein, Peter Gloystein, Kurt Hochheuser, Norbert Käsbeck and Klaus Müller-Gebel are in charge of the corporate division Domestic Branch Banking.



Focus on quality in domestic corporate lending
The systematic development of risk control in corporate customer business is proving an ever more worthwhile investment. Despite the persistently high level of insolvencies, our credit risks in Germany have been reduced considerably; at the same time, we have significantly improved the risk quality of our domestic portfolio.

Quite consciously, we have given quality preference over above-average growth in corporate lending. However, the low long-term interest rates have been used to a large extent to refinance existing credits. Our business was boosted by a target-group orientation in expanding our product range, more sophisticated customer-advice services and a modified approach to marketing.

The demand of smaller businesses and large corporations for individual financing solutions rose steadily. After thorough analysis, we work out off-balance-sheet and on-balance-sheet financing with recourse to government promotion schemes and derivative instruments.

Financial investments go European
Among short-term investment vehicles, staggered interest paid on current accounts and money-market funds were popular. For medium and long-term investments, we primarily added step-up callable bonds, and also reverse convertibles and index certificates. There is a growing interest in funds enabling investors to benefit from the opportunities afforded by the new European equity and bond markets.

International transaction management
We have pooled the electronic banking and foreign commercial business segments to form a powerful "Transaction Management" unit. We now offer an integrated approach to payments and cash management for Germany and abroad.

Through the cross-border and interbank Euro Cash-Pooling system, initially in eleven European countries, the advantages of decentralized account management are combined with centralized control over liquidity. We now provide foreign documentary L/C business as a service for quite a number of companies. Commerzbank has raised its market share of Germany's external trade for which it handles the financial side to 14%.

Electronic cash on the advance
We further extended our point-of-sale services involving payment by card; the number of transactions processed rose by over 60%. Recourse to our Edifact services also increased considerably, above all for cross-border transactions.

It is evident that large numbers of companies are using the launch of the euro to adjust their payments transactions to the new standard. We have reworked our products CyberCash and SET (Secure Electronic Transaction) for e-commerce on the internet, creating the basis for a safe handling of electronic transactions in line with the relevant legislation.

40 years of Baumgartner + Partner
In 1998, the Baumgartner + Partner group celebrated its 40th anniversary with exceptionally positive business performance. The company lifted its turnover by 30%, thus easily outpacing

market growth; its operating result doubled. The largest contribution was made by personnel consulting due to mounting demand for both managerial staff and personnel recruited with the help of job ads.

Through the introduction of the euro, the management consulting section was able to reach interesting new customers and helped Commerzbank clients prepare for monetary union. Expansion is to be maintained by recruiting experienced and practically oriented advisers.

New retail customers through guarantee of satisfaction

Our strategy of positioning Commerzbank in the market as the bank with initiative has produced a considerable increase in customers, as has the guarantee of customer satisfaction. The number of retail customers served by the branch network rose by 143,000 to about 3.5 million.

All by themselves, the 26 Commerzbank Shops, which have developed outstandingly well, are now looking after more than 25,000 customers. The positive response to this still new sales channel is confirmed not only by the higher number of customers but also by the findings of a customer survey. Shops are planned in further locations.

Euro InformationsForum

In order to help retail customers prepare for the euro, Commerzbank set up its Euro InformationsForum in 1998. Over 300,000 customers and non-customers have joined this forum and receive information at regular intervals on the new currency.

All in all, the changeover to the euro at the start of 1999 ran according to plan. The applications for accounts and products to be switched to the euro were dealt with, as agreed. However, in line with expectations, only a few retail customers wanted to have their accounts converted at the start of the year.

***Allfinanz:* successful system**

At just under DM2.8bn in 1998, we registered the largest amount of banking business passed on by Leonberger Bausparkasse and DBV-Winterthur since our cooperation began. At the same time, sales of life insurance policies (DM1.1bn) and home loan savings schemes (almost DM1bn) remained on a high level, despite difficult market conditions.

In future, within the framework of a broadly-based cooperation agreement with the Italian Assicurazioni Generali S.p.A. and its German subsidiaries, Commerzbank will be the sole exclusive partner in Germany of the AMB Group, which also includes the home loan savings association Badenia Bausparkasse.

TUI card with special services

On April 1, 1998, Commerzbank took over the TUI Card Portfolio with more than 200,000 cards issued. In cooperation with TUI, the European market leader in the tourism industry, we offer a broad palette of services in connection with the card. However, the TUI Card and TUI Card Gold are not only useful for holidays, but also as a Visa card for every day. Worldwide, the card is accepted for payments by over 14 million commercial partners of Visa.

Lively securities business
Despite a more difficult stock-exchange environment, we achieved another increase last year in our commission income from securities transactions on behalf of retail customers. We passed on a net DM3.6bn in savings to the ADIG investment funds. This was also encouraged by such innovative products as the combined equity and bond-based fund EuroExpert, the equity-based fund WeltVision, a European guaranteed fund and also the "Unverlierbar-Fonds" ("no-loss" fund), which was placed in the autumn.

In private asset management as well, we achieved encouraging expansion. Demand remained strong for investment vehicles permitting greater tax flexibility. Among the most successful products were the Sony media fund and that offered by the operators of the Leipzig district-heating network.

Private banking extended
Under the motto "The benefits of a large bank with private-banker style", we expanded our private banking services in 1998 for our top clients (DM2.5m and upwards of invested assets). In the meantime, we provide such services in a total of 20 locations in Germany. They are built around the all-inclusive advice on assets offered by the private banking financial planning of Commerz Finanz-Management (CFM).

CFM provides high net worth clients with neutral analyses of their financial situation. Its recommendations make it possible to optimize portfolios; in addition to securities and real property, they cover tax aspects, insurance matters and inheritance issues.

In 1998, CFM, as a market leader in private financial planning, developed services specially for business clients. There was a further increase in the number of employees with the internationally accepted status of Certified Financial Planner (CFP).

Stronger internet presence
Commerzbank's homebanking service on the internet is becoming increasingly popular. Every month, 5,000 of our customers opt for this modern form of communication. Last autumn, services were extended to include the buying and selling of securities and also credit card management. We employ the highest security standard in encoding the data. Further applications are being added to our homebanking package.

comdirect bank at break-even point
Our direct banking subsidiary in Quickborn, comdirect bank, built up a strong internet presence from an early point. In the meantime, 43% of its customers use the internet for their banking transactions. By 1998, the bank had already registered a positive result. The number of customers went up by more than 50% to over 165,000. The main business focus was on direct brokerage, for which more than 115,000 clients turn to comdirect bank. In this field, it is clearly the market leader in Germany.

A staff of 600 and modern telecommunications equipment guarantee the high quality of the services offered by the company, which was placed first among direct banks by the readers of the German financial magazine *Börse Online*.

Strong growth at CommerzLeasing

The Real Estate banking department comprises CommerzLeasing und Immobilien GmbH (CLI), Düsseldorf, and Commerz Grundbesitz-Investmentgesellschaft mbH (CGI), Wiesbaden. The variety and quality of the products offered by CLI have been a major factor behind the above-average expansion in leasing investment. Apart from the well-established contract models for moveable goods and real property, it was leasing funds and international leasing structures which mainly attracted investors. Among other things, for example, ship-operator funds and a film-production fund with a US partner were realized.

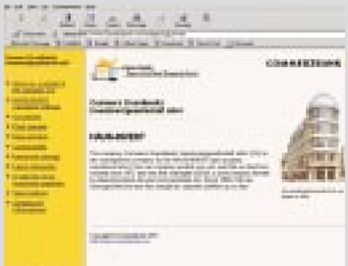
The CLI group registered new business of DM4.1bn; of this amount, real estate accounted for DM3.2bn and moveable goods DM650m. BRE Leasing, which belongs to the CLI group, contributed a further DM260m, making it Poland's market leader. In the area of closed-end funds, CFB Commerz Fonds Beteiligungsgesellschaft mbH was able to place equity capital of DM1.1bn (+25%). Due to dynamic growth, CLI's total assets under management had climbed to around DM29bn by year-end.

The improved outlook for the property market and the changed tax environment have provided CLI with incentives to concentrate even more in the future on real property in first-class locations at home and abroad. As part of the efforts to provide services covering all aspects of real estate, the subsidiary COBRA Projekt- und Objektmanagement GmbH was set up, which will make available to clients as well the special know-how acquired while managing the Commerzbank tower project in Frankfurt.

Haus-Invest adds to its European real-estate portfolio

The open-ended property fund Haus-Invest administered by CGI achieved gross sales of DM1.32bn in 1998; the assets it manages expanded to DM7.9bn, giving Haus-Invest a market share of 9.4%. The number of customers increased to 215,000. All told, the fund's real-estate assets comprised 93 properties with a value of roughly DM6.7bn at end-1998.

Almost exclusively, new investments were made outside Germany – above all in the Netherlands and, for the first time, in France. With the share of foreign properties now up to 59%, Haus-Invest has become a truly European investment.



International finance

All of Commerzbank's foreign commercial banking and corporate finance activities are covered by this corporate division. In the International Bank Relations department, our worldwide correspondent banking links are managed. The notably expanded Corporate Finance department places its expertise at the disposal of all the Bank's outlets at home and abroad. Our Relationship Management forms a bridge between commercial and investment banking; primarily, it looks after internationally active major clients.

At board level, International Finance is managed by (from left to right) Axel Frhr. v. Ruedorffer, Dietrich-Kurt Frowein, Jürgen Lemmer (standing), Klaus M. Patig and Klaus Peter Müller (seated).

Stronger international presence
Commerzbank has traditionally enjoyed a good position in business transactions with international banks. Thanks to a closely meshed network of correspondent banks and accounts, which has been extended in recent years to include above all banks from Central and Eastern Europe, we can offer our customers a full range of services worldwide for handling their transactions. With banks alone, we have mounted more than 1,000 euro presentations, outlining the extra euro-clearing and payments services which we offer.

We further developed our presence abroad last year. With its subsidiaries included, Commerzbank has more than 60 outlets in 45 countries. At the same time, we hold interests in a series of foreign banks and are represented on their management boards.

In order to improve our position in Asia, we signed an agreement for close business cooperation with Korea Exchange Bank, underpinning it by a Commerzbank equity stake of just under 30%. With total assets equivalent to roughly DM100bn, KEB is one of South Korea's foremost banks.

In Central and Eastern Europe, we have had representative offices in Bucharest and Zagreb as well since last year. Our Prague branch, which has opened an outlet of its own in Brno, maintained its position as the largest foreign bank in the Czech Republic. Our subsidiary Commerzbank (Budapest) Rt. is one of Hungary's most prominent foreign banks. In Poland, we hold a 48.7% interest in Bank Rozwoju Eksportu (BRE); cooperation continues to be highly positive. BRE is a universal bank which is a market leader in Poland in its core activities, corporate and investment banking. In addition to banking, it is also active in leasing, factoring and investment fund business.

Commerzbank was one of the first foreign banks to build up a network of outlets in the successor states to the former Soviet Union. The most recent development was the opening of a representative office in Tashkent last May.

Early this February, Commerzbank (Eurasija) SAO in Moscow was granted a general licence to conduct banking business in Russia and other countries. Despite the financial and economic crisis, we see Russia as a strategically important market in the long term.

Now operational in Italy as well
Last August, our Milan branch began operations. It is concentrating on structured finance, syndicated loans, foreign commercial business, export finance and maintaining contact with local banks and state institutions.

In Luxembourg, Commerzbank International S.A. (CISAL) continues to be involved in all the standard trading and credit transactions of the international markets; at the same time, it looks after private clients from all over the world. Earnings performance was satisfactory in all business segments. From its distributable profit of DM975m, DM850m has been transferred as an advance dividend to the Parent Bank and DM125m has been allocated to reserves. In connection with the expansion of the investment portfolio, we raised CISAL's equity by DM800m.

With lending to customers brisk, Commerzbank (Nederland) N.V. registered strong growth. Its balance-sheet total expanded by over a fifth to Dfl7.1bn. Its net income of Dfl19.2m is being allocated to reserves.

Our subsidiary in Singapore, Commerzbank (South East Asia) Ltd., is feeling the impact of the Asian crisis in its private customer business as well. After providing adequately for all discernible risks, it was obliged to show a loss of S$363m for 1998.

New product areas in corporate finance

In 1998, we enhanced our corporate finance product range. Business prospects in the new areas of mergers & acquisitions, asset securitization, structured acquisition finance and structured tax products already seem promising.

In syndicated loan business, we reinforced our solid market position. The regional focus was once again on Western Europe and North America, but in Germany too a stronger trend towards syndicated deals has emerged. Liquidity in the international credit market has fallen perceptibly, mainly due to the withdrawal of Japanese banks. This, combined with a greater willingness on the part of many banks to reject deals with inadequate spreads, has stopped the trend in recent years towards shrinking margins.

Demand for medium and long-term export finance was fairly muted on account of the emerging-markets crisis. By contrast, international ship financing continued to develop positively. We remained on an expansion course in the financing of aircraft. All told, we now provide more than 50 international airlines with long-term finance for all current types of large-capacity aircraft.

In the new mergers & acquisitions area, a team of experienced advisers is available to help smaller enterprises with takeovers, mergers and disposals. Demand for this service is encouragingly strong.

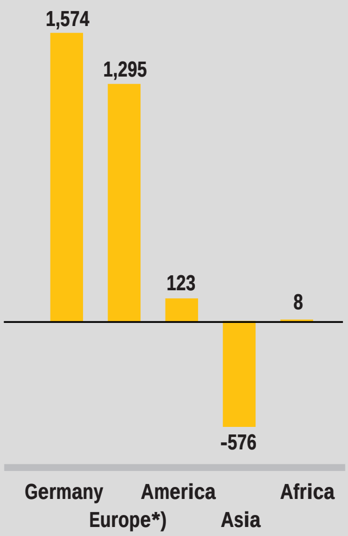
The structured tax products team, also newly formed, possesses the relevant experience in advising smaller businesses, especially as regards restructuring and problems of succession in management.

In conjunction with institutional investors, investment banks and cooperation partners, the group selling structured acquisition finance products is to develop specially tailored solutions for clients by combining various financial instruments.

Last but not least, the asset securitization group was established in 1998. It is responsible for both the asset-backed transactions of our clients and for hedging or securitizing some of Commerzbank's risks. Here two transactions for our Bank with a volume of about DM8bn deserve special mention.

Breakdown of pre-tax profit, by region, 1998

Commerzbank Group, DM m



*) excl. Germany

Commerzbank worldwide

1	■	Copenhagen
2	▲	Dublin
3	▲	Amsterdam
4	●▲	London
5	●	Antwerp
6	●■▲	Brussels
7	■	St. Petersburg
8	▲■	Moscow
9	■	Minsk
10	■	Kiev
11	■▲	Warsaw
12	●▲	Prague
13	●	Brno
14	■	Bratislava
15	▲	Budapest
16	■	Bucharest
17	■	Zagreb
18	▲	Luxembourg
19	●▲	Paris
20	▲	Zurich
21	▲	Geneva
22	●	Milan
23	■	Istanbul
24	●	Barcelona
25	●	Madrid
26	▲	Gibraltar

● Foreign branches
■ Representative offices
▲ Major foreign holdings

Investment banking

Our Investment Banking division, which includes besides Asset Management the departments Global Bonds, Global Equities and Treasury, pursues a distinctly customer-oriented approach, with the exception of our proprietary-trading activities. We consider that the – in part – very modern products logically complement and round off our broad palette of traditional banking services. Last year, we notably strengthened our position in this highly competitive, global growth market, acquiring a good reputation for ourselves in a number of areas.

Responsibility for the corporate division Investment Banking is shared by the board members (from left to right) Klaus M. Patig, Jürgen Lemmer and Dietrich-Kurt Frowein.

Further expansion in trading departments

Once again, our efforts focused on developing our international equities business. Within an extremely short time, we have built up a virtually complete structure here – from research via new issues, trading, marketing and derivatives to risk management. The area is fully integrated into the Parent Bank. Last year, we substantially increased its staff in the centres Frankfurt and London, and to a lesser extent in New York and Tokyo as well, raising their number by 413 to 582. For the current year, the recruitment of another 120 people is planned. Even in 1999, we expect equities business to achieve considerable expansion in customer transactions and to make a substantial contribution to results.

Our innovations such as share buyback programmes using the so-called reverse bookbuilding method – first practised for the companies Kögel Fahrzeugwerke and Krones – and hybrid investment products like reverse convertible bonds met with a lively response. Commerzbank has become the market leader in Germany for reverse convertibles with an issue volume of about DM2.5bn in the meantime.

In Global Bonds as well, the development of our international organization progressed rapidly. The most important project in 1998 was to bring together derivative and underlying transactions. Regionally, we concentrated on Euroland and selected Central and Eastern European markets. For instance, we took complete control over bond operations in Prague, which had previously been run as a joint venture, and transferred them to Commerzbank Capital Markets (Eastern Europe). This unit has built up good contacts in Hungary and Poland. In terms of products, we focused on our strengths such as new issues, swaps, *Pfandbriefe* and innovative bond forms. It is our goal to become one of the leading European houses in these areas.

Due to the sharp rise in risk premiums for some issuers from crisis regions, the environment for international bond business was difficult in 1998. All the same, Commerzbank was very active in new issues. We lead-managed altogether 202 bond offerings equivalent to US$25.7bn, thus claiming 14th place in the international list of banks. For DM-denominated issues, we ranked fourth. One highlight of the year, where we were able to play an important role, was the successful DM5bn global *Pfandbrief* of DePfa-Bank. The bond issue for the Republic of Slovakia which we launched was voted Eastern European Bond of the Year. 15 management positions for US dollar offerings show that we are also continuing to make progress with diversification by currency. In the meantime, we are concentrating on the euro, which right from the outset was able to compete with the dollar as an issuing currency.

Treasury successful

The Treasury department can look back on a highly successful year. In our money-market activities in particular, including derivatives transactions and asset/liability management, we benefited because our expectation of a further decline in money-market rates proved correct and we achieved substantial earnings. A key feature of our current business was the use of derivatives to manage our interest-rate position, and we increased capacity accordingly. In some segments, especially forward rate agreements in Swiss francs or short-dated swaps in Germany and Switzerland, we occupy a leading position.

Lively foreign-exchange trading

Our foreign-exchange trading also raised its earnings substantially. On the one hand, the high level of volatility in the wake of the emerging-markets crisis presented extra opportunities; on the other, we managed to reduce our exposure in the most endangered countries in good time. The tendency for our customers to turn to currency options became even stronger, particularly at the European level. In notes and coin business, we now have a leading position and see more potential for expansion, not least in connection with the introduction of the euro.

Commerz Futures Corp. continued its positive development and is now one of the 40 largest clearing institutions.

Earnings-oriented growth in asset management

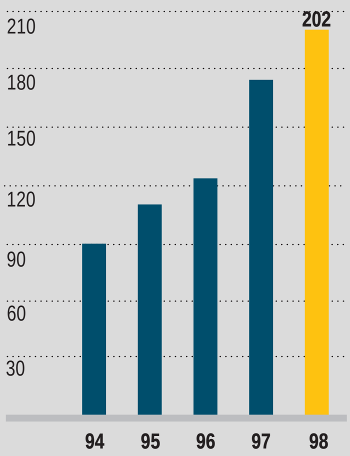
The Asset Management department remains on an expansion course. With an annual growth rate of 23% since 1993 for the assets under management, above-average profit growth and a cost/income ratio of under 50%, Commerzbank holds a good position nationally and internationally in this area. At end-1998, we had DM202bn under management. With 25 units in 13 countries and a staff of 1,550, we are prominently represented in all important markets. We systematically pressed ahead with the task of networking all our subsidiaries. By assigning responsibility to regional centres and developing a strong client orientation in selling products, we are responding to our customers' mounting requirements. The inclusion of all operative asset-management units in a single department has provided us with a central control instrument which enables our subsidiaries to act independently in the market. Our earnings-oriented growth strategy is supported by both a closer focus on high-margin publicly-offered investment funds business with private and institutional clients and the constant raising of the proportion of equities in our funds.

At the end of last year, Commerzbank Investment Management GmbH was managing 360 funds with a volume of DM52.3bn; this represented an increase of more than a third on end-1997. About DM6bn went into 70 new non-publicly-offered funds, while existing portfolios expanded by DM3.5bn. The development of Commerzinvest-Anlagefonds, in which institutional investors can invest amounts of DM500,000 and upwards, was particularly encouraging. These funds now total DM2bn. For 1999 as well, Commerzinvest expects high inflows for all types of funds from its predominantly German institutional clients.

Commerz International Capital Management GmbH (CICM), which was looking after more than DM15bn at year-end for international institutional investors, was granted a licence early in 1998 to sell publicly-offered funds in Japan; it immediately established marketing agreements with Japanese brokers and banks. Within a very short time, the new equity-based fund "Euroland" had attracted inflows of DM200m. In the Middle East, CICM is working together with a group of Saudi investors on a *sharia* scheme, tailored to the special wishes of clients from the region. In Europe, CICM is continuing to focus on countries with funded pension systems.

Assets under management

Commerzbank Group, DM bn



Allgemeine Deutsche Investment-Gesellschaft mbH (ADIG) and ADIG-Investment Luxemburg S.A. (A.L.S.A.), in which Commerzbank holds sizeable stakes, were managing assets of DM58bn at end-1998. Outstanding sales figures were achieved for the two new funds EuroExpert and WeltVision. Apart from building up its strength in the European market, ADIG moved quickly to introduce special funds for retirement as a new product, thereby successfully positioning itself in the area of private provision for old age. Following agreement with Hypo-Vereinsbank in February 1999 that Commerzbank will take over a majority shareholding (85.4%) in ADIG, we intend to develop the ADIG brand name considerably and transfer to the company responsibility for our European publicly-offered fund business.

The asset management provided for individual clients under the product names Cobas, Compact and Individuelle Vermögensverwaltung experienced strong growth and encouraging performance in 1998. Thanks to individually devised plans, a significant number of major clients have now opted for our global asset-management services.

In the United Kingdom, Jupiter International Group strengthened its market position further in publicly-offered funds, whose assets rose 61% to £2.4bn. Overall, the assets managed expanded by 22% to £8.3bn. For the second year in a row, Jupiter was the UK's most successful seller of publicly-offered funds.

Our US subsidiary Montgomery Asset Management in San Francisco was not able to shrug off the emerging-markets crisis entirely. In order to improve efficiency, the company has pooled its domestic marketing activities with Martingale Asset Management in Boston. Once again, Montgomery was very successful in acquiring institutional investors. At year-end, US$9.3bn was under management, with fund products accounting for roughly half of this amount.

Caisse Centrale de Réescompte in Paris raised the assets it manages by 18.5% to DM14.2bn last year. In addition to money-market funds, it mainly focused on selling a new range of equity products and developing closer contacts with independent asset managers in France.

As an institution specializing in portfolio management and investment advice for international private customers, Commerzbank (Switzerland) Ltd again improved upon its good year-earlier results as regards its net commission and interest income and also its trading result. Its net profit rose by a good half to Sfr42m.

Business progress 1968–1998*

Commerzbank Group

	Business volume	Total lending	Customers' deposits	Taxes paid	Allocation to reserves from profit	Equity	Total amount of dividend paid	Staff[1])	Offices
	DM bn	DM bn	DM bn	DM m	DM m	DM m	DM m		
1968	16.7	10.6	12.9	64.9	31.5	676	46.8	14,689	691
1973	40.0	26.4	21.7	76.7	18.0	1,284	79.6	18,187	826
1978	88.6	57.6	39.2	247.3	99.5	2,370	123.4	20,982	875
1984	125.0	90.3	51.9	275.4	152.3	3,143	101.2	22,801	882
1985	139.6	94.4	54.8	321.6	175.0	3,435	142.0	24,154	882
1986	150.7	102.7	59.2	330.6	156.9	4,483	186.8	25,653	881
1987	163.9	109.0	65.6	328.5	175.6	4,653	187.2	26,640	882
1988	182.4	120.6	73.9	376.3	235.0	5,222	203.5	27,320	888
1989	193.8	126.5	85.0	493.7	281.0	5,867	225.5	27,631	897
1990	217.9	146.5	98.7	482.5	219.8	6,371	257.3	27,275	956
1991	229.0	157.9	111.8	541.0	234.9	6,689	258.2	28,226	973
1992	235.4	166.3	120.4	554.2	408.7	7,197	262.0	28,722	998
1993	287.8	181.3	133.3	607.9	281.5	8,273	345.8	28,241	1,006
1994	344.5	220.4	134.6	654.3	600.0	10,534	452.1	28,706	1,027
1995	407.0	260.3	143.2	214.0	400.0	12,316	519.8	29,615	1,060
1996	451.0	309.5	161.9	581.0	650.0	13,513	540.3	29,334	1,045
1997	539.9	362.5	182.5	956.8	577.9	17,143	673.1	30,446	1,044
1998	**640.4**	**405.9**	**183.0**	**583.1**	**1,000.0**	**19,675**	**744.2**	**32,470**	**1,052**

* as from 1992 following new accounting principles, as from 1997, according to IAS; 1) as from 1997, actual number employed.

Staff and welfare report

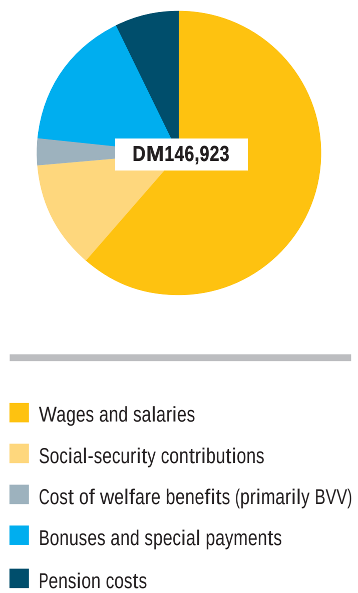
The Commerzbank Group's overall workforce increased by 6.6% to 32,470 last year, the rise being the outcome of contrasting trends. In investment banking and information technology, we created about 1,500 new jobs. On the other hand, due to market-induced changes in our organizational structures and improved work patterns, we reduced the number of jobs in some fields, above all in our domestic branch network.

Our personnel expenditure rose by 8.5% to DM4.04bn in 1998, reflecting not only the second stage of the increase in collectively negotiated salaries in December 1997, but also the recruitment of many highly-qualified specialists in Germany and abroad.

Our activities in the personnel field last year were basically geared to helping all our corporate divisions realize their strategic goals. By making our personnel work more efficient and by using innovative ideas and instruments in personnel management, we devoted all our energies to this purpose.

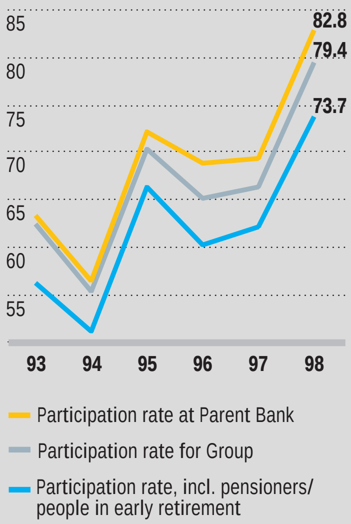
Average personnel costs within Group

per employee



Share offers to employees

Participation rate in %



As part of last year's offer of shares to our staff at a preferential price, employees were able to benefit from our strong operating result in 1997 in the form of bonus shares. The attractive offer led to the liveliest participation since we first issued shares to our staff in 1965. Practically 29,800 employees – 73.7% of those entitled – bought roughly 1.6m shares. As a result, they hold about 2% of Commerzbank AG's equity.

Facing global competition

In view of the expansion in investment banking, we have focused more strongly on recruiting internationally-oriented specialists for our Bank. Apart from sound expert knowledge, we mainly require of employees creativity, mobility and cultural flexibility. With this new generation of bankers, we will be well equipped for the markets of the future.

Further training for managers

The Bank's ability to compete crucially depends upon improving the management skills and quality of its staff. Last year as well, therefore, the targeted support and development of our staff and managerial personnel represented a focal point of our personnel activities. By assessing potential, judging performance and setting goals, we select candidates whose suitability as managers is subsequently ascertained using the methods of management diagnosis. In addition to the management circles already successfully established in Germany, which are now open to employees from abroad as well, we laid the foundation stone last year for an internationally oriented management circle.

More flexible working times

In an attempt to realize more flexible and hence more economical arrangements for working times, we are giving our employees a choice between a variety of models, ranging from variable working hours, part-time working and working from home to special part-time pre-retirement schemes for older staff. Above all, we have increased the number of part-time jobs at all qualification levels. The ratio of part-time jobs within the Group was raised to just under 14%. Following successful tests, we began last year to offer our staff the chance to work from home, a form of employment that we wish to encourage further. The new approach to working times brings with it benefits for our customers while also allowing our employees – wherever feasible – scope to decide for themselves in organizing their time schedules.

Promoting internal suggestions scheme

The innovative and creative ideas of our employees are a factor in the success of the Bank. For this reason, we have restructured our internal suggestions scheme under the name COMIDEE. Thanks to a simplified system and greater transparency, there is now stronger staff participation than in the past. COMIDEE is thus making an important contribution towards simplifying work processes and encouraging employees to identify with the company.

Extending variable compensation

With the support of the employee representatives, we have developed our result and performance-oriented system of variable compensation further by introducing the idea of jointly agreed targets. What is more, the system of remuneration has been geared more closely to the Bank's planning variables (turnover, cost/income ratio and return on capital). Through its new system of compensation, Commerzbank is now directly promoting the attainment of corporate goals. In the future, the Bank's managerial staff will participate in its success via the so-called phantom stock option model, if the Commerzbank share outperforms the Euro Stoxx index for banks over the next three years.

Data on Commerzbank's personnel*)

	1997	1998	Change in %
Total staff (Group)[1)]	**30,446**	**32,470**	**6.6**
Permanent staff (Group)[2)]	**26,971**	**28,967**	**7.4**
Total staff (Parent Bank)[1)]	**26,740**	**28,083**	**5.0**
– incl.: based abroad	1,437	1,894	31.8
– incl.: apprentices	1,594	1,587	-0.4
Permanent staff (Parent Bank)[2)]	**23,423**	**24,695**	**5.4**
Ratio of apprentices to permanent staff[3)]	**6.0%**	**6.1%**	
Years of service			
– more than 10	48.5%	47.3%	
– more than 20	21.5%	21.2%	
Staff turnover[4)]	**4.7%**	**5.1%**	
Total pensioners and surviving dependents	**8,484**	**8,823**	**4.0**
– incl.: those retiring during the year	404	451	11.6
– incl.: those entering early retirement during the year	529	212	-59.9
Older staff on part-time scheme	44	187	.

*) actual number employed; 1) incl. cleaning and kitchen personnel, excluding staff on maternity leave and long-term sick; 2) employees excl. apprentices, junior executive staff, temporary staff, volunteers, cleaning and kitchen personnel, staff on maternity leave, long-term sick; 3) annual average; 4) due to staff giving notice.

Modernizing old-age provision

Last year, a new "contribution-oriented system of old-age benefits" entered into force for those who have joined the Bank since January 1, 1995. The scale of such benefits will no longer be determined by the final salary, as it had been previously. Rather, for every year of service, employees will be credited with a benefit component in the following year, based on a definition of their salary for contribution purposes. In this way, our staff are able to assess at all times what benefits the Bank will provide and are therefore in a better position to decide what measures of their own may be necessary. For the Bank, it becomes easier to calculate and control the costs of such benefits, not least given the lower level for these that now applies in some areas.

Forward-looking approach to cooperation

Cooperation with employee representatives and the senior staff spokesmen's committee on all important personnel-policy and organizational issues is especially significant at times when the markets are undergoing great changes. Last year, we concluded a number of forward-looking internal agreements with employee representatives.

We wish to take this opportunity to thank all employee representatives, the senior staff spokesmen's committee, and also representatives of the Bank's younger personnel and the physically disabled. We hope that, in the fields in which we have not yet managed to achieve the constructive cooperation based on mutual trust that we seek, marked progress can be achieved in the current year. We should like to thank all our active staff, as well as those who retired in the course of the past year, for the efforts they put in and for their high degree of commitment which enabled them to make a major contribution to the Bank's success.

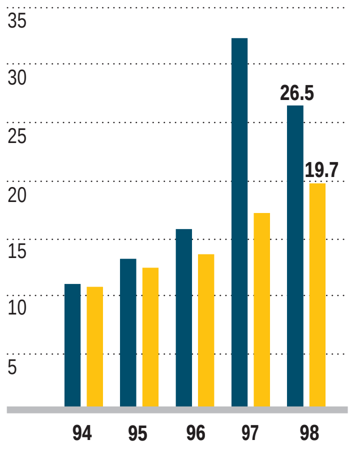
Our share, strategy and outlook

At this year's Annual General Meeting, Commerzbank is requesting shareholders' approval to enable it to manage its equity in an even more flexible and earnings-oriented manner. In addition to authorization to increase equity by the issue of new shares or of either convertible bonds or bonds with warrants attached, we want to have the possibility for the first time of buying back our own shares.

With this measure made possible by German legislation for control and transparency in the corporate sector, we are increasing our scope for action in pursuit of our goal of a 15% after-tax return on equity. We require approval for capital increases because, in order to reinforce and expand our national and international presence, we also include acquisitions in our strategic plans for the future.

Equity and market capitalization

Commerzbank Group, DM bn



Market capitalization

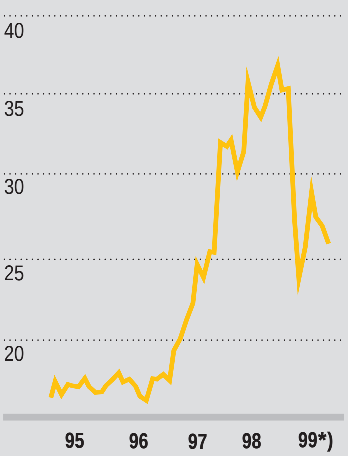
Equity (as from 1997, according to IAS)

Key Commerzbank dates in 1999/2000

May 21, 1999, 10.30 a.m.	AGM, Jahrhunderthalle Frankfurt am Main-Höchst
May 25, 1999	Dividend payment
End-July/early August 1999	Interim report as of June 30, 1999
November 10, 1999	Interim report as of September 30, 1999
November 12, 1999	DVFA analysts' conference, Frankfurt am Main
May 26, 2000	AGM, Jahrhunderthalle Frankfurt am Main-Höchst

Performance of the Commerzbank share

Month-end figures, in euro



*) January and February

Greater transparency through IAS

By preparing our consolidated financial statements according to IAS for the first time, we are meeting the understandable wish of our shareholders for more transparency. Since the introduction of the euro, institutional investors in particular are adopting a more international investment strategy and are benefiting from the use of the globally recognized accounting standard.

Our efforts to focus more strongly on private investors as a target group were acknowledged in the form of an award for the best investor relations work of all German banks. In mid-1998, the financial magazine *Capital* conducted a survey of analysts as well as institutional and private investors. We see this vote as recognition of our frank and comprehensive information policy. As in 1998, we will communicate with a broad circle of investors at special shareholder fairs and conferences this year as well in order to establish ties with even more shareholders.

Development of turnover...

In 1998, too, the Commerzbank share was one of the most liquid German equities. In terms of turnover, it ranked fourteenth among DAX shares. With turnover of DM34.2bn, it accounted for 2.4% of the overall transactions in German equities.

In view of the ever greater concentration in the international financial markets, we have focused on London and Switzerland as far as European quotations of our share are concerned. Outside Europe, our share is traded in Tokyo, and also New York in the form of sponsored American Depositary Receipts (ADRs). Roughly 90% of all the turnover in Commerzbank shares occurs on German stock exchanges, with the remainder basically accounted for by London.

Commerzbank's shareholder structure has altered through the new cooperation with the Italian Assicurazioni Generali, which is now being underpinned by a cross-shareholding. At end-December, the Generali Group held just over 5% of our equity, our Spanish partner Banco Central Hispanoamericano 3.1%, and the two Italian banks Mediobanca and Banca Commerciale Italiana together almost 2%. This means that roughly 10% of Commerzbank's capital is held as a permanent investment. Another 2% or so is in the hands of our employees.

...and price performance

Investors tended to neglect bank shares in 1998. In the first quarter, it was upsets in the Asian markets which depressed prices; from mid-year onwards, financials were hit by the financial crises in Russia and Latin America. The problems besetting the LTCM hedge fund triggered further price falls.

Even though these events left Commerzbank relatively unscathed, the stock market failed to differentiate between bank shares. Last year, the price of our share fell by 23.6%, while the index for banks declined by 10%. It should be borne in mind, though, that in the year before our share price had performed exceptionally well, surging by 81.3%.

At the time, the Commerzbank share was at the focal point of takeover speculation, which pushed its price up to a record high at end-1997. Its performance suffered as a result of this basis effect throughout 1998 as a whole. We believe that the strength of our earnings performance and the strategic decisions which we have taken will lead to a more encouraging development of our share price in the future, justifying a consistently higher price level.

Our goals: higher efficiency and cost reductions

By implementing a series of measures, we intend to expand our market presence and become more productive. Among other things, we have launched a project to achieve lasting improvement in the earnings of Domestic Branch Banking. At DM7.2bn, this division ties up the largest amount of equity. With stronger sales support from head office, many banking services are to be offered at lower cost in the future.

What is more, we plan to target customers better, using a clearly-structured product range. Measures to equip our branches with the latest technology will be completed by the second half of this year. By then we will also have created the basis for employing new technological applications such as the internet and intranet. At the same time, work flows in domestic lending business and the methods used there are to be optimized. Our goal is to grant and process loans more rapidly, while maintaining a diligent examination of creditworthiness.

We have also commissioned our Group Management division to perform an overhead value analysis. According to our projections, the costs here can be reduced by at least 5% per year.

The expansion of our Global Bonds and Global Equities departments will probably be completed this year. Parallel to this, the cooperation between these Investment Banking units and our staff and service departments is being improved. This should boost efficiency considerably. Now that we have taken over ADIG, we also want to step up substantially our sales efforts in global asset management. In this area, further acquisitions may go hand in hand with internal growth.

In the International Finance division as well, priority goes to integrating new outlets and reinforcing the cooperation with our foreign affiliates. Cooperation with Korea Exchange Bank, in which we acquired a sizeable interest in mid-1998, has begun on a promising note.

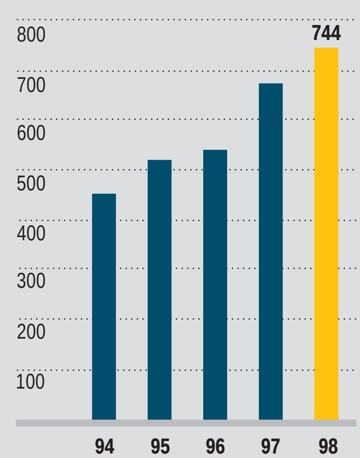
A confident and assured approach to the new century

Developments in the first few months have made us confident that we can improve our operative earnings in the current year.

As we are concentrating on prime-quality borrowers and our emerging-markets activities are limited in scope, we do not expect a marked increase in our net interest income. However, we do expect another reduction in our risk provisioning. As a result, our net interest income after provisioning could well be much higher.

Further increase in total dividend payout 1998

Parent Bank, DM m



Our net commission income should register another double-digit growth rate. The progress we make in investment banking will release new sources of income. Without taking account of the proceeds from the disposal of blocks of shares, which cannot be foreseen, our business plans project distinct rises in our trading and financial-investment results for this year. However, given the special burden imposed in the IT area by the Year 2000 project, for instance, a further climb in operating costs is inevitable. It should be less than in 1998, though.

We are determined to adhere to our ambitious medium-term targets for our return on equity, cost/income ratio and core capital ratio. Nevertheless, the continuing international economic and financial crises, the very high extra expense caused by the major IT projects and the persistently low level of interest rates will all make it difficult to achieve the return on equity target on a sustainable basis.

European visions

In strategic terms, we are determined to remain a major, independent universal bank with an international orientation. The mergers between various European banks, which have been announced in recent months, have not created a new situation for us as they are part of the consolidation of national banking systems and cannot be compared with the situation in Germany. By contrast, we continue to be very positively disposed towards the idea of a large, cross-border association of independent financial institutions in response to the rapid pace of European integration. Here, new partners from countries not yet represented could become part of our already existing close relationships in Austria, Italy and Spain. The business prospects for such a grouping are extremely promising. Time will tell which plans can actually be realized.

Key data

	1997	**1998**
Earnings per share 1)	1.43 e	1.80 e
Dividend paid per share	0.77 e	0.77 e
Tax credit in addition to cash dividend	0.33 e	0.33 e
Equity per share 2)	18.89 e	20.28 e
Share price at year-end	35.79 e	27.35 e
Number of dividend-bearing shares	448.71 million	496.11 million
Core capital ratio according to BIS	5.9%	6.3%
Equity capital ratio according to BIS	9.5%	8.7%
Return on equity 3)	8.9%	10.4%

1) based on dividend-bearing shares; 2) equity at year-end (based on shares outstanding); 3) calculated on monthly basis.

Financial statements in accordance with the International Accounting Standards (IAS) for the Commerzbank Group as of December 31, 1998

Commerzbank's consolidated income statement

	Notes	1.1.-31.12.1998 DM m	1.1.-31.12.1997 DM m	Change in %
Interest received		31,071	28,507	9.0
Interest paid		25,061	21,957	14.1
Net interest income	(1)	6,010	6,550	–8.2
Provisions for possible loan losses	(2)	–1,723	–1,864	–7.6
Net interest income after provisioning		4,287	4,686	–8.5
Commissions received		3,467	3,095	12.0
Commissions paid		200	246	–18.7
Net commission income	(3)	3,267	2,849	14.7
Trading result	(4)	808	564	43.3
Result on financial investments	(5)	1,081	486	–
Operating expenses	(6)	7,064	6,204	13.9
Other operating result	(7)	45	–153	–
Profit from ordinary activities		**2,424**	**2,228**	**8.8**
Extraordinary result		–	–	–
Pre-tax profit		**2,424**	**2,228**	**8.8**
Taxes on income	(8)	583	957	–39.1
After-tax profit		**1,841**	**1,271**	**44.8**
Profit/loss attributable to minority interests		–97	–20	–
Net profit		**1,744**	**1,251**	**39.4**

Appropriation of profit	1998 DM m	1997 DM m	Change in %
Net profit	1,744	1,251	39.4
Allocation to retained earnings	1,000	578	73.0
Consolidated profit	**744**	**673**	**10.5**

Earnings per share

Basic earnings per share

	31.12.1998	31.12.1997
Net profit (DM m)	1,744	1,251
Average number of ordinary shares outstanding (units)	468,091,913	422,139,392
Basic earnings per share (DM)	**3.73**	**2.96**

Diluted earnings per share

	31.12.1998	31.12.1997
Net profit (DM m)	1,744	1,251
Adjustment to net profit due to interest saved through outstanding conversion rights (DM m)	–	1
Net profit for calculating diluted earnings per share (DM m)	1,744	1,252
Adjustment to number of ordinary shares issued due to outstanding option and conversion rights (units)	2,877,246	3,987,627
Adjusted number of shares issued (units)	470,969,159	426,127,019
Diluted earnings per share (DM)	**3.70**	**2.94**

The calculation of diluted earnings per share took into account not only the number of shares actually outstanding but also those shares which could be issued through the exercising of conversion and option rights from a conditional capital increase.

Commerzbank's consolidated balance sheet

Assets	Notes	31.12.1998 DM m	31.12.1997 DM m	Change in %
Cash reserve	(9)	13,171	12,755	3.3
Claims on banks	(10;12)	113,754	88,189	29.0
Claims on customers	(11;12)	360,370	318,333	13.2
Provision for possible loan losses	(14)	–9,496	–8,356	13.6
Assets held for dealing purposes	(15)	66,962	60,528	10.6
Financial investments	(16;19)	81,607	54,560	49.6
Intangible assets	(17;19)	754	822	–8.3
Fixed assets	(18;19)	4,056	3,313	22.4
Tax assets	(20)	1,868	1,755	6.4
Other assets	(21)	4,968	4,842	2.6
Total		**638,014**	**536,741**	**18.9**

Liabilities	Notes	31.12.1998 DM m	31.12.1997 DM m	Change in %
Liabilities to banks	(22;12)	132,475	97,981	35.2
Liabilities to customers	(23;12)	183,040	182,523	0.3
Securitized liabilities	(24)	238,243	190,074	25.3
Liabilities from dealing activities	(25)	42,109	26,268	60.3
Provisions	(26)	4,320	4,549	–5.0
Tax liabilities	(27)	1,773	1,442	23.0
Other liabilities	(28)	4,436	5,026	–11.7
Subordinated capital	(29)	10,781	11,015	–2.1
Minority interests		1,162	720	61.4
Equity	(30;31)	19,675	17,143	14.8
Subscribed capital		2,479	2,317	7.0
Capital reserve		9,906	8,554	15.8
Retained earnings		6,546	5,599	16.9
Consolidated profit		744	673	10.5
Total		**638,014**	**536,741**	**18.9**

Statement of changes in equity

Transition of the Commerzbank Group's equity from HGB to IAS:

	DM m
Equity as of 31.12.1996 according to HGB	13,513
Minority interests	–618
Adjustments due to the first-time application of IAS	
Increase in pension provisions	–414
Capitalization of goodwill	+590
Recognition of unrealized gains in trading portfolio	+250
Backbooking of value adjustments made for tax reasons	+266
Write-back of special item with partial reserve character	+122
Change in allocation to retained earnings from net profit as of 31.12.1996	–33
Other changes, including deferred taxes	+258
Equity as of 1.1.1997 according to IAS	13,934

DM m	Subscribed capital	Capital reserve	Retained earnings	Consolidated profit	Total 1998	Total 1997
Equity as of 1.1.	2,317	8,554	5,599	673	17,143	13,934
Capital increase	123	1,109	–	–	1,232	1,587
Issue of shares to employees	8	96	–	–	104	55
Conversion of convertible profit-sharing certificates	24	94	–	–	118	282
Shares issued through exercising of option rights	6	38	–	–	44	640
Allocation to retained earnings from net profit	–	–	1,000	–	1,000	578
Distribution of profit	–	–	–	–673	–673	–540
Consolidated profit	–	–	–	744	744	673
Differences due to currency translation	–	–	–60	–	–60	–24
Other changes	–	–	7	–	7	–
Purchase of the Bank's own shares	–2	–24	–	–	–26	–42
Sale of the Bank's own shares	3	39	–	–	42	–
Equity as of 31.12.	**2,479**	**9,906**	**6,546**	**744**	**19,675**	**17,143**

	1,000 units
Number of shares outstanding on 1.1.1998	463,342
Capital increase	24,500
Issue of shares to employees	1,605
Conversion of convertible profit-sharing certificates	4,813
Shares issued through exercising of option rights	1,224
Purchase of the Bank's own shares	–401
Sale of the Bank's own shares	530
Number of shares outstanding on 31.12.1998	495,613
Bank's own shares	493
Number of shares on 31.12.1998	496,106

The Bank's subscribed capital is issued in the form of bearer shares and was divided into 496,105,657 no-par-value shares, with a notional value of DM5, as of December 31, 1998. The average amount of shares outstanding in 1998 was 468, 091,913.

Following shareholders' approval at the Annual General Meeting on May 29, 1998, the Bank's shares which had previously been issued in fixed denominations were converted to no-par-value shares.

In the capital reserve, premiums from the issue of shares are shown. Retained earnings consist of the legal reserve and other reserves. The legal reserve contains those reserves which have to be formed in accordance with national law; the amounts assigned to this reserve may not be distributed.

The overall amount of retained earnings shown in the balance sheet consists of DM6m of legal reserves and DM6,540m of other retained earnings.

Currency-translation differences arising from the consolidation of capital accounts were directly netted against retained earnings.

The Bank's subscribed capital increased by DM161m in the past financial year through the issue of 32,141,344 new shares with a notional nominal value of DM5 per share. This was partly an authorized capital increase (DM131m) and partly a conditional capital increase (DM30m).

No preferential rights existed or restrictions with regard to the payment of dividends.

Amount of issued, outstanding and authorized shares:

	31.12.1998		31.12.1997	
	DM m	1,000 units	DM m	1,000 units
Shares issued	2,481	496,106	2,320	463,964
– Bank's holding of its own shares	–2	–493	–3	–622
= Shares outstanding (subscribed capital)	2,479	495,613	2,317	463,342
+ Shares not yet issued from authorized capital	374	74,836	505	100,942
+ Shares not yet issued from conditional capital	62	12,335	93	18,686
from convertible bonds	–	–	–	–
from bonds with warrants	62	12,335	68	13,559
from convertible profit-sharing certificates	–	–	25	5,127
Total	**2,915**	**582,784**	**2,915**	**582,970**

The number of authorized shares totals 583,277 thousand units (1997: 583,592 thousand units). The amount represented by authorized shares is DM2,917m (1997: DM2,918m).

Cash flow statement of the Commerzbank Group

DM m	1998
Net profit	**1,744**
Non-cash positions in net profit and adjustments to reconcile net profit with net cash provided by operating activities:	
Write-downs, depreciation, adjustments, write-ups and change in provisions	3,577
Change in other non-cash positions:	
Positive and negative market values from financial derivative instruments	3,397
Net allocations to deferred taxes	–317
Profit from the sale of financial investments	–1,081
Profit from the sale of fixed assets	–43
Other adjustments	– 6,010
Sub-total	1,267
Change in assets and liabilities from operating activities after correction for non-cash components:	
Amounts receivable	–67,602
Securities held for dealing purposes	6,619
Other assets from operating activities	–2,025
Liabilities	35,011
Securitized liabilities	48,169
Other liabilities from operating activities	207
Interest and dividends received	31,071
Interest paid	–25,061
Income tax paid	–346
Net cash provided by operating activities	**27,310**
Proceeds from the sale of:	
Financial investments	22,213
Fixed assets	204
Payments for the acquisition of:	
Financial investments	–48,542
Fixed assets	–1,524
Effects of changes in the group of companies included in the consolidation	134
Net cash used by investing activities	**–27,515**
Proceeds from the issuance of shares	1,514
Dividends paid	–673
Other financing activities (net)	–234
Net cash provided by financing activities	**607**
Cash and cash equivalents at end of previous period	**12,755**
Net cash provided by operating activities	27,310
Net cash used by investing activities	–27,515
Net cash provided by financing activities	607
Effects of exchange-rate changes on cash and cash equivalents	14
Cash and cash equivalents at end of period	**13,171**

The cash flow statement shows changes in cash and cash equivalents within the Commerzbank Group. Drawn up in accordance with the IASs, the cash flow statement presents the flow of funds, broken down into operating, investing and financing activities. The balance-sheet item Cash reserve was used as a source of cash and cash equivalents. It includes cash on hand, balances held at central banks and also debt issued by public-sector borrowers and bills of exchange eligible for rediscounting at central banks. Claims on banks which are due on demand are not included as we regard these as part of operating business.

Accounting principles

Our consolidated annual accounts for the 1998 financial year were drawn up in accordance with all the International Accounting Standards (IASs) approved and published by the International Accounting Standards Committee (IASC) and with their interpretation by the Standing Interpretations Committee (SIC). All those standards were also applied which have been approved by the IASC but have not yet become effective. A summary of the IASs applied can be found on page 58.

The going concern principle was used in our accounting and valuation. Income and expenses are registered on a pro-rata basis. They are recognized and shown for the period to which they may be assigned in economic terms.

As a matter of principle, the Group's accounting shows items at cost, with the exception of trading portfolios, which appear at their fair value.

Our financial statements comprise the income statement, the balance sheet, the statement of changes in equity, the cash flow statement and the notes.

Unless otherwise indicated, all the amounts are shown in millions of D-marks (DM m).

The rules which were applied in drawing up last year's financial statements – accounting and valuation were based on the German Commercial Code (HGB) and the regulation for the presentation of the annual accounts of German banks (RechKredV) – are no longer used; for this reason, the comparable figures for the previous year have been calculated afresh. In a few cases only, where the effort required would have been disproportionately great, we have not provided comparable figures.

Accounting and valuation methods

Method of consolidation
In preparing the financial statements, we apply uniform accounting and valuation methods throughout the Group.

All our subsidiaries are shown in the Group's financial statements in accordance with the book-value method, using as a basis their valuation at the time of acquisition.

In the case of investments in associated companies, the consolidated financial statement shows the share of their capital held (equity method). The valuation of these investments and the differences arising from consolidation (goodwill) are calculated on the basis of the first consolidation of the companies in question.

Goodwill is shown under assets in the balance sheet and is depreciated over a period of 15 years by means of the straight-line method.

Holdings in subsidiaries not consolidated because of their marginal significance and investments held solely to be disposed of again at a later date are shown at cost as Financial investments.

A list of consolidated companies can be found on pages 83 to 85.

All the major intra-Group assets and debts, and also the expenses and income, of the companies included in the consolidation are eliminated, applying the accounting and valuation methods that are valid for the Commerzbank Group. Intra-Group book gains registered during the business year do not appear in the results.

Minority participations in both the Bank's equity and results are shown separately from borrowed funds and equity as minority interests.

Consolidated companies
The consolidated financial statements as of December 31, 1998, include in addition to the Parent Bank – Commerzbank AG – a total of 97 subsidiaries (115 in 1997). Of these, 44 are German enterprises and 53 foreign companies. In addition, one company has been included on a pro-rata basis and 12 others valued using the equity method.

The Commerzbank Group also includes two sub-groups:

- CommerzLeasing und Immobilien GmbH, Düsseldorf
- Jupiter International Group PLC, London,

which have presented sub-group financial statements.

The following four companies were included in the consolidation for the first time in 1998:

- Commerzbank Asset Management Asia Ltd., Singapore
- Commerzbank International (Ireland) Unlimited, Dublin
- BRE Leasing Sp.O.O, Warsaw
- EMD Ltd., Bermuda

The following subsidiaries were removed from the list of consolidated companies:

- Commerz Financial Products GmbH, Frankfurt am Main
- Grundstücks- und Vermögensverwaltungsgesellschaft Geretsried mbH, Düsseldorf
- GVT Ltd., Bermuda
- Hildegund Ltd., London
- Indugest S.A.R.L., Luxembourg
- Jupiter Asset Management S.A., Luxembourg
- L.I.A. Leasinggesellschaft für Immobilien und Anlagegüter mbH (sub-group), Düsseldorf
- ACTIUM Leasobjekt Gesellschaft mbH, Frankfurt am Main
- ALA Vermietungsgesellschaft mbH, Düsseldorf
- ALBUS Leasobjekt Gesellschaft mbH, Düseldorf
- ELIMO Vermietungsgesellschaft mbH, Düsseldorf
- NESTOR GVG mbH & Co. Objekt Erlangen KG, Düsseldorf
- NESTOR GVG mbH & Co. Objekt Hamme KG, Düsseldorf
- NESTOR GVG mbH & Co. Objekt Wiemelhausen KG, Düsseldorf
- NOTARIA GVG mbH, Düsseldorf
- NUMERIA GVG mbH, Düsseldorf

- NUMERIA GVG mbH & Co. Objekt Waldkraiburg KG, Düsseldorf
- RESIDO Flugzeug-Leasinggesellschaft mbH & Co. Objekt Kopenhagen KG, Düsseldorf
- RESIDO Flugzeug-Leasinggesellschaft mbH & Co. Objekt Lissabon KG, Düsseldorf
- RESIDO Flugzeug-Leasinggesellschaft mbH & Co. Objekt Nice KG, Düsseldorf
- RESIDO Flugzeug-Leasinggesellschaft mbH & Co. Objekt Oslo KG, Düsseldorf
- ROTUNDA GVG mbH, Düsseldorf

In addition, Leonberger Bausparkasse, included on a pro-rata basis in 1997 for the first time, was no longer consolidated as the Bank has disposed of its interest in the company. The proceeds of DM133m from the sale are included in the item Result on financial investments in the income statement.

The removal of Leonberger Bausparkasse from the consolidation has affected the consolidated income statement and consolidated balance sheet as follows (pro-rata figures from financial statements as of 31.12.97):

	DM m
Claims on customers	–2,349
Liabilities to customers	–2,638
of which: home loan savings deposits	–2,614
Balance sheet total	**–3,227**
Net interest income	–85
Net commission income	–10
Operating expenses	+70
Net income for the year	**–10**

Given their marginal significance for the Bank's asset, financial and profit or loss position, we have omitted 140 subsidiaries from the consolidation. They account for less than 0.1% of the Group's overall balance sheet total.

Claims
Claims on banks and customers are shown at either their nominal value or at cost. Insofar as write-downs have been made, these have reduced the claims. Premiums and discounts – i.e. differences between the amount paid out and the nominal amounts – are included under Other assets or Other liabilities and recognized on a pro-rata basis as interest paid or interest received.

Promissory notes in the Bank's trading portfolio are not shown under claims, but rather under Assets held for dealing purposes.

Value adjustments for individual risks, country risks and global provision are not offset against the relevant claims, but rather appear separately in the balance sheet.

Provision for possible loan losses
We fully provide for the particular risks associated with banking business by forming individual value adjustments, country value adjustments and global value adjustments. No value adjustments are formed for tax reasons.

In order to cover the lending risks presented by claims on customers and banks, we form individual value adjustments according to uniform standards for the Group, reflecting the scale of the potential loan loss.

In the case of loans to borrowers involving a greater transfer risk (country risk), the economic situation is assessed on the basis of the economic data, such as the share of gross domestic product in aggregate domestic product, the share of the country's external trade in world trade and the share of its bilateral trade in Germany's overall external trade. The findings are weighted by the respective internal country rating. Wherever necessary, country value adjustments are formed. We cover latent credit risks in the form of global value adjustments. Past loan losses serve as a yardstick for the scale on which global value adjustments have to be formed.

Insofar as it relates to claims in the balance sheet, the aggregate amount of provision for possible loan losses is shown separately after Claims on banks and Claims on customers, as an amount reducing the assets side of the balance sheet. The provision for possible losses in off-balance-sheet business – guarantees, endorsement liabilities, lending commitments – is included in the item Provisions.

Assets held for dealing purposes
Securities, precious metals and financial derivatives held for dealing purposes are shown at their market values on the balance-sheet date. For listed products, market prices are used for valuation purposes; for non-listed products, market values are calculated with recourse to the present-value method or on the basis of suitable option-price models. All the realized and non-realized gains and losses appear under Trading result in the income statement. Under this item, interest and dividend income from securities held for dealing purposes are also shown, less the interest paid to finance them.

Financial investments
The item Financial investments covers bonds, notes and other fixed-income securities, shares and other variable-yield securities, investments and investments in associated companies as well as holdings in non-consolidated subsidiaries. Investments and holdings in non-consolidated companies are shown at cost.

Investments in associated companies are valued according to the equity method and appear with the value established on the balance-sheet date. Write-downs are made on investments if their value is permanently impaired.

The securities held as investments are either held until maturity or they may be used within the framework of ordinary business activities.

All securities held as financial investments are shown at cost; if their value is permanently impaired, they appear at their lower value. Insofar as the reasons for the write-down no longer apply, we make a write-up to the original cost price. The derivative instruments used to hedge financial investments against market, interest-rate and currency risks are valued similarly to the underlying business itself, which appears in the balance sheet.

Intangible assets
Apart from software and stock-exchange seats acquired by the Bank, Intangible assets include goodwill. This is depreciated by means of the straight-line method over a probable useful life of 15 years and is reflected in the income statement. Goodwill is examined on each balance-sheet date with a view to its future economic usefulness. If it appears that the expected usefulness will not materialize, extraordinary depreciation is made.

Fixed assets
Fixed assets – land and buildings, as well as office furniture and equipment – are capitalized at cost and depreciated to reflect their probable useful economic

lives. Extraordinary depreciation and write-offs are effected in the case of permanent declines in the economic usefulness of fixed assets. No recourse is had to special depreciation allowances.

In determining the useful life of a depreciable asset, its likely physical wear and tear, its technical obsolescence and also legal and contractual restrictions are taken into consideration. All fixed assets are depreciated or written off over the following periods, using the straight-line method:

	probable useful life in years
Buildings	30 - 50
Office furniture and equipment	2 - 10
IT equipment	2 - 8

Minor-value items are directly assigned to operating expenses. Profits realized on the disposal of fixed assets are recognized under Other operating income, losses are shown under Other operating expenses.

Liabilities
Liabilities are shown in the balance sheet at the respective amounts to be repaid. The difference between the nominal value and the issue price of liabilities is shown as a deferred item under Other assets. Long-dated discounted bonds – zero-coupon bonds – are capitalized at their cash value.

Liabilities from dealing activities
Financial derivative instruments used in proprietary trading which have a negative market value are shown under Liabilities from dealing activities.

Provisions for pensions and similar commitments
For many employees at the Parent Bank and at several subsidiaries in Germany, provision for old age is made directly and through contributions to the BVV (Versicherungsverein des Bankgewerbes a.G., Berlin) scheme.

At various units abroad, contributions are paid into banking industry schemes.

The size of the pension obligations arising from direct commitments depends on the length of service, the pensionable salary and the currently valid scales for employer subsidies.

All provisions for pensions are calculated by means of the projected-unit-credit method in accordance with IAS 19 (employee benefits). The future obligations are worked out on the basis of actuarial surveys. This calculation takes into account not only the existing pensions and pension expectancies on the balance-sheet date, but also the rates of increase for salaries and pensions that can be expected in the future.

Parameters and rates of increase:

	31.12.1998	31.12.1997
Calculatory interest rate	5.5%	6.5%
Development of salaries	3.0%	3.0%
Adjustments to pensions	2.0%	2.5%

The new tables of Prof. Dr. Klaus Heubeck, which are based on current statistical material of the German pension insurance schemes, imply lower probabilities of death and invalidity. The extra amount required when these new tables are applied will be spread over several years in the income statements from 1999 onwards.

The commitments similar to those for pensions include commitments under early-retirement schemes and under part-time work schemes for older staff, which are computed with the aid of actuarial rules.

No extraordinary expenses and income relating to benefit schemes were registered in the past financial year.

Other provisions

Other provisions are formed on the scale deemed necessary for liabilities of uncertain amount towards third parties. No provisions are formed for future expenses not related to an external obligation.

Currency translation

Assets and debts and also items from the income statement which are denominated in foreign currencies, as well as immatured spot foreign-exchange transactions, are translated at the spot middle rate of the balance-sheet date, while forward foreign-exchange transactions are translated at the forward rate of the balance-sheet date. For Emu currencies, the irrevocably fixed conversion rate has been used for accounting purposes. Currency translation for investments and holdings in subsidiaries that are denominated in foreign currencies is effected at the rate prevailing on the day of acquisition. Translation gains and losses from the consolidation of the capital accounts have been netted against retained earnings.

Where the financial statements of our units abroad are drawn up in foreign currencies, they are translated into D-marks at the spot rate of the balance-sheet date (current rate method).

The gains and losses deriving from the translation of balance-sheet items appear in the income statement. The differences in interest rates between currencies resulting from the hedging of portfolios not held for dealing purposes are shown for the respective period under Net interest income. Hedged expense and income items are translated at the contractual forward rate.

The following conversion rates (DM per 100 currency units) apply for the currencies most important to the Commerzbank Group:

	31.12.1998	31.12.1997
USD	167.30	179.21
JPY	1.4505	1.3838
GBP	279.80	298.20
FRF	29.8164	29.883
CHF	122.20	123.25

Leasing

- The Group as lessor

Almost exclusively, the business of the leasing companies within the Commerzbank Group involves operating leases, in which the lessor retains economic ownership of the object of the contract. Leased equipment appears in the consolidated balance sheet at cost or production cost, less regular depreciation over its probable useful economic life. Unless a different regular distribution is sensible for individual cases, the proceeds from leasing transactions are recognized using the straight-line method over the lifetime of the contract and allocated to Other operating revenues.

- The Group as lessee

The payments from operating lease contracts, under which the leased objects appear in the balance sheet of the lessor, are included under Operating expenses. The costs are computed like a rental payment on a regular basis that corresponds to the useful life of the equipment.

In the past financial year, no obligations derived from finance leases.

Genuine repurchase agreements (repo deals) and securities-lending business
Repo deals combine the spot purchase or sale of securities with their forward sale or repurchase, the counterparty being identical in either case. The securities sold under repurchase agreements (spot sale) still appear in our consolidated balance sheet as part of the securities portfolio. According to counterparty, the inflow of liquidity from the repo transaction is shown in the balance sheet as a liability to either banks or customers and reflects the remaining lifetime of the transaction.

Interest payments are subsumed under Interest paid, applying the general principles of distinct accounting periods. Reverse repos (spot purchase of securities) are shown as Claims on banks or Claims on customers and reflect the remaining lifetime of the transaction. The securities purchased under repo deals do not appear in the balance sheet and are not assigned a value either. Interest from reverse repos is counted as interest income. Claims arising from reverse repos are not offset against liabilities from repos involving the same counterparty.

We treat securities-lending transactions – involving borrowed and lent securities – as economic property in the sense defined by the general IAS principles. Accordingly, securities which we have lent continue to be shown in the balance sheet as part of the securities portfolio, whereas borrowed securities do not appear there.

Trust business
Business involving the management or placing of assets for the account of others – trust business – is not shown in the balance sheet in accordance with IAS 30. Commissions received from such business are included under Net commission income in the income statement.

Taxes on income
Taxes on income are calculated and shown in accordance with IAS 12. Assets and liabilities from taxes on income form separate items in the balance sheet. Current tax assets and liabilities are valued by applying the tax rates at which a refund from or a payment to the fiscal authorities is expected.

Deferred tax assets and liabilities derive from differences between the value of an asset or liability as shown in the balance sheet and its value in tax terms. In the future, these will probably either increase or reduce taxes on income (temporary differences). They are valued at the specific tax rates on income which apply in the country where the company in question has its seat and which can be expected to apply for the period in which they are realized. Deferred taxes on as yet unused losses carried forward are shown in the balance sheet if taxable profits are likely to occur in the same unit. As a rule, tax assets and liabilities are not netted against one another. Deferred taxes are not shown in discounted form.

Tax expenses in connection with ordinary activities are shown under Taxes on income in the consolidated income statement and divided in the Notes into current and deferred taxes for the financial year. Other taxes which are independent of income are subsumed under Other operating result. No taxes on income were incurred in the past financial year in connection with extraordinary activities.

Earnings per share

Earnings per share are split up into undiluted and diluted earnings per share. In order to calculate earnings per share, the net profit is divided by the average number of shares outstanding in the past financial year. The diluted earnings per share are worked out by adjusting the average number of shares outstanding for the impact of a maximal dilution effect. Here the number of ordinary shares also includes those shares which might be added through the exercising of subscription rights that have been granted and through convertible bonds and bonds with warrants attached. The net profit is adjusted for possible effects on results (lower interest expenses) due to the exercising of subscription rights.

IAS and SIC interpretations used in the Commerzbank Group

There is regularly a gap in time between the approval (or publication) of an IAS or an interpretation by the SIC and its entry into force. The IASC, however, recommends the early application of not yet effective (but already approved) individual IASs and SIC interpretations. As a result, various possibilities exist for drawing up accounts which comply with IAS.

Within the Commerzbank Group, we have based our accounting on all the IASs approved and published by December 31, 1998, and on their interpretation by the SIC, even if they have yet to become binding in force.

Our consolidated financial statement for 1998 is based, therefore, on the following IASs:

IAS 1 (rev. 1997)	Presentation of financial statements
IAS 4	Depreciation (partly revoked, amended or complemented by application of IAS 36 and 38)
IAS 7	Cash flow statements
IAS 8	Profit or loss for the period, fundamental errors and changes in accounting policies
IAS 10	Contingencies and events occurring after the balance-sheet date (The sections replaced by IAS 37 have not been applied)
IAS 12	Income taxes
IAS 14 (rev. 1997)	Segment reporting
IAS 16 (rev. 1998)	Property, plant and equipment
IAS 17 (rev. 1997)	Accounting for leases
IAS 18	Revenue
IAS 19 (rev. 1998)	Employee benefits
IAS 21	The effects of changes in foreign exchange rates
IAS 22 (rev. 1998)	Business combinations
IAS 23	Borrowing costs
IAS 24	Related party disclosures
IAS 25	Accounting for investments
IAS 26	Accounting and reporting by retirement benefit plans
IAS 27	Consolidated financial statements and accounting for investments in subsidiaries
IAS 28 (rev. 1998)	Accounting for investments in associates
IAS 30	Disclosures in the financial statements of banks and similar financial institutions
IAS 31 (rev. 1998)	Financial reporting of interests in joint ventures
IAS 32	Financial instruments: disclosures and presentation
IAS 33	Earnings per share
IAS 36	Impairment of assets
IAS 37	Provisions, contingent liabilities and contingent assets
IAS 38	Intangible assets

Due to the early application of IAS 1 (Presentation of financial statements), we also applied at an early date, on the basis of 1.11, the following SIC interpretations that are relevant for us:

		relates to
SIC-2	Consistency – capitalization of borrowing costs	IAS 23
SIC-6	Costs of modifying existing software	IAS framework
SIC-7	Introduction of the euro	IAS 21
SIC-8	First-time application of IASs as the primary basis of accounting	IAS 1 and IAS 8
SIC-15	Operating leases – incentives	IAS 17
SIC-16	Presentation of treasury shares	IAS 32

(1) Net interest income

DM m	1998	1997
Interest income from lending and money-market transactions	27,591	25,170
Interest income from securities held as financial investments	3,077	2,292
Dividends from securities held as financial investments	139	496
Current result from investments	198	506
Current result from investments in associated companies	60	43
Current result from holdings in subsidiaries	6	0
Interest paid on subordinated capital	825	842
Interest paid on securitized liabilities and deposits	24,236	21,115
Total	**6,010**	**6,550**

(2) Provisions for possible loan losses

Provisions for possible loan losses appear as follows in the consolidated income statement:

DM m	1998	1997
Allocation to provisions	–3,524	–3,124
Write-backs of provisions	1,817	1,235
Direct write-offs	–54	–40
Income received on written-off claims	38	65
Total	**–1,723**	**–1,864**

(3) Net commission income

DM m	1998	1997
Securities transactions	1,437	1,176
Asset management	407	226
Foreign commercial business	388	399
Payment transactions	320	330
Guarantees	225	239
Other	490	479
Total	**3,267**	**2,849**

(4) Trading result

The trading result is calculated applying the mark-to-market method. The data used are based on market prices. For non-listed products, market values are worked out with the aid of the present-value method or suitable option-price models. Apart from the results deriving from trading activities, the trading result also includes all the interest and dividend income and funding costs relating to securities held for dealing purposes.

DM m	1998	1997
Global Bonds department	221	81
Global Equities department	156	178
Treasury and Foreign Exchange department	268	139
Other	163	166
Total	**808**	**564**

Trading result in 1998 financial year

DM m	Bonds and interest-rate derivatives	Equities and other price risks	Foreign exchange, notes and coin and precious metals	Total
Proceeds from disposals	–147	–44	270	79
Valuation result	180	162	106	448
Total	**33**	**118**	**376**	**527**
Interest and dividend income	1,800	306		2,106
Interest paid to finance securities	1,590	235		1,825
Interest income	**210**	**71**	**0**	**281**
Disposals/valuation result and interest income	**243**	**189**	**376**	**808**

(5) Result on financial investments

The result on financial investments shows the disposal proceeds and valuation of securities held as financial investments, investments, investments in associated companies and holdings in subsidiaries.

DM m	1998	1997
Securities held as financial investments	292	532
Investments, investments in associated companies and holdings in subsidiaries	818	35
Write-downs on investments, investments in associated companies and holdings in subsidiaries	–29	–81
Total	**1,081**	**486**

(6) Operating expenses

The Group's operating expenses consist of personnel and other costs, and depreciation on office furniture and equipment and also on real property. They were 13.9% higher than a year earlier at DM7,064m and break down as follows:

Personnel costs:

DM m	1998	1997
Wages and salaries	3,169	2,888
Compulsory social-security contributions	500	457
Expenses for pensions and other employee benefits	371	379
Total	**4,040**	**3,724**

Breakdown of expenses for pensions and other employee benefits:

DM m	1998	1997
Costs of company pension scheme	207	203
Contributions to Versicherungsverein des Bankgewerbes a.G. (BVV)	111	106
Payments under early-retirement schemes	32	65
Other	21	5
Total	**371**	**379**

Other expenses:

DM m	1998	1997
Expenses for office space	770	730
IT costs	659	398
Compulsory contributions, other administrative and company-law expenses	313	233
Cost of advertising, PR and representation	216	175
Other expenses	459	432
Total	**2,417**	**1,968**

Other expenses also include expenses of DM368m arising from leasing contracts.

Depreciation for office furniture and equipment, real property and other intangible assets

DM m	1998	1997
Office furniture and equipment	566	474
Real property	32	33
Other intangible assets	9	5
Total	**607**	**512**

(7) Other operating result

The Other operating result mainly comprises expenses and income from leasing business, allocations to and write-backs of provisions not related to lending, as well as expenses and income from building and architects' services.

DM m	1998	1997
Other operating expenses	**898**	**745**
Expenses arising from leasing business	204	87
Expenses arising from building and architects' services	116	174
Allocations to provisions	85	139
Amortization of goodwill	58	158
Sundry expense items	435	187
Other operating incomee	**943**	**592**
Income from leasing business	265	87
Income from building and architects' services	127	214
Income from disposal of fixed assets	87	19
Write-backs of provisions	44	92
Project management fees	61	49
Sundry income items	359	131
Other operating result	**45**	**–153**

(8) Taxes on income

The expenses for taxes on income break down as follows

DM m	1998	1997
Current taxes on income	684	927
Deferred taxes	–101	30
Total	**583**	**957**

Deferred taxes in the past financial year include deferred tax income of DM121m, due to tax advantages deriving from unused loss carry-forwards.

The following transitional presentation shows the connection between taxes on income and the profit from ordinary activities in the past financial year:

DM m	1998
Profit from ordinary activities multiplied by the German income-tax rate (56%)	**2,424**
= calculated income-tax expenses in past financial year at German income-tax rate (56%)	1,357
– effects of different income-tax rates in various countries where Group companies are based	–336
– effects of permanent valuation differences	–226
– effects of recognized tax-exempt income	–212
= Taxes on income	**583**

The German income-tax rate which served as a basis for the transitional presentation is made up of the currently valid rate in Germany for corporate income tax on retained profits (45%) plus the so-called solidarity surcharge (5.5%) and an average rate for trading tax (16.7%). With the deductibility of trade earnings tax taken into consideration, the German income-tax rate is 56%.

The effects due to different tax rates abroad arise because income-tax rates abroad in the various countries where members of the Group are based range between 10% and 51.8%, thus deviating from the income-tax rate applied in Germany. These also include the effects of making adjustments to deferred taxes on both the assets and the liabilities side during the past financial year as a result of changes in income-tax rates.

Tax-free income resulted from the disposal of blocks of shares held in Luxembourg.

(9) Cash reserve

The cash reserve comprises the following items:

DM m	31.12.1998	31.12.1997
Cash on hand	1,308	1,343
Balances with central banks	5,015	5,431
Debt issued by public-sector borrowers, and bills of exchange rediscountable at central banks	6,848	5,981
Treasury bills and discountable treasury notes, as well as similar debt issues by public-sector borrowers	4,916	4,336
Bills of exchange	1,932	1,645
Total	**13,171**	**12,755**

The balances with central banks include claims on the Bundesbank totalling DM4,886m.

The minimum reserve requirement to be met at end-December 1998 amounted to DM2,916m.

(10) Claims on banks

	due on demand		other claims	
DM m	31.12.1998	31.12.1997	31.12.1998	31.12.1997
German banks	10,509	5,656	41,254	41,830
Foreign banks	5,580	3,137	56,411	37,566
Total	**16,089**	**8,793**	**97,665**	**79,396**

The claims on banks include DM29,737m of public-sector loans extended by the mortgage banks (DM25,647m in 1997).

(11) Claims on customers

The claims on customers break down as follows:

DM m	31.12.1998	31.12.1997
Claims on domestic customers	**271,223**	**253,393**
Corporate customers	89,519	84,677
Public sector	89,901	82,448
Retail customers and others	91,803	86,268
Claims on foreign customers	**89,147**	**64,940**
Corporate and retail customers	80,880	57,937
Public sector	8,267	7,003
Total	**360,370**	**318,333**

The claims on customers include DM66,412m of loans secured by mortgages (DM62,361m in 1997).

(12) Claims on and liabilities to subsidiaries and equity investments

The claims on and liabilities to unconsolidated subsidiaries, associated companies and companies in which an equity investment exists are as follows:

DM m	31.12.1998	31.12.1997
Claims on banks	**215**	**551**
Subsidiaries	–	–
Associated companies and companies in which an equity interest exists	215	551
Claims on customers	**723**	**1,062**
Subsidiaries	55	83
Associated companies and companies in which an equity interest exists	668	979
Total	**938**	**1,613**
Liabilities to banks	**31**	**108**
Subsidiaries	–	–
Associated companies and companies in which an equity interest exists	31	108
Liabilities to customers	**617**	**625**
Subsidiaries	14	108
Associated companies and companies in which an equity interest exists	603	517
Total	**648**	**733**

(13) Total lending

DM m	31.12.1998	31.12.1997
Loans to banks	40,296	38,731
Claims on customers	360,370	318,333
Bills discounted	4,290	4,832
Leasing business	986	565
Total	**405,942**	**362,461**

(14) Provision for possible loan losses

Provision for possible loan losses is made in accordance with rules that apply Group-wide and covers all discernible lending and country risks. On the basis of experience, we have formed global value adjustments for latent credit risks.

	Counterparty risks		Country risks		General provision		Total	
DM m	1998	1997	1998	1997	1998	1997	1998	1997
As of January 1	7,823	7,591	866	689	269	228	8,958	8,508
Allocations	3,220	2,622	84	363	220	139	3,524	3,124
Deductions	2,159	2,534	476	246	39	60	2,674	2,840
utilized	771	1,576	86	29	–	–	857	1,605
written back	1,388	958	390	217	39	60	1,817	1,235
Transfers/de-consolidation	–7	41	–	46	22	–43	15	44
Exchange-rate changes	–4	103	–34	14	–	5	–38	122
Provision for possible loan losses as of December 31	**8,873**	**7,823**	**440**	**866**	**472**	**269**	**9,785**	**8,958**

With direct write-downs and income received on written-down claims taken into account, the allocations and write-backs reflected in the income statement led to risk provision of DM1,723m (Note 2).

Provision for possible risks:

DM m	31.12.1998	31.12.1997
Claims on banks	408	608
Claims on customers	9,088	7,748
Provision to cover balance-sheet items	**9,496**	**8,356**
Guarantees, endorsement liabilities, credit commitments	289	602
Total	**9,785**	**8,958**

The overall amount of provision for counterparty risks of DM8,873m (1997: DM7,823m) breaks down as follows:

DM m	31.12.1998	31.12.1997
German borrowers	**7,084**	**6,670**
Claims on customers		
Corporate customers	4,049	3,722
Retail customers	3,035	2,948
Foreign borrowers	**1,789**	**1,153**
Corporate and retail customers	1,709	1,036
Banks	80	117
Total	**8,873**	**7,823**

The value-adjusted claims producing neither interest nor income amounted to DM11,086m (1997: DM9,466m).

(15) Assets held for dealing purposes

The Group's dealing activities include dealing in bonds, notes and other fixed-income securities, shares and other variable-yield securities, promissory notes, foreign exchange and precious metals as well as financial derivatives. All the items in the trading portfolio are shown at their market prices.

DM m	31.12.1998	31.12.1997
Bonds, notes and other fixed-income securities	19,856	24,072
Money-market instruments	280	358
issued by public-sector borrowers	97	115
issued by other borrowers	183	243
Bonds and notes	16,379	23,654
issued by public-sector borrowers	5,431	7,540
issued by other borrowers	10,948	16,114
Bonds and notes issued by Commerzbank Group	3,197	60
Shares and other variable-yield securities	6,549	6,107
Promissory notes held in the trading portfolio	624	3,833
Positive market values from financial derivative instruments	39,933	26,516
Interest-based transactions	29,185	14,224
Currency-based transactions	8,989	11,420
Other transactions	1,759	872
Total	**66,962**	**60,528**

DM25,320m (1997: DM28,941m) of the bonds, notes and other fixed-income securities and shares and other variable-yield securities were listed on a stock exchange.

Details of the restrictions applying to the Assets held for dealing purposes are to be found in Notes 37 and 40.

(16) Financial investments

Financial investments consist of bonds, notes and other fixed-income securities, shares and other variable-yield securities, investments, holdings in companies valued at equity and holdings in subsidiaries not included in the consolidation.

DM m	31.12.1998	31.12.1997
Bonds, notes and other fixed-income securities	69,792	46,597
Money-market instruments	3,753	1,822
issued by public-sector borrowers	–	228
issued by other borrowers	3,753	1,594
Bonds and notes	60,232	36,174
issued by public-sector borrowers	35,548	17,100
issued by other borrowers	24,684	19,074
Bonds and notes issued by Commerzbank Group	5,807	8,601
Shares and other variable-yield securities	5,979	4,619
Investments	4,107	2,271
Investments in associated companies	1,439	979
Holdings in subsidiaries	290	94
Total	**81,607**	**54,560**

Details of the restrictions applying to the Financial investments are to be found in Notes 37 and 40.

Market values of listed financial investments:

	31.12.1998		31.12.1997	
DM m	Market value	Book value	Market value	Book value
Bonds, notes and other fixed-income securities	59,374	58,842	35,124	34,964
Shares and other variable-yield securities	2,078	1,510	3,111	2,198
Investments and investments in associated companies	6,136	4,085	4,127	2,062
Total	**67,588**	**64,437**	**42,362**	**39,224**

The following market values were registered for investments of more than 5% in non-financial companies held by the Commerzbank Group:

Name	Domicile	Percentage share of capital held	Market value 31.12.1998 DM m
Alno AG	Pfullendorf	29.4	48
Buderus Aktiengesellschaft	Wetzlar	10.0	156
Heidelberger Druckmaschinen AG	Heidelberg	9.9	858
Linde Aktiengesellschaft	Wiesbaden	10.2	862
MAN Aktiengesellschaft	Munich	6.5	492
Sachsenring Aktiengesellschaft	Zwickau	10.8	31
Salamander Aktiengesellschaft	Kornwestheim	10.7	60
Thyssen Aktiengesellschaft	Duisburg	5.3	567
Total			**3,074**

(17) Intangible assets

DM m	31.12.1998	31.12.1997
Goodwill	710	784
Other intangible assets	44	38
Total	**754**	**822**

(18) Fixed assets

DM m	31.12.1998	31.12.1997
Land and buildings	1,305	1,245
Office furniture and equipment	2,751	2,068
Total	**4,056**	**3,313**

The book value of the land and buildings used by the Bank amounted to DM1,161m (1997: DM1,121m).

(19) Changes in book value of fixed assets and investments

The following changes were registered for intangible and fixed assets, investments, investments in associated companies and holdings in subsidiaries in the past financial year:

DM m	Intangible assets	Land and buildings	Office furniture and equipment
Book value as of 31.12.1997	**822**	**1,245**	**2,068**
Cost of acquisition/manufacture as of 31.12.1997	936	1,396	3,713
Additions 1998	25	175	1,331
Disposals 1998	4	97	399
Transfers	–	–	–
Cost of acquisition/manufacture as of 31.12.1998	957	1,474	4,645
Write-ups 1998	–	–	–
Cumulative write-downs as of 31.12.1997	114	151	1,645
Currency differences	22	8	–1
Additions 1998	67	32	566
Disposals 1998	–	22	316
Transfers	–	–	–
Cumulative write-downs as of 31.12.1998	203	169	1,894
Book value as of 31.12.1998	**754**	**1,305**	**2,751**

DM m	Investments	Investments in associated companies	Holdings in subsidiaries
Book value as of 31.12.1997	**2,271**	**979**	**94**
Cost of acquisition/manufacture as of 31.12.1997	2,380	979	94
Additions 1998	2,017	500	213
Disposals 1998	166	40	17
Transfers	–	–	–
Cost of acquisition/manufacture as of 31.12.1998	4,231	1,439	290
Write-ups 1998	–	–	–
Cumulative write-downs as of 31.12.1997	109	–	–
Currency differences	–17	–	–
Additions 1998	32	–	–
Disposals 1998	–	–	–
Transfers	–	–	–
Cumulative write-downs as of 31.12.1998	124	–	–
Book value as of 31.12.1998	**4,107**	**1,439**	**290**

(20) Tax assets

DM m	31.12.1998	31.12.1997
Current tax assets	**416**	**979**
Germany	333	949
abroad	83	30
	1,452	**776**
Deferred tax assets	1,118	706
Unused loss carry-forwards	334	70
Total	**1,868**	**1,755**

Deferred tax assets were formed in connection with the following balance-sheet items:

DM m	31.12.1998	31.12.1997
Provisions	914	487
Provision for possible loan losses	88	65
Other assets	2	85
Sundry balance-sheet items	114	69
Total	**1,118**	**706**

(21) Other assets

DM m	31.12.1998	31.12.1997
Deferred items	1,940	2,956
Collection items	299	214
Advance payments	401	506
Leased equipment	986	565
Sundry items	1,342	601
Total	**4,968**	**4,842**

(22) Liabilities to banks

	due on demand		other claims	
DM m	31.12.1998	31.12.1997	31.12.1998	31.12.1997
German banks	11,059	7,372	36,117	28,507
Foreign banks	23,736	14,212	61,563	47,890
Total	**34,795**	**21,584**	**97,680**	**76,397**

(23) Liabilities to customers

Liabilities to customers consist of savings deposits, demand deposits and time deposits, including savings certificates.

	Savings deposits [1]		Other liabilities			
			due on demand		with agreed lifetime or period of notice	
DM m	31.12.1998	31.12.1997	31.12.1998	31.12.1997	31.12.1998	31.12.1997
Domestic customers	**17,312**	**20,332**	**41,810**	**34,312**	**76,864**	**72,694**
Corporate customers	81	108	24,101	19,738	52,807	48,671
Retail customers and others	16,911	20,040	16,399	13,890	16,717	14,323
Public sector	320	184	1,310	684	7,340	9,700
Foreign customers	**1,082**	**1,181**	**12,025**	**17,320**	**33,947**	**36,684**
Corporate and retail customers	1,077	1,178	11,584	17,028	32,845	36,030
Public sector	5	3	441	292	1,102	654
Total	**18,394**	**21,513**	**53,835**	**51,632**	**110,811**	**109,378**

[1]) including home loan savings deposits in 1997

Savings deposits break down as follows:

DM m	31.12.1998	31.12.1997
Savings deposits with agreed period of notice of three months	16,132	16,468
Savings deposits with agreed period of notice of more than three months	2,262	2,431
Home loans savings deposits	–	2,614
Total	**18,394**	**21,513**

(24) Securitized liabilities

Securitized liabilities comprise bonds and notes, including mortgage and public-sector *Pfandbriefe*, money-market instruments (e.g. certificates of deposit, Euro-notes, commercial paper), own acceptances and promissory notes outstanding.

	Total		of which: issued by mortgage banks	
DM m	31.12.1998	31.12.1997	31.12.1998	31.12.1997
Bonds and notes issued	186,141	156,118	144,351	113,709
Money-market instruments issued	50,292	32,721	533	1,157
Own acceptances and promissory notes outstanding	1,810	1,235	–	–
Total	**238,243**	**190,074**	**144,884**	**114,866**

The interest rate paid on money-market instruments ranges between 3.50% and 12%. Their original maturity periods may be up to one year.

The following table presents the most important bonds and notes issued:

Year of issue	Amount (DM m)	Currency	Issuer	Interest rate	Maturity date
1995	3,500	DEM	Rheinhyp	5.5	2001
1996	3,500	DEM	Essenhyp	4.125	1999
1997	3,000	DEM	Essenhyp	4.0	2000
1997	3,000	DEM	Essenhyp	4.0	2001
1998	3,000	DEM	Rheinhyp	4.25	2008

A deferred item of DM1,085m has arisen on the assets side in connection with the issue of securitized liabilities, since the repayment amount for these liabilities is less than their amount at issue. We have shown this item under Other assets.

(25) Liabilities from dealing activities

Liabilities from dealing activities show the negative market values of financial derivative instruments:

DM m	31.12.1998	31.12.1997
Interest-based transactions	29,463	13,880
Currency-based transactions	10,644	11,215
Other transactions	2,002	1,173
Total	**42,109**	**26,268**

(26) Provisions

Provisions break down as follows:

DM m	31.12.1998	31.12.1997
Provisions for pensions and similar commitments	2,481	2,454
Other provisions	1,839	2,095
Total	**4,320**	**4,549**

Provisions for pensions developed as follows:

DM m	as of 1.1.1998	Utilized/ changes in consolidated companies	Allocation	Transfers	as of 31.12.1998
Pension expectancies of active active and former employees	1,354	63	133	–74	1,350
Pensioners	957	97	61	74	995
Staff on early retirement schemes	143	52	34	–	125
Part-time scheme for older staff	–	–	11	–	11
Total	**2,454**	**212**	**239**	**0**	**2,481**

For the most part, provisions for pensions and similar commitments represent provisions for commitments to pay company retirement pensions on the basis of direct pledges of benefits. The type and scale of the retirement pensions for employees entitled to benefits are determined by the terms of the pension arrangement that finds application (pension guidelines, pension scheme, contribution-oriented pension plan, individual pension commitments), which mainly depends upon when the employee joined the Bank. On this basis, pensions are paid to employees reaching the retirement age or earlier in the case of invalidity or death.

The projected unit credit for pension commitments as of December 31, 1998, was DM2,830m. The difference of DM349m between this figure and the pension provisions is the result of changes in the actuarial parameters and the bases of calculation over the past few years.

Allocations to provisions for pensions in 1998 break down as follows:

Service cost	DM 50m
Interest cost	DM148m
Non-recurring cost of early retirement and part-time scheme for older staff	DM 41m

Development of other provisions:

DM m	as of 1.1.1998	Utilized/ changes in consolidated companies	Written back	Allocation	as of 31.12.1998
Personnel area	680	473	15	565	757
Risks in lending	602	–	430	117	289
Bonuses for special savings schemes	260	129	–	87	218
Legal proceedings and recourse claims	142	41	26	76	151
Sundry items	411	134	33	180	424
Total	**2,095**	**777**	**504**	**1,025**	**1,839**

(27) Tax liabilities

DM m	31.12.1998	31.12.1997
Current income-tax liabilities	**556**	**584**
Income-tax liabilities to tax authorities	78	41
Provisions for income-tax liabilities	478	543
Deferred tax liabilities	**1,217**	**858**
Total	**1,773**	**1,442**

Provisions for taxes on income are tax liabilities for which no final formal assessment note has been issued. The liabilities to tax authorities represent payment obligations from current taxes towards German and foreign tax authorities. Deferred taxes include taxes resulting from temporary differences between IAS accounting and the taxable profits calculated for Group companies.

Deferred income-tax liabilities were formed in connection with the following balance-sheet items:

DM m	31.12.1998	31.12.1997
Imputed credit of foreign losses	558	212
Assets held for dealing purposes	523	330
Fixed assets	49	39
Other liabilities	40	135
Sundry balance-sheet items	47	142
Total	**1,217**	**858**

(28) Other liabilities

Other liabilities relate to the following items:

DM m	31.12.1998	31.12.1997
Deferred items	2,657	3,527
Interest paid on subordinated capital	516	512
Sundry items	1,263	987
Total	**4,436**	**5,026**

(29) Subordinated capital

Subordinated capital breaks down as follows:

DM m	31.12.1998	31.12.1997
Subordinated liabilities	**7,023**	**7,279**
of which: maturing within two years	901	475
Profit-sharing certificates outstanding	**3,758**	**3,736**
of which: maturing within two years	280	–
Total	**10,781**	**11,015**

Subordinated liabilities are liable funds as defined in Art. 10, (5a), German Banking Act – KWG. The claims of creditors to repayment of these liabilities are subordinate to those of other creditors.

The following table presents the most important subordinated liabilities:

Start of maturity	Amount	Currency in m	Issuer/type	Interest rate	Maturity date
1997	560	200 GBP	Commerzbank AG	7.875	2007
1992	418	250 USD	Commerzbank AG	5.410	2002
1992	355	400 NLG	Commerzbank AG	8.500	2002
1994	335	200 USD	Commerzbank AG	6.040	2005
1996	335	200 USD	Commerzbank AG	5.450	2006

In the year under review, the interest paid by the Group for subordinated liabilities totalled DM528m (1997: DM565m). This includes DM219m (1997: DM235m) of deferred interest expenses for interest due but not yet paid. These are shown as Other liabilities.

Profit-sharing certificates serve to strengthen the Bank's liable equity capital in accordance with the provisions of the German Banking Act. They are directly affected by current losses. Interest payments are made solely within the scope of any distributable profit. The claims of holders of profit-sharing certificates to a repayment of principal are subordinate to those of other creditors.

The main issues of profit-sharing certificates break down as follows:

Year of issue	DM m	Issuer	Interest rate	Maturity date	Special terms of issue
1993	800	Commerzbank AG	7.25	2005	with option rights
1991	500	Commerzbank AG	9.50	2003	with option rights
1992	500	Commerzbank AG	9.15	2004	
1994	500	Commerzbank AG	8.00	2006	with option rights
1996	500	Commerzbank AG	7.90	2008	

Interest to be paid on the profit-sharing certificates outstanding for the 1998 financial year amounts to DM297m (1997: DM277m). It is shown under Other liabilities.

(30) Conditional capital

Conditional capital is to be used in order to issue bonds with warrants attached or convertible bonds.

Development of the Bank's conditional capital:

DM m	Conditional capital 1.1.1998	Additions	Expiring	Used	Conditional capital 31.12.1998	of which: used conditional capital	of which: available lines
Convertible profit-sharing certificates	25	–	1	24	–	–	–
Bond with warrants	12	–	–	6	6	6	–
Convertible bonds/bonds with warrants	150	–	–	–	150	–	150
Convertible bonds/bonds with warrants	181	–	–	–	181	56	125
Total	**368**	**–**	**1**	**30**	**337**	**62**	**275**

The following equity warrants are outstanding from issues of bonds with warrants attached:

German securities code no.	Subscription ratio	Option price per DM5 share	End of option period	Conditional capital increase at issue	Conditional capital 31.12.1998
803626	2 : 1	DM34	10.12.1999	DM75m	DM56m
990513	1 : 1	DM37	1.12.1999	DM 6m	DM 6m

(31) Development of authorized capital

Year of AGM resolution	Original amount (DM m)	Remaining amount (DM m)	Authorization expires:	
May 27, 1994	400	248	April 30, 1999	Shareholders' subscription rights may be excluded for fractional amounts and to offer subscription rights to holders of conversion or option rights.
May 30, 1997	200	77	April 30, 2002	The Board may, with the approval of the Supervisory Board, exclude shareholders' subscription rights pursuant to Art. 186 (3), 4, German Stock Corporation Act – AktG.
May 30, 1997	50	49	April 30, 2002	The Board may, with the approval of the Supervisory Board, exclude shareholders' subscription rights for the purpose of issuing shares to the Bank's staff.
as of 31.12.1998	**650**	**374**		

The Board of Managing Directors has been authorized by AGM resolutions to raise the Bank's share capital, with the approval of the Supervisory Board, by a nominal amount of DM374m through the issue of new shares in one or several tranches against cash contributions. The subscription rights of shareholders are excluded for DM49m of this amount in order to issue shares to the Bank's staff.

(32) Segment reporting

Segment reporting within the Commerzbank Group relates to the following areas of business:

Domestic branch banking
International finance
Investment banking
Mortgage banking
Group management/others

which reflect Commerzbank's global activities. The criterion for determining primary segments within the Commerzbank Group is accounting by banking department and corporate division, which is of key importance as a management and control instrument.

Breakdown of ordinary activities, by corporate division:

DM m	Domestic branch banking	International finance	Investment banking	Mortgage business	Group management/ others/consolidation	Total
Net interest income	3,296	1,185	695	969	–135	6,010
Provision for possible loan losses	–850	–793	60	–165	25	–1,723
Net interest income after provision for possible loan losses	2,446	392	755	804	–110	4,287
Net commission income	2,126	310	954	–37	–86	3,267
Trading result	–	153	640	1	14	808
Result on financial investments	–	–36	108	–3	1.012	1,081
Operating expenses	4,084	767	1,422	223	568	7,064
Other operating result	130	–19	–22	–5	–39	45
Profit from ordinary activities	618	33	1,013	537	223	2,424
Taxes on income	187	35	390	231	–260	583
After-tax profit	431	–2	623	306	483	1,841
Profit/loss attributable to minority interests	–	–35	–6	–56	–	–97
Net profit	**431**	**–37**	**617**	**250**	**483**	**1,744**
Equity tied up	**7,170**	**4,216**	**2,705**	**1,902**	**824**	**16,817**
Return on equity	**6.0%**	**–0.9%**	**22.8%**	**13.1%**	**–**	**10.4%**
Cost/income ratio	**73.6%**	**48.1%**	**59.8%**	**24.1%**	**–**	**63.0%**

The corporate division Domestic Branch Banking basically comprises corporate and retail customer business, leasing and real-estate activities and direct banking.

International Finance covers the commercial banking activities of our branches and subsidiaries abroad. The International Bank Relations department also belongs to this division.

The Investment Banking segment comprises the departments Global Bonds, Global Equities, Treasury/ Foreign Exchange, Asset Management, Corporate Finance*) and Relationship Management*). At the same time, all the subsidiaries and equity investments active in the areas of investment banking/asset management are included in the Investment Banking division.

The mortgage banking segment shows the activities of our mortgage banks.

The corporate division Group Management/others gathers together staff departments and equity investments which cannot be assigned to one of the operative divisions. This segment also includes consolidation items.

*) since 1.1.1999, part of International Finance

Segment reporting, by geographical market

DM m	Germany	Europe (excluding Germany)	America	Asia	Africa	Intra-Group balances	Total
Net interest income	4,874	535	244	309	11	37	6,010
Provision for possible loan losses	–962	18	–44	–735	–	–	–1,723
Net interest income after provision for possible loan losses	3,912	553	200	–426	11	37	4,287
Net commission income	2,542	500	210	59	–	–44	3,267
Trading result	621	101	73	8	5	–	808
Result on financial investments	67	1,022	–7	–1	–	–	1,081
Operating expenses	6,008	841	330	219	8	–342	7,064
Other operating result	440	–40	–23	3	–	–335	45
Profit from ordinary activities	**1,574**	**1,295**	**123**	**–576**	**8**	**0**	**2,424**
Risk-weighted assets[1)]	**195,161**	**52,637**	**27,990**	**18,005**	**1,171**	**–26,796**	**268,168**

[1)] excluding market-price risks

Assignment to the respective segments is determined by the seat of the branch or Group company.

(33) Concentration of credit risks

Concentrations of credit risks may arise through business relations with groups of borrowers who share a number of features and whose individual ability to service debt depends to the same extent on changes in certain overall economic conditions. These risks are managed by the Credit Risk Management department. Credit risks throughout the Group are monitored by the use of limits for each individual borrower, through the provision of the appropriate security and by applying a uniform lending policy. In order to reduce credit risks, the Bank has entered into a number of master netting agreements, which ensure the right to set off the claims on and liabilities towards a client in the case of default by the latter or bankruptcy. In addition, the Bank's management regularly monitors individual portfolios. The Group's lending does not reveal any special dependence on individual sectors.

In terms of book values, the credit risks relating to balance-sheet and traditional off-balance-sheet financial instruments were as follows as of December 31, 1998:

DM m	Claims	Guarantees, letters of credit	Total
Customers in Germany	**271,223**	**20,127**	**291,350**
Companies and self-employed	115,940	19,323	135,263
Manufacturing	22,886	8,724	31,610
Construction	3,067	2,784	5,851
Distributive trades	19,428	1,525	20,953
Services, incl. professions	50,386	4,409	54,795
Others	20,173	1,881	22,054
Public sector	89,901	27	89,928
Other retail customers	65,382	777	66,159
Customers abroad	**89,147**	**15,478**	**104,625**
Corporate and retail customers	80,880	12,870	93,750
Public sector	8,267	2,608	10,875
Sub-total	**360,370**	**35,605**	**395,975**
less adjustments and provisions	–9,088	–289	–9,377
Total	**351,282**	**35,316**	**386,598**

(34) The Bank's foreign-currency position

At end-1998, the Commerzbank Group had foreign-currency assets totalling the equivalent of DM194bn; liabilities amounted to DM188bn.

	31.12.1998	
	Total (DM m)	of which: US $ (DM m)
Foreign-currency assets	194,452	77,374
Foreign-currency liabilities	188,045	81,177

(35) Maturities, by remaining lifetime

	Remaining lifetimes as of 31.12.1998				
DM m	due on demand and unlimited in time	up to three months	three months to one year	one year to five years	more than five years
Claims on banks	16,089	56,757	14,984	16,423	9,501
Claims on customers	30,400	69,365	27,383	67,251	165,971
Bonds and notes held for trading purposes	–	516	995	9,196	9,149
Bonds and notes held as financial investments	–	6,960	5,623	29,158	28,051
Total	**46,489**	**133,598**	**48,985**	**122,028**	**212,672**
Liabilities to banks	34,795	60,295	20,255	7,385	9,745
Liabilities to customers	53,835	90,531	8,381	12,628	17,665
Securitized liabilities	–	62,254	28,714	103,251	44,024
Subordinated capital	–	–	595	3,305	6,881
Total	**88,630**	**213,080**	**57,945**	**126,569**	**78,315**

The remaining lifetime is defined as the period between the balance-sheet date and the contractual maturity of the claim or liability. In the case of claims or liabilities which are paid in partial amounts, the remaining lifetime has been shown for each partial amount.

(36) Subordinated assets

The assets shown in the balance sheet include the following subordinated assets:

DM m	31.12.1998	31.12.1997
Claims on banks	180	–
Claims on customers	368	161
Bonds and notes	191	325
Shares and other variable-yield securities	77	470
Total	**816**	**956**

Assets are considered to be subordinated if the claims they represent may not be met before those of other creditors in the case of liquidation or bankruptcy.

(37) Assets pledged as security

Assets in the amounts shown below have been pledged as security for the following liabilities and contingent liabilities:

DM m	31.12.1998	31.12.1997
Liabilities to banks	23,773	17,049
Liabilities to customers	8,172	4,573
Securitized liabilities	1,554	21
Securities-lending transactions	1,033	1,139
Total	**34,532**	**22,782**

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

DM m	31.12.1998	31.12.1997
Claims on banks	18,430	10,877
Claims on customers	13,648	7,046
Assets held for dealing purposes and financial investments	8,776	9,859
Total	**40,854**	**27,782**

The furnishing of security in order to borrow funds took the form of genuine securities repurchase agreements (repos) and securities-lending transactions, for which securities and cash were deposited. At the same time, security was furnished for funds borrowed for fixed specific purposes.

(38) Off-balance-sheet commitments

DM m	31.12.1998	31.12.1997
Contingent liabilities	**43,274**	**44,201**
from rediscounted bills of exchange credited to borrowers	2,358	3,175
from guarantees and indemnity agreements	40,916	41,026
Credit guarantees	4,357	3,559
Other guarantees	22,092	24,016
Letters of credit	8,500	8,098
Other items	5,967	5,353
Irrevocable lending commitments	**98,406**	**79,137**
Book credits to banks	10,011	4,738
Book credits to customers	79,975	66,216
Credits by way of guarantee	5,623	7,371
Letters of credit	2,797	812
Other commitments	**276**	**97**

Provision for risks arising from off-balance-sheet commitments has been deducted from the respective items.

(39) Genuine repurchase agreements

Under its genuine repurchase agreements – repurchase and reverse repurchase agreements – the Commerzbank Group sells and purchases securities with the obligation to repurchase or return them. The proceeds deriving from repurchase agreements in which the Commerzbank Group is a borrower (commitment to take the securities back) are shown in the balance sheet as a liability to banks or customers. If Group companies or the Parent Bank are lenders (commitment to return the securities), these transactions are shown in the balance sheet as claims on banks or customers. The genuine repurchase agreements concluded up to end-December break down as follows:

DM m	31.12.1998	31.12.1997
Genuine repurchase agreements as a borrower (repurchase agreements)		
Liabilities to banks	12,801	7,527
Liabilities to customers	10,969	14,278
Total	**23,770**	**21,805**
Genuine repurchase agreements as a lender (reverse repurchase agreements)		
Claims on banks	18,413	10,843
Claims on customers	14,936	15,697
Total	**33,349**	**26,540**

(40) Securities-lending transactions

Securities-lending transactions are conducted with other banks and customers in order to cover the need to meet delivery commitments and to be able to effect securities repurchase agreements in the money market. The securities which have been lent are still shown in either the trading portfolio or the financial investments portfolio and are valued like these portfolios. Borrowed securities are not shown in our balance sheet.

DM m	31.12.1998	31.12.1997
Lent securities	1,450	1,523
Borrowed securities	4,408	2,936

(41) Trust transactions at third-party risk

Trust transactions which are not shown in the balance sheet amounted to the following on the balance-sheet date:

DM m	31.12.1998	31.12.1997
Claims on banks	122	–
Claims on customers	735	983
Equity investments	24	24
Assets on a trust basis at third-party risk	**881**	**1,007**
Liabilities to banks	247	261
Liabilities to customers	634	746
Liabilities on a trust basis at third-party risk	**881**	**1,007**

(42) Derivative transactions

DM m	Nominal amount Remaining lifetimes under one year	one to five years	more than five years	total	Market value positive	negative
Foreign-currency-based forward transactions						
OTC products	990,844	84,927	21,090	1,096,861	11,000	10,721
Spot and forward currency transactions	678,958	35,795	4,166	718,919	6,584	6,668
Interest-rate and currency swaps	20,719	35,935	16,924	73,578	2,327	2,139
Currency call options	124,610	7,249	–	131,859	2,089	–
Currency put options	166,557	5,948	–	172,505	–	1,914
Other foreign-exchange contracts	–	–	–	–	–	–
Products traded on a stock exchange	–	–	–	–	–	–
Currency futures	–	–	–	–	–	–
Currency options	–	–	–	–	–	–
Total	**990,844**	**84,927**	**21,090**	**1,096,861**	**11,000**	**10,721**
Interest-based futures transactions						
OTC products	1,110,894	558,174	372,232	2,041,300	33,008	38,750
Future-rate agreements	444,474	50,532	–	495,006	472	460
Interest-rate swaps (same currency)	629,073	433,004	344,060	1,406,137	30,849	35,715
Call options on interest-rate futures	14,476	32,905	10,408	57,789	1,254	–
Put options on interest-rate futures	19,105	40,104	15,008	74,217	–	1,816
Other interest contracts	3,766	1,629	2,756	8,151	433	759
Products traded on a stock exchange	69,448	30,161	–	99,609	162	79
Interest-rate futures	52,508	26,663	–	79,171	162	79
Interest-rate options	16,940	3,498	–	20,438	–	–
Total	**1,180,342**	**588,335**	**372,232**	**2,140,909**	**33,170**	**38,829**
Other forward transactions						
OTC products	17,738	12,952	6,155	36,845	2,156	2,322
Equity swaps	25	1,074	–	1,099	15	93
Equity call options	2,547	6,004	1,667	10,218	1,670	–
Equity put options	11,645	5,017	3,870	20,532	–	1,599
Other equity contracts	401	530	425	1,356	73	171
Precious metal transactions	3,120	327	193	3,640	398	459
Other transactions	–	–	–	–	–	–
Products traded on a stock exchange	15,151	393	–	15,544	1	2
Equity futures	1,202	–	–	1,202	–	1
Equity options	13,949	393	–	14,342	1	1
Other futures	–	–	–	–	–	–
Other options	–	–	–	–	–	–
Total	**32,889**	**13,345**	**6,155**	**52,389**	**2,157**	**2,324**
Total pending forward transactions						
OTC products	2,119,476	656,053	399,477	3,175,006	46,164	51,793
Products traded on a stock exchange	84,599	30,554	–	115,153	163	81
Total	**2,204,075**	**686,607**	**399,477**	**3,290,159**	**46,327**	**51,874**

On the balance-sheet date, immatured foreign-exchange, interest-based and other forward transactions were outstanding as shown in the above table. These entail merely a settlement risk as well as currency, interest and/or other market-price risks.

Breakdown of derivatives business, by borrower group:

DM m	Market value positive	Market value negative
OECD central governments	199	223
OECD banks	35,646	39,913
OECD financial institutions	2,514	2,815
Other companies, private individuals	7,504	8,403
Non-OECD banks	464	520
Total	**46,327**	**51,874**

Market values are represented by the sum totals of the positive and negative amounts per contract, from which no pledged security has been deducted and no netting agreements which might exist have been taken into consideration. By definition, no positive market values exist for put options. The greater part of these transactions are registered in the Bank's trading book. Other transactions are concluded in order to cover market-price risks.

(43) Market risks arising from trading activities

Given its ever greater significance, but above all as part of the expansion of our investment banking activities, we have further strengthened the Bank's central strategic risk management. In addition to implementing regulatory requirements, the emphasis is placed on the internal processing of information for the Bank's management as well as the provision of analyses to support trading. We have underlined the importance of risk control not least by setting up a separate staff department for this purpose, quite removed from the Bank's other control units.

Not only are value-at-risk figures computed with the aid of mathematical and statistical models used in quantifying market-price risks, but also simulations of extreme developments in the capital markets.

For the daily measurement of market-price risks, especially those in proprietary trading, we apply value-at-risk models. The underlying statistical parameters are based on an observation period of the past 250 trading days, a one-day exposure and a confidence level of 97.5%. The value-at-risk models are constantly being modified.

On the basis of the risk figures, the Group manages the market-price risks for all operative units by a system of risk limits, primarily limits for value at risk and stress scenarios, as well as stop-loss limits.

The risk position of the trading portfolio at end-1998 shows the value at risk and stress-scenario values, broken down by departments engaged in proprietary trading. The values at risk show the losses which, with their respective degrees of probability (95%, 97.5%, 99%) will not be exceeded. The stress-scenario figures indicate the possible overnight loss on the basis of scenario analyses which differentiate between individual portfolios.

Risk position of the trading portfolio

Portfolio DM m	Holding period[1) for VaR calculation	VaR at confidence level of 95%	97.50%	99%	Overnight stress scenario
Global Bonds	10 days	20.11	26.48	38.46	64.52
Global Equities	10 days	41.15	49.18	58.46	36.81
Treasury and Foreign Exchange[2)	10 days	45.20	53.07	64.52	185.69
Commerzbank Group	10 days	90.90	116.45	144.89	287.02

1) pursuant to Principle I, KWG

2) including units abroad

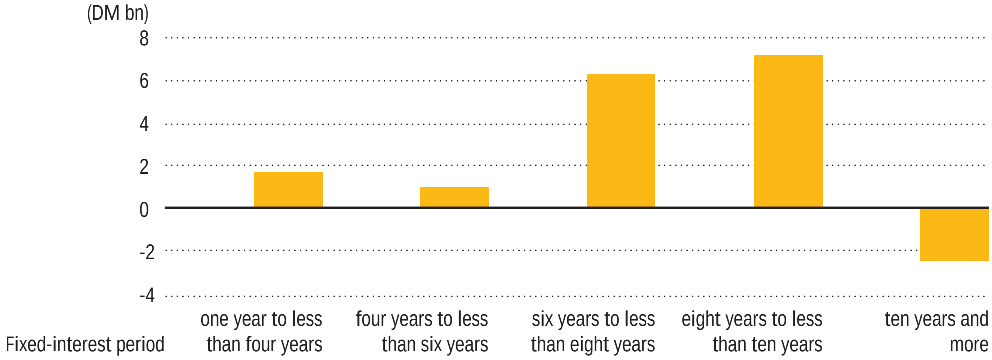
(44) Interest-rate risks

Interest-rate risks represent the changes in the market value of fixed-income financial instruments resulting from a change in the market interest rate. Interest-rate risks arise if discrepancies exist between fixed-interest-bearing assets and liabilities (including off-balance-sheet transactions) in certain maturity brackets. In order to determine the interest-rate risk, the interest-bearing financial instruments, including derivatives for hedging purposes, are classified on the basis of their remaining lifetime, or earlier date for adjusting their interest rate, into maturity brackets in which their interest rates are fixed. Insofar as hedging transactions have been effected in order to reduce interest-rate risks, these are shown independently of the hedged position.

The chart below presents the Commerzbank Group's open fixed-interest positions insofar as they are not assigned to the trading book. Items with a positive value show the fixed-interest risk on the assets side, i.e. asset items predominate; negative values represent an excess of liability items.

Fixed-interest gap

Maturity brackets	one year to less than four years	four years to less than six years	six years to less than eight years	eight years to less than ten years	ten years and more
Fixed-interest gap (DM m)	1.660	911	6.295	7.150	–2 594



(45) Fair value of financial instruments

The table below shows the fair values of the balance-sheet items and the respective off-balance-sheet transactions. The fair value is the amount at which financial instruments may be sold or purchased at fair terms on the balance-sheet date. Insofar as market prices (e.g. for securities) were available, we have used these in our accounting. For a large number of financial instruments, internal valuation models were applied, and in particular the present-value method, in the absence of market prices. Wherever claims on and liabilities to banks and customers had a remaining lifetime of less than a year, the fair value was considered to be that shown in the balance sheet.

DM bn	Fair value 31.12.1998	Book value 31.12.1998	Difference
Assets			
Cash reserve	13.2	13.2	0
Claims on banks	115.5	113.8	1.7
Claims on customers	371.3	360.4	10.9
Assets held for dealing purposes	67.0	67.0	0
Financial investments	84.9	81.6	3.2
Liabilities			
Liabilities to banks	133.3	132.5	0.8
Liabilities to customers	186.7	183.0	3.7
Securitized liabilities	244.8	238.2	6.6
Liabilities from dealing activities	42.1	42.1	0
Subordinated capital	11.5	10.8	0.7
Hedging derivatives to cover balance-sheet items	–4.2	–	–4.2

(46) Risk-weighted assets and capital ratios as defined by Principle I, KWG

DM m	Risk-weighted amounts in % 100	50	20	10	4	Total
Balance-sheet business	177,334	32,596	18,630	–	–	228,560
Traditional off-balance-sheet business	6,571	28,439	861	678	69	36,618
Derivatives business in investment portfolio	–	628	2,362	–	–	2,990
Risk-weighted assets, total	183,905	61,663	21,853	678	69	268,168
Risk-weighted amount of market risks multiplied by 12.5						52,600
Total items to be risk-weighted						320,768
Equity						27,534 [3]
Liable funds						27,815 [3]
Equity capital ratio [1]						10.3
Aggregate capital ratio [2]						8.7

[1] Equity multiplied by 100, divided by risk-weighted assets
[2] Liable funds multiplied by 100, divided by items which have to be risk-weighted
[3] After approval of the annual accounts

The core capital ratio in accordance with BIS stood at 6.3%, the equity capital ratio at 8.7%.

(47) Average number of staff employed by the Bank during the year

	total		male		female	
Group	27,912	(29,445)	14,503	(14,697)	13,409	(14,748)
in Germany	24,603	(26,102)	12,784	(12,960)	11,819	(13,142)
abroad	3,309	(3,343)	1,719	(1,737)	1,590	(1,606)
at Parent Bank	24,112	(25,411)	12,529	(12,655)	11,583	(12,756)
at companies included in the consolidation in proportion to the share of capital held	89	(91)	46	(47)	43	(44)

The above figures include part-time workers with the time they actually worked. The average time worked by this group is 58% of the standard working time. The figures in parentheses take part-time staff fully into account. Not included in the full-time figures are the average number of employees undergoing training within the Group.

	total	male	female
Apprentices	1,418	632	786

(48) Remuneration and loans to board members

The following remuneration was paid to members of the Board of Managing Directors and the Supervisory Board:

DM1,000	1998	1997
Board of Managing Directors	16,492	18,586
Supervisory Boards	2,551	2,558
Retired Managing Directors and their dependents	8,126	8,512

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

DM1,000	31.12.1998	31.12.1997
Board of Managing Directors	17,493	16,809
Supervisory Boards	2,282	2,044

(49) Other commitments

Commitments towards companies either outside the Group or not included in the consolidation for uncalled payments on shares in private limited-liability companies issued but not fully paid amount to DM74m.

The Bank is responsible for the payment of assessments of up to DM71m to Liquiditäts-Konsortialbank GmbH, Frankfurt am Main, the "lifeboat" institution of the German banking industry. At the same time, Group companies have guaranteed payment to cover the assessments for which institutions belonging to their respective associations are liable.

Under Section 5, (10) of the statutes of the German banks' Deposit Insurance Fund, the Bank has undertaken to indemnify the Association of German Banks for any losses incurred through support provided for banks in which Commerzbank holds a majority interest.

Assets to the value of DM2.7bn were used to furnish the collateral security required by legal provisions abroad.

Obligations arising from transactions on futures and options exchanges and towards clearing centres, for which securities had been deposited as collateral, amounted to DM403m.

The Group's existing obligations arising from rental and leasing agreements – buildings, office furniture and equipment – will lead to expenses of DM733m in 1999, DM709m per year in the years 2000-2005, and DM709m as from the year 2005.

(50) Letter of comfort

In respect of subsidiaries included in the consolidated financial statements of our Bank, Commerzbank AG ensures that, except in the case of political risks, they are able to meet their contractual liabilities.

The boards of the Parent Bank

Supervisory Board

Dr. Walter Seipp (Chairman)
Hans-Georg Jurkat (Deputy Chairman)
Professor Dr. Clemens Börsig*)
Heinz-Werner Busch*)
Uwe Foullong
Dr.-Ing. Otto Happel
Gerald Herrmann
Detlef Kayser
Dieter Klinger
Dr. Torsten Locher*)
Helmut Mamsch*)
Horst Sauer
Werner Schönfeld*)
Dr.-Ing. Ekkehard Schulz*)
Alfred Seum*)
Dr. Raban Frhr. v. Spiegel
Hermann Josef Strenger
Dr. Jürgen Strube*)
Heinrich Weiss
Wilhelm Werhahn

**) since May 29, 1998*

The following ceased to belong to the Board when their term of office came to an end on May 29, 1998:

Reinhold Borchert
Erhard Bouillon
Dr. Hans-Jürgen Knauer
Peter Kretschmer
Wolfgang Schmelz
Dr. Rolf Stoffel
Dr.-Ing. Dieter H. Vogel
Wolfgang Ziemann

Board of Managing Directors

Dr. h. c. Martin Kohlhaussen (Chairman)
Dr. Erich Coenen
Dietrich-Kurt Frowein
Dr. Peter Gloystein
Dr. Kurt Hochheuser
Dr. Norbert Käsbeck
Jürgen Lemmer
Klaus-Peter Müller
Klaus Müller-Gebel
Klaus M. Patig
Dr. Axel Frhr. v. Ruedorffer

Holdings in consolidated companies

Affiliated companies included in the consolidation

Company name	Domicile	Share of capital held, in %	of which: indirectly %	Voting*) rights %		Equity in 1,000
Atlas-Vermögensverwaltungs-Gesellschaft mbH	Düsseldorf	100.0			DM	350,184
Bankhaus Bauer Aktiengesellschaft	Stuttgart	83.7	17.0		DM	35,167
Berliner Commerz Beteiligungsgesellschaft mbH	Berlin	100.0			DM	11,000
Berliner Commerz Grundstücks- und Verwaltungsgesellschaft mbH	Berlin	100.0			DM	3,300
C. Portmann	Frankfurt am Main	100.0			DM	1,672
Caisse Centrale de Réescompte, S.A.	Paris	92.1			Ffr	857,528
C C R - Gestion	Paris	99.4	99.4		Ffr	28,441
CB Finance Company B.V.	Amsterdam	100.0			Dfl	75,991
Commerzbank Overseas Finance N.V.	Curaçao	100.0	100.0		DM	6,399
comdirect bank GmbH	Quickborn	100.0			DM	67,500
Commerzbank Asset Management Asia Ltd.	Singapore	100.0	100.0		S$	10,114
Commerz Asset Management (UK) plc	London	97.2			£	181,660
Jupiter International Group PLC (Sub-Group)	London	100.0	100.0		£	102,282
Jupiter Asset Management Ltd.	London	100.0	100.0			
Jupiter Unit Trust Mgrs. Ltd	London	100.0	100.0			
Capital Development Ltd	Isle of Man	51.0	51.0			
Tyndall Holdings Ltd	London	100.0	100.0			
Jupiter Tyndall Pension Trust Ltd	London	100.0	100.0			
Jupiter Administration Services Ltd	London	100.0	100.0			
Tyndall International Group Ltd	Bermuda	100.0	100.0			
EMD Ltd	Bermuda	100.0	100.0			
Jupiter Asset Management (Asia) Ltd	Hong Kong	100.0	100.0			
Jupiter Asset Management (Bermuda) Ltd	Bermuda	100.0	100.0			
Jupiter Asset Management (Jersey) Ltd	Jersey	100.0	100.0			
KF Ltd	Bermuda	61.3	61.3			
CI Management Ltd	Bermuda	100.0	100.0			
TI Ltd	Bermuda	100.0	100.0			
AF Ltd	Bermuda	100.0	100.0			
AGF Ltd	Bermuda	100.0	100.0			
FP Ltd	Bermuda	100.0	100.0			
HK Ltd	Bermuda	100.0	100.0			
IF Ltd	Bermuda	75.0	75.0			
KL Ltd	Bermuda	66.0	66.0			
Tyndall Investments Ltd	London	100.0	100.0			
Tyndall International Holdings Ltd	Bermuda	100.0	100.0			
Tyndall Trust International I.O.M. Ltd	Isle of Man	100.0	100.0			
Commerz Beteiligungsgesellschaft mbH	Bad Homburg v.d.H.	100.0			DM	1,000
Commerz (East Asia) Ltd.	Hong Kong	100.0			DM	83,534
Commerz Finanz-Management GmbH	Frankfurt am Main	100.0			DM	606
Commerz Futures Corporation	Wilmington/Delaware	100.0			US $	12,167
Commerz Grundbesitz-Investmentgesellschaft mbH	Wiesbaden	75.0			DM	32,947

Affiliated companies included in the consolidation

Company name	Domicile	Share of capital held, in %	of which: indirectly %	Voting*) rights %	Equity in 1,000	
Commerz International Capital Management GmbH	Frankfurt am Main	100.0			DM	60,534
CICM Fund Management Ltd.	Dublin	100.0	100.0		Ir£	1,777
CICM (Ireland) Ltd.	Dublin	75.0	75.0		Ir£	1,136
Commerz International Capital Management (Japan) Ltd.	Tokio	100.0	100.0		¥	1,457,911
Commerz Securities (Japan) Company Ltd.	Hong Kong/Tokyo	100.0			¥	162,538
Commerz Service Gesellschaft für Kundenbetreuung mbH	Frankfurt am Main	100.0			DM	50
Commerzbank (Budapest) R.t.	Budapest	100.0			Ft	8,460,815
Commerzbank (Nederland) N.V.	Amsterdam	100.0			Dfl	391,755
Commerzbank (Schweiz) AG	Zurich	100.0			Sfr	209,299
Commerzbank (South East Asia) Ltd.	Singapore	100.0			S$	275,358
Commerzbank Belgium SA	Brussels	100.0			Bfr	4,376,722
Commerzbank Capital Markets Corporation	New York	100.0			US $	45,653
Commerzbank Europe (Ireland) Unlimited	Dublin	40.8			DM	1,076,929
Commerzbank Europe Finance (Ireland) plc	Dublin	100.0	100.0		Ir£	31
Commerzbank International S.A.	Luxembourg	100.0			DM	3,298,158
Commerzbank International (Ireland) Unlimited	Dublin	100.0	100.0		DM	200,872
Commerzbank Investment Management GmbH	Frankfurt am Main	100.0			DM	39,000
Commerzbank U.S. Finance, Inc.	Wilmington/Delaware	100.0			US $	731
CommerzLeasing und Immobilien GmbH (Sub-Group)	Düsseldorf	100.0			DM	73,595
ALTINUM GVG mbH & Co. Objekt Neu-Isenburg KG	Düsseldorf	100.0	100.0			
ALTINUM GVG mbH & Co. Objekt Sonninhof KG	Düsseldorf	100.0	100.0			
BRE Leasing SP.O.O	Warsaw	51.0	51.0			
CFB Commerz Fonds Beteiligungsgesellschaft mbH	Düsseldorf	100.0	100.0			
COBA Vermögensverwaltungsgesellschaft mbH	Düsseldorf	100.0	100.0			
Commerz Immobilien GmbH	Düsseldorf	100.0	100.0			
Commerz Immobilien Vermietungsgesellschaft mbH	Düsseldorf	100.0	100.0			
CommerzBaucontract GmbH	Düsseldorf	100.0	100.0			
CommerzBaumanagement GmbH	Düsseldorf	100.0	100.0			
CommerzLeasing Mobilien GmbH	Düsseldorf	100.0	100.0			
CommerzLeasing Mietkauf GmbH	Düsseldorf	100.0	100.0			
FABA Vermietungsgesellschaft mbH	Düsseldorf	95.0	95.0			
NESTOR GVG mbH & Co. Objekt ITTAE Frankfurt KG	Düsseldorf	100.0	95.0			
NESTOR GVG mbH & Co. Objekt Villingen-Schwenningen KG	Düsseldorf	0.0	0.0	51.0		
NEUTRALIS GVG mbH	Düsseldorf	100.0	100.0			
NORA GVG mbH & Co. Objekt Düsseldorf KG	Düsseldorf	100.0	100.0			
NORA GVG mbH & Co. Objekt Lampertheim KG	Düsseldorf	100.0	100.0			
NORA GVG mbH & Co. Objekte Plön und Preetz KG	Düsseldorf	100.0	100.0			
NOVELLA GVG mbH	Düsseldorf	100.0	100.0			
OPTIO GVG mbH & Co. Objekt Hannover Hanomagstraße KG	Düsseldorf	0.5	0.5			
SECUNDO GVG mbH	Düsseldorf	100.0	100.0			
TERTIO GVG mbH	Düsseldorf	100.0	100.0			

Affiliated companies included in the consolidation

Company name	Domicile	Share of capital held, in %	of which: indirectly %	Voting*) rights %	Equity in 1,000
Hypothekenbank in Essen AG	Essen	51.0			DM 841,555
Montgomery Asset Management, LLC	Wilmington/Delaware	88.5			US $ 192,909
OLEANDRA GVG mbH & Co., Objekt Jupiter KG	Düsseldorf	100.0			DM 10,276
OLEANDRA GVG mbH & Co., Objekt Luna KG	Düsseldorf	100.0			DM 12,048
OLEANDRA GVG mbH & Co., Objekt Neptun KG	Düsseldorf	100.0			DM 6,213
OLEANDRA GVG mbH & Co., Objekt Pluto KG	Düsseldorf	100.0			DM 18,463
OLEANDRA GVG mbH & Co., Objekt Venus KG	Düsseldorf	100.0			DM 11,285
OLEANDRA GVG mbH & Co., Objekt Uranus KG	Düsseldorf	100.0			DM 20,509
RHEINHYP Rheinische Hypothekenbank Aktiengesellschaft	Frankfurt am Main	97.9			DM 1,676,850
RHEINHYP BANK Europe plc	Dublin	100.0	100.0		DM 217,439
RHEINHYP Finance, N.V.	Amsterdam	100.0	100.0		DM 1,329
WESTBODEN-Bau- und Verwaltungsgesellschaft mbH	Frankfurt am Main	100.0	100.0		DM 711
von der Heydt-Kersten & Söhne	Wuppertal-Elberfeld	100.0			DM 13,084
Commerzbank Capital Markets (Eastern Europe) NV	Amsterdam	100.0			Dfl 59,273
Commerzbank Capital Markets (Eastern Europe) a.s.	Prague	100.0	100.0		Kč 670,518

Companies included in the consolidation on a pro-rata basis

Company name	Domicile	Share of capital held, in %	of which: indirectly %	Voting*) rights %	Equity in 1,000
Deutsche Schiffsbank Aktiengesellschaft	Bremen/Hamburg	40.0			DM 417,000

Associated companies included in the consolidation at equity

Company name	Domicile	Share of capital held, in %	of which: indirectly %	Voting*) rights %	Equity in 1,000
ADIG Allgemeine Deutsche Investment-Gesellschaft mbH	Munich/ Frankfurt am Main	42.7	1.0		DM 242,790
ADIG-Investment Luxemburg S.A.	Luxembourg	48.2	10.7		DM 200,723
Bank Rozwoju Eksportu S.A.	Warsaw	48.7			Zl 961,873
Commerz Unternehmensbeteiligungs-Aktiengesellschaft	Frankfurt am Main	40.0			DM 147,884
Karl Baumgartner + Partner Consulting GmbH & Co. KG	Sindelfingen	43.1			DM 813
Korea Exchange Bank	Seoul	29.8			₩ 1,498,226,000
Korea International Merchant Bank Ltd	Seoul	27.1			₩ 236,133,231
Liegenschaft Hainstraße GbR	Frankfurt am Main	50.0	50.0		DM 19,711
PIONEER Poland U.K. L.P.	Jersey	37.9			US $ 11,519
P.T. Bank Finconesia	Jakarta	24.6			Rp. 124,574,455
Relator Grundstücksvermietungsgesellschaft mbH	Düsseldorf	38.0	38.0		DM 319
WinCom Versicherungs-Holding Aktiengesellschaft	Wiesbaden	25.0			DM 1,210,355

*) Shown only wherever voting rights do not reflect share of capital held.

Notes pursuant to Art. 292a (2), 4b, HGB on accounting, valuation and consolidation methods which differ from those prescribed by German law

The objective of financial statements in accordance with IAS is to provide information for a broad circle of readers on a company's assets, liabilities, financial position and profit or loss and changes in these. Financial statements in accordance with IAS should contain information enabling investors and other interested circles to take economic decisions. Financial statements in accordance with IAS are not influenced by tax regulations. No financial statement forms exist for the income statement and the balance sheet.

The main differences in the accounting and valuation methods as far as existing German legislation is concerned are:

- Securities

  Securities are divided up into trading and financial-investment portfolios. Trading portfolios appear at their fair value; financial investments are shown at cost. In the case of trading portfolios, gains which have not been realized are also recognized.

- Financial derivatives in the trading portfolio

  Financial derivatives in the trading portfolio are shown at their fair value under either assets or liabilities. Gains and losses – even those not realized – are shown under the trading result.

- Intangible assets produced by the Group

  Intangible assets produced by the Group itself have to be capitalized, if they meet the conditions for the capitalization of assets.

- Pension commitments

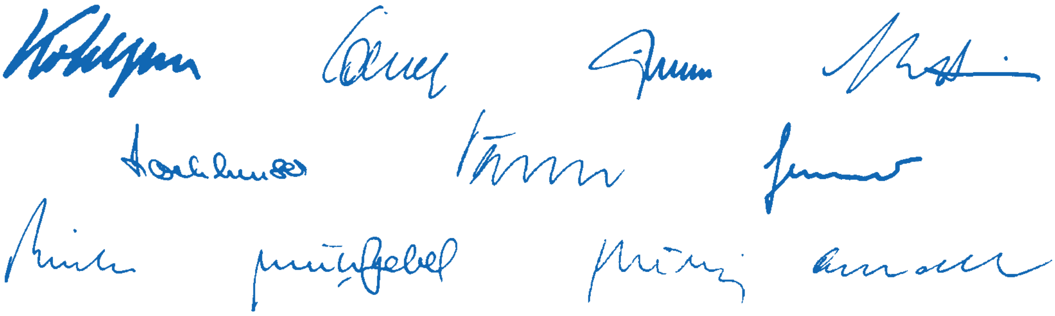
  Pension commitments in accordance with IAS are based on the projected-unit-credit method. Calculation is made under the postulate that the benefits are earned and is based on future commitments, including future increases in salaries and pensions. Under IAS, the discount factor is geared to the capital-market interest rate.

- Other provisions

  Provisions may only be formed if they relate to an external commitment. Provisions for expenses may not be formed for the purpose of recognizing future costs as expenses of the past financial year.

Frankfurt am Main, March 2, 1999

The Board of Managing Directors



Auditors' certificate

We have audited the consolidated financial statements of Commerzbank AG as of December 31, 1998, consisting of the balance sheet, income statement, statement of the changes in equity, the cash flow statement and notes. The presentation and content of the consolidated financial statements are the responsibility of the company's Board of Managing Directors. It is our task to decide on the basis of the audit which we have performed whether the consolidated financial statements comply with the International Accounting Standards (IAS).

We have conducted our audit in accordance with both German auditing rules and the International Standards on Auditing (ISA). The audit has to be conducted such that it is possible to determine, with sufficient certainty, whether the consolidated financial statements are free from major misrepresentations. As part of the audit, substantiation for the valuations and details presented in the financial statements are assessed on a sample basis. The audit includes an opinion on both the accounting methods that have been applied and the main assessments of the Board of Managing Directors, and also an appraisal of the overall presentation of the consolidated financial statements. We believe that our audit provides a sufficiently sound basis for judgement.

We are convinced that the consolidated financial statements as of December 31, 1998, in accordance with the IASs, give a true and fair view of the Group's assets, liabilities, financial position and profit or loss and also of the flows of payments in the past financial year.

Our audit, which also took account of the Group management report for the 1998 financial year and compliance with the provisions pursuant to Art. 292a, HGB, for exemption from the need to draw up financial statements in accordance with HGB, produced no objections. In our opinion, the Group management report as a whole presents an accurate picture of the situation of the Group and is compatible with the consolidated financial statements. The conditions have been met for the company to be exempted from having to present consolidated financial statements and a Group management report in accordance with German law.

Frankfurt am Main, March 3, 1999

C&L Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Wagener	Friedhofen
Wirtschaftsprüfer	Wirtschaftsprüfer
(German public accountant)	(German public accountant)

Report of the Supervisory Board

Walter Seipp

In 1998, the Supervisory Board carried out its duties under the law and the Bank's statutes, supervising the conduct of the Bank's affairs.

The Board of Managing Directors provided the Supervisory Board with regular reports on the situation and development of both the Parent Bank and the Group, as well as on fundamental business-policy, management and corporate planning issues.

The Supervisory Board fulfilled its duties in plenary sessions and through its committees (Presiding Committee, Loans Committee, Social Welfare Committee and Mediation Committee, pursuant to Art. 27, (3), German Codetermination Act). Two plenary sessions were held in both the first and second half of 1998. At a further plenary meeting immediately after the AGM on May 29, 1998, the Chairman and Deputy Chairman of the Supervisory Board were elected, and also the members of the committees. The Presiding Committee and the Loans Committee met four times each during the 1998 financial year and the Social Welfare Committee once only. The Mediation Committee did not have to be convened at all.

The plenary sessions were used above all to deal with business policy, including strategic and organizational aspects, with corporate planning, and also with the development of the balance sheet, earnings performance and the equity base. At its plenary sessions, the Supervisory Board also treated the development of the individual corporate divisions and banking departments, the Group's risk position, the differences between HGB and IAS accounting rules and the minimum requirements for trading activities conducted by banks. In addition, such important individual projects as the changeover to the euro and the Year 2000 issue were discussed.

The Presiding Committee was kept regularly informed about the business progress of the various corporate divisions and of the Group. With the Board of Managing Directors, it discussed strategic goals and strategic investments, business performance and planning, as well as individual items of significance, indicating its approval wherever necessary. In addition, it considered the performance of the various areas of business activity and the findings of the Bank's internal auditing. Insofar as topics were discussed that were also dealt with in plenary sessions, the Presiding Committee treated them in more detail.

The Loans Committee dealt with all those lending commitments which it is required to review by law and by the Bank's statutes. It discussed with the Board of Managing Directors credits involving an enhanced degree of risk, other problem loans, and special developments in lending business. In connection with the emerging-markets financial crisis, the Bank's credit exposure was carefully examined. The Loans Committee also studied the sectoral breakdown of the credit portfolio and risk-management systems. In addition, it reviewed changes in investments, as did the Presiding Committee in some cases. The Board of Managing Directors presented major real-estate transactions and construction projects to the Loans Committee. Insofar as is required by law and by the Bank's statutes, the Loans Committee also approved the transactions submitted to it.

On behalf of the employees, the Social Welfare Committee dealt with fundamental issues of personnel policy and social welfare. These included, for example, old-age provision, early retirement, part-time employment for older staff and working from home. The development of fringe benefits was also a topic.

The committees reported on their activities at the plenary sessions.

In view of the entry into force of legislation to strengthen control and transparency in the corporate sector, the Supervisory Board discussed the question of forming a committee for examining the accounts. The Supervisory Board decided not to form a new committee, but rather to assign these duties as well to the Presiding Committee. This was decided because the Presiding Committee already has extensive duties in connection with monitoring the management of the Bank and it seemed sensible to make use of the accumulated know-how in examining the financial statements.

The Chairman of the Supervisory Board was constantly and promptly informed about all the important events at the Parent Bank and within the Group. He received the minutes of meetings of the Board of Managing Directors along with the proposed resolutions, and he arranged for important matters to be dealt with by the committees of the Supervisory Board. In the interests of a steady flow of information and an exchange of opinion between the Supervisory Board and the Board of Managing Directors, he held regular discussions with the Chairman of the latter.

The financial statements and management reports of the Parent Bank (according to HGB rules) and the Group (according to IAS rules), together with the books of account for the period from January 1 to December 31, 1998, have been examined by the auditors, C&L Deutsche Revision Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, and carry their unqualified legally prescribed certification. In good time for the relevant board meeting, all members of the Supervisory Board received the details of the financial statements, the annual reports and the auditors' reports. In keeping with a resolution by the Supervisory Board, the members of the Presiding Committee also received all the documents and notes relating to the auditors' reports. At a special session before the meeting at which the Supervisory Board dealt with the accounts, the Presiding Committee, with the auditors present, went through these documents in detail. The auditors also took part in the meeting which dealt with the annual accounts, reporting on the main findings of the audit and answering questions. The Supervisory Board has signified its agreement with the results of the audit. Within the scope of the legal provisions, it has examined the financial statements and management reports of both the Parent Bank and the Group, and also the proposal of the Board of Managing Directors as to the appropriation of the distributable profit. It has found no cause for objection. At today's meeting, the Supervisory Board approved the financial statement presented by the Board of Managing Directors, which accordingly may be regarded as adopted. It concurs with the latter's proposal as to the profit appropriation.

As stipulated in the Bank's statutes, a new Supervisory Board was elected in the year under review. The new members took office as from the end of the Annual General Meeting of May 29, 1998.

Prof. Dr. Clemens Börsig, Helmut Mamsch, Dr.-Ing. Ekkehard Schulz and Dr. Jürgen Strube were newly elected, while Dr.-Ing. Otto Happel, Dr. Walter Seipp, Dr. Raban Frhr. v. Spiegel, Herrmann Josef Strenger, Heinrich Weiss and Wilhelm Werhahn were re-elected. In the election of the employee representatives, which had taken place before the AGM, Hans-Georg Jurkat, Uwe Foullong, Gerald Herrmann, Detlef Kayser, Dieter Klinger and Horst Sauer were re-elected. The staff representatives Heinz-Werner Busch, Dr. Torsten Locher, Werner Schönfeld and Alfred Seum are new to the Supervisory Board.

The Supervisory Board elected Dr. Walter Seipp as its Chairman and Hans-Georg Jurkat as Deputy Chairman.

The shareholder representatives Erhard Bouillon, Dr. Hans-Jürgen Knauer, Dr.-Ing. Dieter H. Vogel and Wolfgang Ziemann, together with the employee representatives Reinhold Borchert, Peter Kreschmer, Wolfgang Schmelz and Dr. Rolf Stoffel ceased to belong to the Supervisory Board at the close of the AGM on May 29, 1998. We should like to thank them once again here for their work on this board.

Dr. Raban Frhr. v. Spiegel and Dr. Walter Seipp are resigning from the Supervisory Board at the close of the AGM on May 21, 1999. We propose that the AGM elect Dietrich-Kurt Frowein and Gianfranco Gutty to the Supervisory Board to serve the remaining term of office.

Frankfurt am Main, March 22, 1999
The Supervisory Board

Dr. Walter Seipp
Chairman

Supervisory Board

Dr. Walter Seipp
Frankfurt am Main
Chairman

Hans-Georg Jurkat
Cologne
Commerzbank AG
Deputy Chairman

Professor Dr. Clemens Börsig*
Essen
Member of the Board of
Managing Directors
RWE AG

Heinz-Werner Busch*
Duisburg
Commerzbank AG

Uwe Foullong
Düsseldorf
National Executive Committee
Banking Section
Commercial, Banking and
Insurance Workers' Union (HBV)

Dr.-Ing. Otto Happel
Bochum
Chairman of the Supervisory Board
GEA AG

Gerald Herrmann
Hamburg
Banks, Savings Banks and
Insurances Section
Sub-section: Banks
National Executive Committee of
Salaried Employees' Union (DAG)

Detlef Kayser
Berlin
Commerzbank AG

Dieter Klinger
Hamburg
Commerzbank AG

Dr. Torsten Locher*
Hamburg
Commerzbank AG

Helmut Mamsch*
Düsseldorf
Member of the Board of
Managing Directors
VEBA AG

Horst Sauer
Frankfurt am Main
Commerzbank AG

Werner Schönfeld*
Essen
Commerzbank AG

Dr.-Ing. Ekkehard Schulz*
Düsseldorf
Chairman of the Board of
Managing Directors
Thyssen Aktiengesellschaft

Alfred Seum*
Frankfurt am Main
Commerzbank AG

Dr. Raban Frhr. v. Spiegel
Oberursel

Hermann Josef Strenger
Leverkusen
Chairman of the Supervisory Board
Bayer AG

Dr. Jürgen Strube*
Ludwigshafen
Chairman of the Board of
Managing Directors
BASF Aktiengesellschaft

Heinrich Weiss
Hilchenbach and Düsseldorf
Chairman of the Board of
Managing Directors
SMS AG

Wilhelm Werhahn
Neuss
Member of the Board of
Managing Directors
Wilh. Werhahn

The following ceased to belong to the Board when their term of office came to an end on May 29, 1998:

Reinhold Borchert
Cologne
Commerzbank AG

Erhard Bouillon
Bad Soden

Dr. Hans-Jürgen Knauer
Mülheim an der Ruhr
Member of the Supervisory Board
Stinnes AG

Peter Kretschmer
Hamburg
Commerzbank AG

Wolfgang Schmelz
Frankfurt am Main
Commerzbank AG

Dr. Rolf Stoffel
Frankfurt am Main
Commerzbank AG

Dr.-Ing. Dieter H. Vogel
Düsseldorf

Wolfgang Ziemann
Essen

** since May 29, 1998*

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Amministratore Delegato
Banca Commerciale Italiana

José Maria Amusátegui
Madrid
Presidente
Banco Central
Hispanoamericano S.A.

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Essen
Deputy Chairman of the Board
of Managing Directors
Ruhrgas AG

Manfred Broska
Wiesbaden
Chairman of the Board of
Managing Directors
DBV – Winterthur
Holding AG

Hans-Dieter Cleven
CH-Baar/Zug
Deputy Chairman of the
Executive Board
Metro Holding AG

Dr. Michael E. Crüsemann
Hamburg
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Managing Directors
Otto Versand

Dr. Manfred Gentz
Stuttgart
Member of the Board of
Managing Directors
DaimlerChrysler AG

Rainer Grohe
Munich
Member of the Board of
Managing Directors
VIAG AG

Hans-Olaf Henkel
Berlin
Member of the Supervisory Board
IBM Deutschland GmbH

Dr.-Ing. Hans-Peter Keitel
Essen
Chairman of the Board of
Managing Directors
HOCHTIEF Aktiengesellschaft
vorm. Gebr. Helfmann,
Member of the Board of
Managing Directors
RWE AG

Rainer Laufs
Hamburg
Chairman of the Board of
Managing Directors
Deutsche Shell AG

Friedrich Lürssen
Bremen
Management Spokesman
Fr. Lürssen Werft (GmbH & Co.)

Dr. Siegfried Luther
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Wuppertal
General Partner
Vorwerk & Co.

Rudolf August Oetker
Bielefeld

Dr. Wolfgang Peter
Düsseldorf
Member of the Board of
Managing Directors
MANNESMANN AG

Dr. Hans-Ulrich Plaul
Wetzlar
Chairman of the Board of
Managing Directors
Buderus AG

Jürgen Radomski
Erlangen
Member of the Board of
Managing Directors
Siemens AG

Jürgen Reimnitz
Frankfurt am Main

Dr. Jürgen Strube
Ludwigshafen
Chairman of the Board of
Managing Directors
BASF Aktiengesellschaft
until May 29, 1998

Dr. Klaus Trützschler
Essen
Member of the Board of
Managing Directors
RAG Aktiengesellschaft
since January 1, 1999

Dr. Giuseppe Vita
Berlin
Chairman of the Board of
Managing Directors
Schering AG

Dr. h. c. Martin Kohlhaussen
Chairman of the Board of
Managing Directors

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Corporate Communications
and Economic Research
Strategy and Controlling

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staff department
Credit Risk Management

banking department
Real Estate

main branches
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Cologne
Erfurt
Hanover

Dietrich-Kurt Frowein

banking departments
Asset Management
Relationship Management

main branches
Frankfurt am Main
Munich
Nuremberg

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banking department
Private Banking

main branches
Dresden
Düsseldorf
Leipzig
Mainz

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banking department
Corporate Banking

main branches
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regions abroad
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Luxembourg
Far East
Middle East
North Africa

Klaus-Peter Müller

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regions abroad
North and South America
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Human Resources

main branches
Bremen
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Corporate Finance
Global Bonds
Global Equities

regions abroad
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Near East
South-East Asia
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Dr. Axel Frhr. v. Ruedorffer

staff departments
Accounting and Taxes
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Internal Auditing
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Management

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as of February 1, 1999

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Würzburg

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General Manager
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Amberg

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Hausgeräte GmbH
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Bombardier Transportation
DWA Deutsche Waggonbau GmbH
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Oberstufenzentrum
Banken und Versicherungen
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Versorgungswerk
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Schwartauer Werke GmbH & Co.
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Dipl.-Kaufmann Erhard Uder
Member of the Supervisory Board
DSD Dillinger Stahlbau GmbH
Saarlouis

Dipl.-Volkswirt Dr. Richard Weber
Managing Partner
Karlsberg Brauerei KG Weber
Homburg (Saar)

Saxony

Dipl.-Ing. Albrecht Bolza-Schünemann
Member of the Board of
Managing Directors
Koenig & Bauer Aktiengesellschaft
Planeta-Bogenoffsetmaschinen
Radebeul

Gerd G. Heuss
Spokesman of the Executive Board
Volkswagen Sachsen GmbH
Mosel

Konsul Dr.-Ing. Klaus-Ewald Holst
Chairman of the Board of
Managing Directors
Verbundnetz Gas AG
Leipzig

Elvira-Maria Horn
General Manager
Chamber of Industry and
Commerce Dresden Section
Dresden

Dipl.-Kaufmann Heinz-Jürgen Preiss-Daimler
Managing Partner
P-D Management Consulting GmbH
Bitterfeld

Ernst Wilhelm Rittinghaus
Member of the Board of
Managing Directors
Sachsenring Automobiltechnik AG
Zwickau

Dr. Wolfgang Vehse
Staatssekretär für Wirtschaft
Sächsisches Staatsministerium
für Wirtschaft und Arbeit
Dresden

Saxony-Anhalt

Dr.-Ing. Klaus Hieckmann
Managing Partner
FER Ingenieurgesellschaft
für Automatisierung GmbH,
President
Chamber of Industry and Commerce
Magdeburg Section
Magdeburg

Schleswig-Holstein

Carsten Dencker Nielsen
Managing Director
The East Asiatic Company Ltd. A/S
Copenhagen/Denmark

Professor Dr. Hans Heinrich Driftmann
General and Managing Partner
Peter Kölln
Kommanditgesellschaft auf Aktien
Elmshorn

Dr. Rudolf Hartmann
Chairman of the Supervisory Board
Grace GmbH
Norderstedt

Dr. Klaus Murmann
Chairman of the Board of
Managing Directors
Sauer-Sundstrand Group
Neumünster/Ames, Iowa

Dr. Lutz Peters
Managing Partner
Schwartauer Werke GmbH & Co.
Bad Schwartau

Hans Wilhelm Schur
Chairman of the Supervisory Board
Schur International a/s
Horsens/Denmark

Dipl.-Math. Hans-Artur Wilker
Member of the Board of
Managing Directors
Howaldtswerke – Deutsche
Werft AG
Kiel

Dr. Ernst J. Wortberg
Chairman of the Board of
Managing Directors
L. Possehl & Co. mbH
Lübeck

Thuringia

Josef Johr
General Manager
Metall Rohstoffe Thüringen GmbH
Erfurt

Dr. Hans-Werner Lange
Chairman of the Board of
Managing Directors
TUPAG-Holding AG
Mühlhausen

Klaus Lantzsch
Managing Partner
FER Fahrzeugelektrik GmbH
Eisenach

Eugeen Theunis
Managing Partner
Garant Türen- und Zargen
Produktions- und Handels GmbH
Ichtershausen/Thörey

Andreas Trautvetter
Minister of Finance
Free State of Thuringia
Erfurt

Members of the Board of Managing Directors of Commerzbank AG

a) Membership of legally prescribed supervisory boards
b) Membership of similar bodies

Dr. h.c. Martin Kohlhaussen

a) Bayer AG
Bertelsmann AG
GKN Automotive International GmbH (Chairman)
Hochtief AG vorm. Gebr. Helfmann
Karstadt AG
Schering AG
within Commerzbank Group:
RHEINHYP Rheinische Hypothekenbank AG (Chairman)

b) DaimlerChrysler AG Member of Shareholder Committee
Kreditanstalt für Wiederaufbau
Liquiditäts-Konsortialbank GmbH
Commerzbank International S.A. (Chairman)
Commerzbank (Switzerland) Ltd (Chairman)
Commerzbank (South East Asia) Ltd. (Chairman)
Jupiter International Group PLC (Chairman)

Dr. Erich Coenen

a) Adolf Ahlers AG
Kolbenschmidt-Pierburg AG
Raab Karcher AG-Veba Immobilien Management
within Commerzbank Group:
Commerz Grundbesitz-Investment-gesellschaft mbH (Chairman)
RHEINHYP Rheinische Hypothekenbank AG (Deputy Chairman)

b) Security Capital U.S. Realty
Security Capital European Realty
CommerzLeasing und Immobilien GmbH (Chairman)

Dietrich-Kurt Frowein

a) ADIG Allgemeine Deutsche Investment-Gesellschaft mbH (Deputy Chairman)
AWD Holding AG (Deputy Chairman)
DBV-Winterthur Holding AG
Heidelberger Druckmaschinen AG
Mannesmann VDO AG
Schunk GmbH
Software AG (Chairman)
WinCom Versicherungs-Holding AG (Deputy Chairman)
within Commerzbank Group:
Commerzbank Investment Management GmbH (Chairman)

b) ADIG-Investment Luxemburg S.A. (Deputy Chairman)
Nukem GmbH
Caisse Centrale de Réescompte S.A. (Chairman)
Commerz Asset Management (UK) plc (Chairman)
CICM (Ireland) Ltd. (Chairman)
Commerz Finanz-Management GmbH (Chairman)
Commerz International Capital Management GmbH (Chairman)
Commerzbank Europe (Ireland) Unltd. (Chairman)
Commerzbank International S.A.
Commerzbank (Switzerland) Ltd (Vice Chairman)
Jupiter International Group PLC
Montgomery Asset Management, LLC (Chairman)

Dr. Peter Gloystein

a) DBV-Winterthur Holding AG
Deutsche Nickel AG
FAG Kugelfischer Georg Schäfer AG
Mannesmann Sachs AG
STRABAG AG
Vereinigte Deutsche Nickel-Werke AG
within Commerzbank Group:
comdirect bank GmbH (Chairman)
Commerz Grundbesitz-Investment-gesellschaft mbH (1st Deputy Chairman)

b) Euro Travellers Cheque Deutschland GmbH
Commerz Finanz-Management GmbH (Deputy Chairman)

Dr. Kurt Hochheuser

a) Borgers AG (Deputy Chairman)
G E A AG
Hüls AG
Klöckner & Co. AG
Krupp Hoesch Industries GmbH
Saarberg AG
R W E Energie AG
Thyssen Industrie AG
within Commerzbank Group:
Commerzbank Investment Management GmbH

b) Karl Baumgartner + Partner Consulting KG (Chairman)
CommerzLeasing und Immobilien GmbH (Deputy Chairman)

Dr. Norbert Käsbeck

a) Hugo Boss AG
Friatec AG (Deputy Chairman)
HAWESKO Holding AG
M A N AG
Salamander AG
SÜBA Bau AG

Seats on supervisory boards and similar bodies

(information pursuant to Art. 285, (10), HGB)

As of 31.12.1998

Jürgen Lemmer

a) ADIG Allgemeine Deutsche Investment-Gesellschaft mbH
   Buderus AG
   Clearing Bank Hannover AG (Chairman)
   Deutsche ICI GmbH
   Dunlop GmbH

b) ADIG-Investment Luxemburg S.A.
   Banque Marocaine du Commerce Extérieur
   Korea Exchange Bank
   Verlagsbeteiligungs- und Verwaltungs-GmbH
   Commerz (East Asia) Ltd.
   Commerz Securities (Japan) Company Ltd.
   Commerzbank Europe (Ireland) Unltd. (Chairman)
   Commerzbank International (Ireland) Unltd. (Chairman)
   Commerzbank International S.A.

Klaus-Peter Müller

a) Asea Brown Boveri AG
   Ford-Werke AG
   Honsel AG
   Sappi Alfeld AG (Deputy Chairman)
   Thyssen Handelsunion AG
   within Commerzbank Group:
   Hypothekenbank in Essen AG (Chairman)

b) Bank Rozwoju Eksportu S.A. (Deputy Chairman)
   Parker Hannifin Corporation
   Commerzbank (Budapest) Rt. (Chairman)
   Commerzbank Capital Markets Corporation
   Commerz International Capital Management GmbH
   Commerzbank (Eurasija) SAO (Chairman)

Klaus Müller-Gebel

a) Deutsche Schiffsbank AG (Chairman)
   Holsten-Brauerei AG
   Kellogg (Deutschland) GmbH
   within Commerzbank Group:
   comdirect bank GmbH
   Commerzbank Investment Management GmbH
   RHEINHYP Rheinische Hypothekenbank AG (Deputy Chairman)

b) BVV Versicherungsverein des Bankgewerbes a.G. (Chairman)

Klaus M. Patig

a) Deutsche Börse AG (Deputy Chairman)
   Ferrostaal AG
   G. Kromschröder AG (Deputy Chairman)
   SGE Deutsche Holding GmbH

b) EUREX Zürich AG
   Fördergesellschaft für Börsen und Finanzmärkte in Mittel- und Osteuropa mbH
   Commerz International Capital Management GmbH (Deputy Chairman)
   Commerzbank Capital Markets Corporation (Chairman)
   Commerzbank (South East Asia) Ltd.
   Commerz Securities (Japan) Company Ltd. (Chairman)

Dr. Axel Frhr. v. Ruedorffer

a) Allgemeine Kreditversicherung AG (Deputy Chairman)
   AUDI AG
   Commerz Unternehmensbeteiligungs-AG (Chairman)
   within Commerzbank Group:
   Hypothekenbank in Essen AG

b) AKA Ausfuhrkredit-Gesellschaft mbH (2nd Deputy Chairman)
   Banco Central Hispanoamericano S.A.
   Banca Commerciale Italiana
   Bank Rozwoju Eksportu S.A.
   Erste Bank der oesterreichischen Sparkassen AG
   Hannover Finanz Vermögens-Verwaltungs-GmbH
   Hannover Finanz GmbH Beteiligungen und Kapitalanlagen
   Stiebel Eltron-Gruppe (Chairman)
   Viking Schiffsfinanz AG
   Viking Ship Finance (Overseas) Ltd.
   Caisse Centrale de Réescompte S.A. (Deputy Chairman)
   Commerzbank Belgium S.A./N.V. (President)
   Commerzbank (Budapest) Rt. (Deputy Chairman)
   Commerzbank (Nederland) N.V. (Chairman)
   Commerzbank (Eurasija) SAO (Deputy Chairman)

Members of the Supervisory Board of Commerzbank AG

a) Membership of other legally prescribed supervisory boards
b) Membership of similar bodies

Professor Dr. rer. pol. Clemens Börsig

a) Gerling-Konzern Speziale Kreditversicherungs-AG
   within group:
   DEA Mineraloel AG (Chairman)
   Heidelberger Druckmaschinen AG
   Hochtief AG vorm. Gebr. Helfmann
   LAHMEYER AG
   Rheinbraun AG
   RWE-DEA AG für Mineraloel und Chemie
   RWE Energie AG
   RWE Telliance AG (Chairman)
   RWE Umwelt AG

b) Foreign & Colonial Eurotrust plc.
   o.tel.o communications Geschäfts-führungs GmbH

Uwe Foullong

a) DBV-Winterthur Lebensversicherungs AG
   DBV-Winterthur Holding AG

Dr.-Ing. Otto Happel

a) GEA AG (Chairman)
   Bauunternehmung E. Heitkamp GmbH

Gerald Herrmann

a) DBV-Winterthur Versicherung AG
   WinCom-Versicherungs-Holding AG

Helmut Mamsch

a) Kali und Salz Beteiligungs AG
   Readymix AG
   SGE Deutsche Holding GmbH
   STEAG AG

b) Logica plc.
   MEMC Electronic Materials, Inc. (Chairman)

Dr.-Ing. Ekkehard Schulz

a) Hapag-Lloyd AG
   Hüttenwerke Krupp Mannesmann GmbH (Chairman)
   Krupp Thyssen Stainless GmbH
   MAN AG
   Mannesmannröhren-Werke AG (Deputy Chairman)
   RAG AG (Deputy Chairman)
   RWE Energie AG
   Strabag AG
   within group:
   Eisen- und Hüttenwerke AG (Chairman)
   Thyssen Budd Automotive GmbH
   Thyssen Handelsunion AG (Chairman)
   Thyssen Industrie AG (Chairman)
   Thyssen Krupp Stahl AG (Chairman)

b) The Budd Company

Dr. jur. Walter Seipp

a) Linde AG
   Parker Hannifin GmbH (Chairman)
   Thyssen AG

Hermann Josef Strenger

a) Bayer AG (Chairman)
   Degussa AG
   Linde AG
   Veba AG (Chairman)

Dr. jur. Jürgen Strube

a) Allianz Lebensversicherungs-AG
   Hapag-Lloyd AG
   Hochtief AG vorm. Gebr. Helfmann

b) Central European Equity Fund
   Germany Fund
   BASFIN Corporation (Chairman)

Heinrich Weiss

a) Altana AG (Chairman)
   Bertelsmann AG
   Ferrostaal AG
   Heraeus Holding GmbH
   Hochtief AG vorm. Gebr. Helfmann
   J. M. Voith AG
   within group:
   SIEMAG TRANSPLAN GmbH
   SMS Schloemann-Siemag AG (Chairman)

Wilhelm Werhahn

a) Gesellschaft für Buchdruckerei AG (Chairman)
   LAHMEYER AG
   Lausitzer Braunkohle AG
   within group:
   Heinrich Industrie- und Handels AG (Chairman)
   Zwilling J.A. Henckels AG (Chairman)

Employees of Commerzbank AG

Information pursuant to Art. 340a, IV, (1), HGB

Wolfram Combecher
Aerzener Maschinenfabrik GmbH

Volkhard Damm
Berliner Revisions AG

Dieter Firmenich
Sachsenring Automobiltechnik AG

Klaus P. Frohmüller
comdirect bank GmbH

Dr. Hans-Ulrich Fuchs
BMH Claudius Peters AG

Hans-Joachim Hahn
Commerz Grundbesitz-Investmentgesellschaft mbH

Ulrich Hähner
DOM-Brauerei AG (ehem. Stern-Brauerei)

Dr. Heinz-Josef Hockmann
Commerzbank Investment Management GmbH

Dr. Wolfgang Hönig
comdirect bank GmbH
Hypothekenbank in Essen AG
WinCom Versicherungs-Holding AG

Heinz-Martin Humme
DS Technologie GmbH
ZMD Zentrum Mikroelektronik Dresden GmbH

Dr. Gerhard Köhler
Lintec Computer AG

Peter Kroll
Commerzbank Investment Management GmbH

Thorsten Lahl
TIAG Tabbert-Industrie AG

Dr. Dirk Mattes
MEWA Textil-Service AG

Udo Mauerwerk
CronBank AG

Michael Melcher
Rasmussen GmbH

Wolfgang Möller
Märkische Energieversorgung AG

Bernhard Reinfelder
Neue Baumwoll-Spinnerei und Weberei Hof AG

Dr. Konrad Röntgen
comdirect bank GmbH

Volker Schönfeld
Neschen AG

Dr. Gert Schorradt
Krings Fruchtsaft AG

Monika Serreck
Spielbanken Niedersachsen GmbH

Christian Traxel
Deutsche Schiffsbank AG
Flender Werft AG

Dr. Rüdiger v. Eisenhart-Rothe
Lafarge Zement GmbH

Heinz-L. Wiedelmann
ADIG Allgemeine Deutsche Investment-Gesellschaft mbH
comdirect bank GmbH
DBV-Winterthur Krankenversicherungs-AG
DBV-Winterthur Lebensversicherungs-AG
DBV-Winterthur Sachversicherungs-AG

Wolf-Peter Wirsing
Ingenieur – Consult Haas & Partner GmbH – haas consult –

Major financial holdings of Commerzbank AG

At home

RHEINHYP Rheinische Hypothekenbank AG Frankfurt am Main Capital: DM1.7bn **97.9%**	Hypothekenbank in Essen AG Essen Capital: DM841.6m **51.0%**	Bankhaus Bauer AG Stuttgart Capital: DM35.2m **83.7%**[2])	comdirect bank GmbH Quickborn Capital: DM67.5m **100.0%**
Deutsche Schiffsbank AG Bremen/Hamburg Capital: DM417.0m **40.0%**	DBV-Winterthur Holding AG Wiesbaden Capital: DM1.2bn **15.1%**[1])		

Leasing and holding companies

CommerzLeasing und Immobilien GmbH Düsseldorf Capital: DM73.6m **100.0%**	Commerz Beteiligungs-gesellschaft mbH Bad Homburg v.d.H. Capital: DM1.0m **100.0%**	Commerz Unternehmens-beteiligungs-AG Frankfurt am Main Capital: DM147.9m **40.0%**	Commerz Finanz-Management GmbH Frankfurt am Main Capital: DM0.6m **100.0%**

Asset management companies

ADIG Allgemeine Deutsche Investment-Gesellschaft mbH Munich/Frankfurt am Main Capital: DM242.8m **42.7%**[2])	Commerzbank Investment Management GmbH Frankfurt am Main Capital: DM39.0m **100.0%**	Commerz Grundbesitz-Investmentgesellschaft mbH Wiesbaden Capital: DM32.9m **75.0%**	Commerz International Capital Management GmbH Frankfurt am Main Capital: DM60.5m **100.0%**

Abroad

Commerzbank (Budapest) Rt. Budapest Capital: Ft8.5bn **100.0%**	Commerzbank Belgium SA Brussels Capital: Bfr4.4bn **100.0%**	Commerzbank (Eurasija) SAO Moscow Capital: Rbl305.6m **100.0%**	Commerzbank Europe (Ireland) Dublin Capital: DM1.1bn **40.8%**
Commerzbank International S.A. Luxembourg Capital: DM3.3bn **100.0%**	Commerzbank International (Ireland) Dublin Capital: DM200.9m **100.0%**[1])	Commerzbank (Nederland) N.V. Amsterdam Capital: Dfl391.8m **100.0%**	Commerzbank (Switzerland) Ltd Zurich Capital: Sfr209.3m **100.0%**

Capital = equity capital
[1]) indirect; [2]) partly indirect; [3]) Place of business: San Francisco.

Commerzbank
(South East Asia) Ltd.
Singapore
Capital:
S$275.4m **100.0%**

Commerzbank Capital
Markets Corporation
New York
Capital:
US$45.7m **100.0%**

Commerzbank Capital
Markets (Eastern Europe)
a.s.
Prague
Capital:
Kc670.5m **100.0%**[1])

Commerz
(East Asia) Ltd.
Hong Kong
Capital:
DM83.5m **100.0%**

Commerz Securities
(Japan) Company Ltd.
Hong Kong/Tokyo
Capital:
DM162.5m **100.0%**

Hispano Commerzbank
(Gibraltar) Ltd.
Gibraltar
Capital:
£6.8m **49.9%**

Banca Commerciale
Italiana SpA
Milan
Capital:
Lit9,864.7bn **4.95%**[1])

Banco Central Hispano-
americano S.A.
Madrid
Capital:
Ptas677.4bn **4.93%**[1])

Bank Rozwoju
Eksportu SA
Warsaw
Capital:
Zl961.9m **48.7%**

Banque Marocaine
du Commerce Extérieur
Casablanca
Capital:
DH3.8bn **10.0%**

Erste Bank der
oesterreichischen
Sparkassen AG
Vienna
Capital:
ASch20.0bn **2.0%**[1])

Korea Exchange Bank
Seoul
Capital:
₩1,498.3bn **29.8%**

P.T. Bank Finconesia
Jakarta
Capital:
Rp124.6bn **24.6%**

Unibanco – União de
Bancos Brasileiros S.A.
São Paulo
Capital:
R$3.1bn **7.2%**[1])

Asset management companies

Caisse Centrale
de Réescompte, S.A.
Paris
Capital:
Ffr857.5m **92.1%**

Commerzbank Asset
Management Asia Ltd.
Singapore
Capital:
S$2.9m **100.0%**[1])

CICM Fund Management
Ltd.
Dublin
Capital:
Ir£1.8m **100.0%**[1])

Commerz International
Capital Management
(Japan) Ltd.
Tokyo
Capital:
¥1,457.9bn **100.0%**[1])

Jupiter International
Group PLC
London
Capital:
£102.3m **97.2%**[1])

A.L.S.A.
ADIG-Investment
Luxemburg S.A.
Luxembourg
Capital:
DM200.7m **48.2%**[2])

Capital Investment
Trust Corporation
Taipei
Capital:
NT$559.1m **22.1%**[2])

Montgomery Asset
Management, LLC
Wilmington/Delaware[3])
Capital:
US$192.9m **88.5%**

Commerzbank Group

Income statement

euro million	1.1.-31.12. 1998	1.1.-31.12. 1997	Change in %
Interest received	15,886	14,575	9.0
Interest paid	12,813	11,226	14.1
Net interest income	3,073	3,349	–8.2
Provision for possible loan losses	–881	–953	–7.6
Net interest income after provisioning	2,192	2,396	–8.5
Commissions received	1,773	1,583	12.0
Commissions paid	102	126	–18.7
Net commission income	1,671	1,457	14.7
Trading result	413	288	43.3
Result on financial investments	553	248	–
Operating expenses	3,612	3,172	13.9
Other operating result	23	–78	–
Profit from ordinary activities	**1,240**	**1,139**	**8.8**
Extraordinary result	–	–	–
Pre-tax profit	**1,240**	**1,139**	**8.8**
Taxes on income	298	489	–39.1
Net profit	**942**	**650**	**44.8**
Profit/loss attributable to minority interests	–50	–10	–
Distributable profit	**892**	**640**	**39.4**

Balance sheet

Assets euro million	31.12.1998	31.12.1997	Change in %
Cash reserve	6,734	6,522	3.3
Claims on banks	58,161	45,090	29.0
Claims on customers	184,254	162,761	13.2
Provision for risks	–4,855	–4,272	13.6
Assets held for dealing purposes	34,237	30,947	10.6
Financial investments	41,725	27,896	49.6
Intangible assets	386	420	–8.3
Fixed assets	2,074	1,694	22.4
Tax assets	955	897	6.4
Other assets	2,540	2,476	2.6
Total assets	**326,211**	**274,431**	**18.9**

Liabilities euro million	31.12.1998	31.12.1997	Change in %
Liabilities to banks	67,733	50,097	35.2
Liabilities to customers	93,587	93,322	0.3
Securitized liabilities	121,812	97,183	25.3
Liabilities from dealing activities	21,530	13,431	60.3
Provisions	2,209	2,326	–5.0
Tax liabilities	906	737	23.0
Other liabilities	2,268	2,570	–11.7
Subordinated capital	5,512	5,632	–2.1
Minority interests	594	368	61.4
Equity	10,060	8,765	14.8
Total liabilities	**326,211**	**274,431**	**18.9**

1 euro = DM1.95583

Our full Annual Report and also an abridged version is available in German and English.
ISSN 0414-0443.