Commerzbank Capital Funding Trust I

Wilmington, Delaware, U.S.A.

(a wholly-owned subsidiary of Commerzbank Aktiengesellschaft, Frankfurt am Main, Germany)

20,000 Noncumulative Trust Preferred Securities

(Liquidation Preference Amount € 50,000 per Trust Preferred Security)

ISIN: DE000A0GPYR7; WKN: A0GPYR; COMMON CODE: 024862780

Date of Issuance: 30 March 2006

The 20,000 noncumulative Trust Preferred Securities (the **"Trust Preferred Securities"**) offered hereby (the **"Offering"**) represent preferred beneficial interests in the assets of Commerzbank Capital Funding Trust I, a statutory trust created under the laws of the State of Delaware, United States of America (the **"Trust"**). One common security of the Trust (the "**Trust Common Security"** and, together with the Trust Preferred Securities, the **"Trust Securities"**) representing beneficial interests in the assets of the Trust, will be owned by Commerzbank Aktiengesellschaft (the **"Bank"** or **"Commerzbank"** and, together with its consolidated subsidiaries, **"Commerzbank Group"** or the **"Group"**) or a majority-owned subsidiary of the Bank (a **"Bank Subsidiary"**). These assets consist of 20,000 noncumulative Class B Preferred Securities (the **"Company Class B Preferred Securities"**) of Commerzbank Capital Funding LLC I, a Delaware limited liability company (the **"Company"**), which have the benefit of a subordinated support undertaking issued by the Bank.

The Trust will pass through capital payments and redemption proceeds on the Company Class B Preferred Securities as capital payments and redemptions, respectively, on the Trust Preferred Securities. Capital payments on the Company Class B Preferred Securities will be payable for the period from and including 30 March 2006 (the **"Issue Date"**) to but excluding 12 April 2016 (the **"Initial Redemption Date"**), on a noncumulative basis, annually in arrear on 12 April in each year, commencing 12 April 2007 at a fixed rate of 5.012 % per annum. For the period from and including the Inital Redemption Date to but excluding the date on which the Trust Preferred Securities are redeemed, capital payments on the Company Class B Preferred Securities will be payable on a noncumulative basis, quarterly in arrear on 12 January, 12 April, 12 July and 12 October in each year, commencing on 12 July 2016, at the Floating Rate (as defined in "Summary – Summary of the Terms of the Trust Preferred Securities and the Terms of the Company Class B Preferred Securities – Floating Rate"). Capital payments are subject to certain conditions, including that (i) the Company has an amount of Company Operating Profits (as defined in "Summary – Summary of the Terms of the Trust Preferred Securities and the Terms of the Company Class B Preferred Securities – Capital Payments Excluded") at least equal to the amount payable on the Company Class B Preferred Securities and (ii) the Bank has an amount of Bank Distributable Profits (as defined in "Summary – Summary of the Terms of the Trust Preferred Securities and the Terms of the Company Class B Preferred Securities – Capital Payments Excluded") for the preceding fiscal year at least equal to (x) the capital payments to be made by the Company on the Company Class B Preferred Securities and (y) capital payments, dividends or other distributions on Parity Securities (as defined in "Summary – Summary of the Terms of the Trust Preferred Securities and the Terms of the Company Class B Preferred Securities – Capital Payments Excluded"). See "Summary – Summary of the Terms of the Trust Preferred Securities and the Terms of the Company Class B Preferred Securities – Capital Payments Excluded". Despite sufficient Company Operating Profits and sufficient Bank Distributable Profits, the Company will not be permitted to make Class B Capital Payments (as defined herein) on any Payment Date (as defined herein) (or a date set for redemption or liquidation) if on such date there is in effect an order of the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) (**"BaFin"**) or other relevant regulatory authority pursuant to the German Banking Act (*Kreditwesengesetz*) (**"German Banking Act"**) or any other applicable regulatory provision prohibiting the Bank from making any distributions of its profits (including to the holders of Parity Securities).

The Trust Preferred Securities are not redeemable prior to the Initial Redemption Date, except upon the occurrence of certain disqualification events arising from tax, the U.S. Investment Company Act of 1940, as amended (the **"Investment Company Act"**) and regulatory capital matters.

It is expected that, upon issuance, the Trust Preferred Securities will be assigned a rating of BBB by Standard & Poor's Rating Services, Baa1 by Moody's Investors Service, Inc. and A- by Fitch Ratings Ltd. A rating is not a recommendation to buy, sell, or hold securities, and may be subject to revision, suspension or withdrawal at any time by the relevant rating agency.

Application has been made to the Irish Financial Services Regulatory Authority (**"IFSRA"**), as competent authority under the Prospectus Directive (as defined herein), for this Prospectus to be approved. Application has been made to the Irish Stock Exchange for the Trust Preferred Securities to be admitted to the Official List and trading on its regulated market. At the date of this Prospectus it is intended to subsequently make an application to list the Trust Preferred Securities on the official market (amtlicher Markt) of the Frankfurt Stock Exchange. The Issuer will request IFSRA to provide the competent authorities in the Federal Republic of Germany with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus (Directive 2003/71/EC) Regulations 2005 which implements Directive 2003/71/EC of the European Parliament and the Council of 4 November 2003 (the **"Prospectus Directive"**) into Irish law (**"Notification"**). The Issuer may request IFSRA to provide competent authorities in additional host Member States within the European Economic Area with a Notification.

This Prospectus constitutes a prospectus pursuant to, and is in compliance with the requirements of, the Prospectus Directive. **Offering Price: € 50,000 per Trust Preferred Security.**

THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") AND ARE BEING OFFERED AND SOLD ONLY OUTSIDE THE UNITED STATES OF AMERICA TO NON-U.S. PERSONS IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT ("REGULATION S"). FOR A DESCRIPTION OF CERTAIN RESTRICTIONS ON TRANSFER OF THESE SECURITIES, SEE "GENERAL INFORMATION – SELLING RESTRICTIONS".

INVESTMENT IN THESE SECURITIES INVOLVES CERTAIN RISKS. PLEASE SEE THE "RISK FACTORS" SECTION BEGINNING ON PAGE 28 FOR A DESCRIPTION OF THESE RISKS.

Joint Lead Managers

Commerzbank Aktiengesellschaft	Deutsche Bank	Dresdner Kleinwort Wasserstein	Morgan Stanley
			Structuring Advisor

The date of this Prospectus is 28 March 2006.

COMMERZBANK

RESPONSIBILITY STATEMENT

The Bank with its registered office in Frankfurt am Main assumes responsibility for the information contained in this prospectus (the **"Prospectus"**). To the best of the knowledge and belief of the Bank the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. Each of the Company and the Trust with its respective registered office in Wilmington, Delaware accepts responsibility for the information contained in this Prospectus about itself and the description of the Company Securities and the Trust Preferred Securities respectively and to the best of their knowledge and belief, the information is in accordance with the facts and does not omit anything likely to affect the import of such information. Neither the Company nor the Trust accepts responsibility for any other information contained in this Prospectus.

NOTICE

Each of the Bank, the Company and the Trust further confirms (the Company and the Trust only in respect of itself and the Company Securities and the Trust Preferred Securities respectively) that (i) this Prospectus contains all information with respect to the Bank, the Company and the Trust, the Trust Preferred Securities, the Company Class B Preferred Securities and the Debt Securities (as defined herein) that is material in the context of the listing, issue and offering of the Trust Preferred Securities, including all information which, according to the particular nature of the Bank, the Company and the Trust and of the Trust Preferred Securities, the Company Class B Preferred Securities and the Debt Securities is necessary to enable investors and their investment advisors to make an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Bank, the Company and the Trust and of the rights attached to the Trust Preferred Securities, the Company Class B Preferred Securities and the Debt Securities; (ii) the statements contained in this Prospectus relating to the Bank, the Company and the Trust are in every material respect true and accurate and not misleading; (iii) there are no other facts the omission of which would in the context of the issue and offering of the Trust Preferred Securities make any statement in this Prospectus misleading in any material respect; and (iv) reasonable enquiries have been made by the Bank, the Company and the Trust to ascertain such facts and to verify the accuracy of all such information and statements.

No person is authorized to provide any information or to make any representation not contained in this Prospectus, and any information or representation not contained in this Prospectus must not be relied upon as having been authorized by the Bank, the Trust or the Company or by the Lead Managers. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Bank, the Company or the Trust or any of their affiliates since the date of this Prospectus, or that the information herein is correct at any time since the date of this Prospectus.

No action has been taken to permit an offering of the Trust Preferred Securities in any jurisdiction where action would be required for such purpose. The distribution of this Prospectus and the offering of the Trust Preferred Securities in certain jurisdictions may be restricted by law. Each purchaser of the Trust Preferred Securities must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells the Trust Preferred Securities or possesses or distributes this Prospectus and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of the Trust Preferred Securities under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales, and none of the Trust, the Company, the Bank or the Lead Managers shall have any responsibility therefor. See "Subscription and Sale".

Neither the U.S. Securities and Exchange Commission nor any other regulatory body in the United States of America has approved or disapproved of the Trust Preferred Securities or determined whether this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

STABILISATION

IN CONNECTION WITH THE ISSUE OF THE TRUST PREFERRED SECURITIES, MORGAN STANLEY & CO. INTERNATIONAL LIMITED ("MORGAN STANLEY") AS STABILISING MANAGER (OR ANY PERSON ACTING ON ITS BEHALF) MAY OVER-ALLOT THE TRUST PREFERRED SECURITIES (PROVIDED THAT THE AGGREGATE PRINCIPAL AMOUNT OF THE SECURITIES ALLOTED DOES NOT EXCEED 105% OF THE AGGREGATE LIQUIDATION PREFERENCE AMOUNT OF THE TRUST PREFERRED SECURITIES (OR SUCH OTHER PERCENTAGE AS MAY BE APPLICABLE TO ANY SUCH ACTIONS) IN THE JURISDICTION WHERE SUCH ACTIONS ARE TO BE EFFECTED) OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE TRUST PREFERRED SECURITIES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT MORGAN STANLEY AS STABILISING MANAGER (OR PERSONS ACTING ON ITS BEHALF) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN AT ANY TIME AFTER THE ADEQUATE PUBLIC DISCLOSURE OF THE FINAL TERMS OF THE OFFER OF THE TRUST PREFERRED SECURITIES AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 CALENDAR DAYS AFTER THE DATE OF THE RECEIPT OF THE PROCEEDS OF THE ISSUE BY THE TRUST OR 60 CALENDAR DAYS AFTER THE DATE OF THE ALLOTMENT OF THE TRUST PREFERRED SECURITIES OR, AS THE CASE MAY BE, SUCH OTHER DATE(S) AS MAY BE APPLICABLE TO ANY SUCH ACTION IN THE JURISDICTION WHERE SUCH ACTIONS ARE TO BE EFFECTED. SUCH STABILISING SHALL BE IN COMPLIANCE WITH ALL LAWS, REGULATIONS AND RULES OF ANY RELEVANT JURISIDICTION.

[This page intentionally left blank]

TABLE OF CONTENTS

[This page intentionally left blank]

SUMMARY

*The following constitutes the summary (the **"Summary"**) of the essential characteristics of and risks associated with the Bank, the Company and the Trust as well as the Trust Preferred Securities and the Company Class B Preferred Securities (each as defined below). This Summary should be read as an introduction to this Prospectus. It does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus. Any decision by an investor to invest in the Trust Preferred Securities should be based on consideration of this Prospectus as a whole. Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff investor might, under the national legislation of such court, have to bear the costs of translating the Prospectus before the legal proceedings are initiated. Civil liability attaches to those persons who have tabled this Summary including any translation thereof, and applied for its notification, but only if the Summary is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus.*

Introductory Summary of the Transaction

The Trust exists for the sole purposes of issuing the Trust Preferred Securities, investing the gross proceeds thereof in the Company Class B Preferred Securities and engaging in activities necessary or incidental thereto. In addition to the Company Class B Preferred Securities, the Company will also issue one voting common security (the **"Company Common Security"**) and one noncumulative Class A preferred security (the **"Company Class A Preferred Security",** and, together with the Company Common Security and the Company Class B Preferred Securities, the **"Company Securities"**). The Company Common Security and the Company Class A Preferred Security will be owned by the Bank or a Bank Affiliate (as defined below).

The Company will use the proceeds from the issuance of the Company Class B Preferred Securities to acquire € 1,000,000,000 subordinated notes due 12 April 2036 issued by the Bank (the **"Initial Debt Securities"**). The income received by the Company from the Initial Debt Securities, any subordinated notes issued by the Bank (acting directly or through a branch) or a Bank Subsidiary (as defined below) in excess of and on terms identical with the Initial Debt Securities (**"Additional Debt Securities"**) and any subordinated debt securities issued by the Bank (acting directly or through a branch) or a Bank Subsidiary with terms identical to those of the Initial Debt Securities (**"Substitute Debt Securities"**) (the Substitute Debt Securities together with the Initial Debt Securities and the Additional Debt Securities, the **"Debt Securities"**), will be available for distribution, as appropriate, to the holders of the Company Class B Preferred Securities, the Company Class A Preferred Security and the Company Common Security.

Periodic distributions to the holders of the Trust Preferred Securities paid in accordance with the amended and restated trust agreement of Commerzbank Capital Funding Trust I dated 30 March 2006 (**"Trust Agreement"**) to holders of the Trust Preferred Securities (**"Trust Capital Payments"**) are expected to be paid out of, and will be limited to, periodic distributions to holders of the Company Class B Preferred Securities (**"Class B Capital Payments"**) declared (or deemed declared) and paid in accordance with the amended and restated limited liability company agreement of the Company dated as of 30 March 2006 (**"LLC Agreement"**).

According to the LLC Agreement, Class B Capital Payments shall be limited to, for any given Payment Period (as defined below), the excess of the amounts payable (whether or not paid) on the (i) Debt Securities or (ii) after 12 April 2036, the scheduled maturity of the Initial Debt Securities (**"Maturity Date"**), obligations and other investments that the Company may then hold in accordance with the LLC Agreement over any operating expenses of the Company not paid or reimbursed by or on behalf of the Bank or a Bank Affiliate during such Payment Period, plus any reserves (**"Company Operating Profits"**).

Subject to the terms of the LLC Agreement, Class B Capital Payments shall be payable by the Company on a noncumulative basis and accrue on the liquidation preference amount of € 50,000 per Company Class B Preferred Security.

In the period from and including the Issue Date to but excluding the Initial Redemption Date (the **"Fixed Rate Period"**), Class B Capital Payments shall accrue at the Fixed Rate (as defined in "Summary – Summary of the Terms of the Trust Preferred Securities and the Terms of the Company Class B Preferred Securities – Fixed Rate"). Such Class B Capital Payments will be made annually in arrear on 12 April in each year falling in the Fixed Rate Period (commencing on 12 April 2007) and on the Initial Redemption Date (each such date, a **"Fixed Payment Date"**). If a Fixed Payment Date is not a Business Day (as defined below), the holder of the Company Class B Preferred Securities shall not be entitled to any Class B Capital Payment until the next following Business Day and shall not be entitled to further interest or other payment in respect of such delay. Class B Capital Payments in relation to the first Payment Period (with a term of more than one year), payable on the first Fixed Payment Date, will amount to € 2,595.25 per Company Class B Preferred Security. If, at any time during the Fixed Rate Period, Class B Capital Payments are to be calculated for a period of less than one year, such Class B Capital Payments shall be calculated on the basis of the actual number of days elapsed in such calculation period, divided by the actual number of days (365 or 366) in the relevant annual payment period.

In the period from and including the Initial Redemption Date to but excluding the date of redemption of the Company Class B Preferred Securities (the **"Floating Rate Period"**), Class B Capital Payments for the respective Payment Period shall accrue at the Floating Rate (as defined in "Summary – Summary of the Terms of the Trust Preferred Securities and the Terms of the Company Class B Preferred Securities – Floating Rate"). Such Class B Capital Payments will be made quarterly in arrear on 12 January, 12 April,12 July and 12 October in each year falling in the Floating Rate Period (commencing on 12 July 2016) and on the date of redemption of the Company Class B Preferred Securities (the **"Redemption Date"**), unless such date would otherwise fall on a day which is not a Business Day, in which event payment shall be made on the first following day which is a Business Day, unless it would thereby fall into the next calendar month, in which event payment shall be made on the immediately preceding Business Day (each such date, a **"Floating Payment Date"**). Class B Capital Payments payable on any Floating Payment Date are calculated on the basis of the actual number of days elapsed in the respective Payment Period, divided by 360.

"Business Day" means any day (other than a Saturday or a Sunday) (i) on which the Trans-European Automated Real-time Gross settlement Express Transfer (TARGET) system is operating credit or transfer instructions in respect of payments in euro (a **"TARGET Business Day"**) and (ii) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in London.

"Payment Date" means any Fixed Payment Date and any Floating Payment Date.

"Payment Period" means (i) with regard to the Fixed Rate Period each period from and including the Issue Date to but excluding the first Fixed Payment Date and thereafter as from and including any Fixed Payment Date to but excluding the next following Fixed Payment Date and (ii) with regard to the Floating Rate Period each period from and including the Initial Redemption Date to but excluding the first Floating Payment Date and thereafter as from and including any Floating Payment Date to but excluding the next following Floating Payment Date.

If the Company does not declare (and is not deemed to have declared) a Class B Capital Payment in respect of any Payment Period, holders of the Company Class B Preferred Securities will have no right to receive a Class B Capital Payment in respect of such Payment Period, and the Company will have no obligation to pay a Class B Capital Payment in respect of such Payment Period, whether or not Class B Capital Payments are declared (or deemed to have been declared) and paid in respect of any future Payment Period. In such a case, no corresponding Trust Capital Payments will be made for such Payment Period.

Despite sufficient Company Operating Profits and sufficient Bank Distributable Profits (as defined below), the Company will not be permitted to make Class B Capital Payments on any Payment Date (or a date set for redemption or liquidation) if on such date there is in effect an order of the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) (**"BaFin"**) or other relevant regulatory authority pursuant to the German Banking Act (*Kreditwesengesetz*) (**"German Banking Act"**) or any other applicable regulatory provision prohibiting the Bank from making any distributions of its profits (including to the holders of Parity Securities (as defined below)).

Prior to the issuance of the Company Class B Preferred Securities, the Bank and the Company will enter into a subordinated support agreement for the benefit of the holders of the Company Class B Preferred Securities (the **"Support Undertaking"**). Pursuant to the Support Undertaking, the Bank will undertake that (i) the Company will at all times be in a position to meet its obligations if and when such obligations are due and payable, including Class B Capital Payments declared (or deemed declared) on, and payments due upon redemption of, the Company Class B Preferred Securities (plus additional amounts payable by the Company pursuant to the terms of Company Class B Preferred Securities and by the Trust pursuant to the terms of the Trust Preferred Securities as a result of deduction or withholding on Capital Payments (as defined below) or on repayment upon redemption thereof (collectively, **"Additional Amounts"**), if any), and (ii) in liquidation, the Company will have sufficient funds to pay the aggregate liquidation preference amount of the Company Class B Preferred Securities, including accrued and unpaid Class B Capital Payments for the then current Payment Period to but excluding the date of liquidation and Additional Amounts, if any. Each holder of Company Class B Preferred Securities will be a third-party beneficiary of the Support Undertaking.

The Support Undertaking is not a guarantee of any kind that the Company will at any time have sufficient assets to declare Class B Capital Payments or other distributions. The Bank's obligations under the Support Undertaking are subordinated to all of its senior and subordinated debt obligations.

On the Initial Redemption Date or on any Floating Payment Date thereafter, the Company Class B Preferred Securities shall be redeemable at the option of the Company, in whole but not in part, at a redemption price per Company Class B Preferred Security equal to the liquidation preference amount thereof, plus accrued and unpaid Class B Capital Payments for the then current Payment Period to, but excluding, the Redemption Date, plus Additional Amounts, if any (the **"Redemption Price"**).

If the Company Class B Preferred Securities are redeemed prior to the Initial Redemption Date, such redemption shall be at a redemption price per Company Class B Preferred Security equal to the higher of the Redemption Price or the Make-Whole Amount (as defined in "Summary – Summary of the Terms of the Trust Preferred Securities and the Terms of the Company Class B Preferred Securities") (the **"Early Redemption Price"**), unless the Company Class B Preferred Securities are redeemed solely as a result of a Tax Event (as defined in "Summary – Summary of the Terms of the Trust Preferred Securities and the Terms of the Company Class B Preferred Securities") as described under (B) of the definition of Tax Event in which case the Company Class B Preferred Securities will be redeemed at the Redemption Price.

If the Company repurchases or otherwise redeems the Company Class B Preferred Securities, the proceeds from such redemption shall be simultaneously applied *pro rata* to redeem Trust Preferred Securities having an aggregate liquidation amount equal to the aggregate liquidation preference amount of the Company Class B Preferred Securities so purchased or redeemed at a redemption price equal to the liquidation preference amount of the Company Class B Preferred Securities being redeemed, plus any accrued and unpaid Capital Payments for the then-current Payment Period up to but excluding the Redemption Date, plus Additional Amounts, if any.

The Company Class B Preferred Securities and the Trust Preferred Securities will not have any scheduled maturity date and will not be redeemable at any time at the option of the holders thereof.

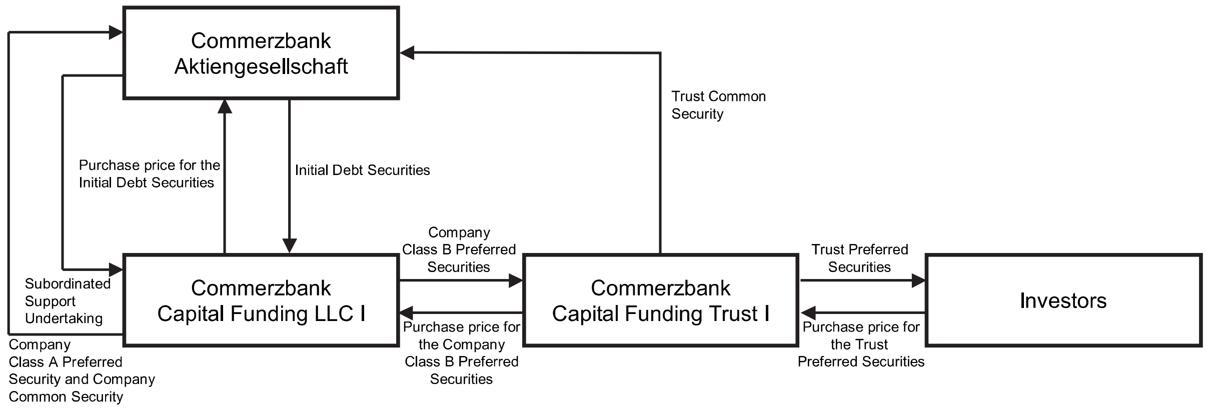
Upon the occurrence of a Trust Special Redemption Event or in the event of any voluntary or involuntary dissolution, liquidation, winding up or termination of the Trust, holders of the Trust Preferred Securities will be entitled to receive a corresponding number of the Company Class B Preferred Securities.

Since the sole assets of the Trust are the Company Class B Preferred Securities and because the holders of the Trust Preferred Securities may receive the Company Class B Preferred Securities in certain circumstances, prospective purchasers of the Trust Preferred Securities are also making an investment decision with respect to the Company Class B Preferred Securities and should carefully review all of the information regarding the Company Class B Preferred Securities.

Prior to or simultaneously with the completion of the Offering, the Company, the Trust and the Bank will engage in the following transactions: (i) the Company will issue to the Bank, or a Bank Affiliate, the Company Common Security; (ii) the Company will issue to the Bank, or a Bank Affiliate, the Company Class A Preferred Security; (iii) the Trust will issue to the Bank, or a Bank Affiliate, the Trust Common Security; (iv) the Trust will issue the Trust Preferred Securities to Commerzbank Aktiengesellschaft, Dresdner Bank AG London Branch, Deutsche Bank AG, London Branch and Morgan Stanley & Co. International Limited (collectively the **"Lead Managers"**), who will sell the Trust Preferred Securities to investors; (v) the Company will issue the Company Class B Preferred Securities to the Trust and (vi) the Company will acquire the Initial Debt Securities.

The Bank or an entity that is consolidated with the Bank for German bank regulatory purposes and of which more than fifty percent (50 %) of voting rights and of outstanding capital stock or other equity interest is, at the time, beneficially owned or controlled directly or indirectly by the Bank (**"Bank Subsidiary"**) will enter into a services agreement dated 30 March 2006 (as amended from time to time, the **"Services Agreement"**) with the Company, the Trust and the servicer thereunder (the **"Servicer"**). The Bank or a Bank Subsidiary, as the holder of the Company Common Security, will elect the board of directors of the Company (the **"Board of Directors"**), which initially will consist of three directors.

The following diagram outlines the relationship among the Company, the Trust and the Bank following completion of the Offering:



Summary of the Terms of the Trust Preferred Securities and the Terms of the Company Class B Preferred Securities

Issuer	Commerzbank Capital Funding Trust I is a Delaware statutory trust formed for the purpose of holding the Company Class B Preferred Securities.
Bank	Commerzbank Aktiengesellschaft is a stock corporation (*Aktiengesellschaft*) under German law with its registered office in Frankfurt am Main and its head office at Kaiserplatz, 60261 Frankfurt am Main, Federal Republic of Germany.
Joint Lead Managers	Commerzbank Aktiengesellschaft Deutsche Bank AG, London Branch Dresdner Bank AG London Branch Morgan Stanley & Co. International Limited
Principal Paying Agent	Commerzbank Aktiengesellschaft, Frankfurt am Main, Germany
Irish Paying Agent	Commerzbank Europe (Ireland), Dublin, Ireland
Transfer Agent	Commerzbank Aktiengesellschaft, Frankfurt am Main, Germany
Calculation Agent	Commerzbank Aktiengesellschaft, Frankfurt am Main, Germany
Securities Offered	The Trust will offer 20,000 Trust Preferred Securities with a liquidation preference amount of € 50,000 per Trust Preferred Security. The terms of the Trust Preferred Securities will be substantially identical to the terms of the Company Class B Preferred Securities.
Form and Denomination	The Trust Preferred Securities, with an aggregate liquidation preference amount with respect to the assets of the Trust of € 1,000,000,000 and a liquidation preference amount with respect to the assets of the Trust of € 50,000 per Trust Preferred Security will be evidenced by global certificates registered in the name of Clearstream Frankfurt and will be issued in denominations of € 50,000. The Company Class B Preferred Securities with an aggregate liquidation preference amount with respect to the assets of the Company of € 1,000,000,000 and a liquidation preference amount with respect to the assets of the Company of € 50,000 per Company Class B Preferred Security will be evidenced by an instrument registered in the name of the Trust.
Ranking	In the event of any voluntary or involuntary liquidation, dissolution, winding up or termination of the Company, the Company Class B Preferred Securities will rank junior to the Company Class A Preferred Security, and the Company Class B Preferred Securities will rank senior to the Company Common Security, provided that any payments made by the Bank pursuant to the Support Undertaking will be payable by the Company solely to the holders of the Company Class B Preferred Securities.
Maturity	The Trust Preferred Securities and the Company Class B Preferred Securities will not have a maturity date and will not be redeemable at any time at the option of the holders thereof.
Capital Payments	Subject to the terms of the Trust Agreement and the LLC Agreement, Trust Capital Payments and Class B Capital Payments shall be payable by the Trust or the Company, as the case may be, on a noncumulative basis and accrue on the respective liquidation preference amounts of € 50,000 per Trust Preferred Security and € 50,000 per Company Class B Preferred Security.

In the Fixed Rate Period, Trust Capital Payments and Class B Capital Payments shall accrue at the Fixed Rate and will be made annually in arrear on each Fixed Payment Date. If a Fixed Payment Date is not a Business Day, the holder of the Trust Preferred Securities and the Company Class B Preferred Securities shall not be entitled to any Trust Capital Payment or Class B Capital Payment until the next following Business Day and shall not be entitled to further interest or other payment in respect of such delay. Trust Capital Payments and Class B Capital Payments in relation to the first Payment Period (with a term of more than one year), payable on the first Fixed Payment Date, will amount to € 2,595.25 per Trust Preferred Security and Company Class B Preferred Security respectively. If, at any time during the Fixed Rate Period, Trust Capital Payments or Class B Capital Payments are to be calculated for a period of less than one year, such Trust Capital Payments or Class B Capital Payments shall be calculated on the basis of the actual number of days elapsed in such calculation period, divided by the actual number of days (365 or 366) in the respective annual payment period.

In the Floating Rate Period, Trust Capital Payments and Class B Capital Payments for the respective Payment Period shall accrue at the Floating Rate and will be made quarterly in arrear on each Floating Payment Date. Trust Capital Payments and Class B Capital Payments payable on any Floating Payment Date are calculated on the basis of the actual number of days elapsed in the respective Payment Period, divided by 360.

"Capital Payments" are, with respect to the Trust Preferred Securities, the Trust Capital Payments, and, with regard to the Company Class B Preferred Securities, the Class B Capital Payments.

Stated Rate

The **"Stated Rate"** is the Fixed Rate with respect to Payment Periods falling in the Fixed Rate Period and the Floating Rate with respect to Payment Periods falling in the Floating Rate Period.

Fixed Rate

The **"Fixed Rate"** means a rate of 5.012 % per annum.

Floating Rate

The **"Floating Rate"** is the Reference Rate (as defined below) for the accrual of Capital Payments plus 2.15 % per annum. The Calculation Agent will notify the Floating Rate (i) to Clearstream Frankfurt, Clearstream Luxembourg and Euroclear and (ii) for so long as the Trust Preferred Securities are listed on the Frankfurt Stock Exchange and the rules of such stock exchange so require, by publication in at least one daily newspaper having general circulation in Germany (which is expected to be the *Börsen-Zeitung*) without undue delay after each Determination Date (as defined below).

Reference Rate

The **"Reference Rate"** means the rate per annum, determined by Commerzbank Aktiengesellschaft in its capacity as calculation agent under the LLC Agreement and the Initial Debt Securities (the **"Calculation Agent"**) to correspond to the three months EURIBOR rate for deposits in euro published on Telerate Page 248 (or such other page or service as may replace it for the purposes of such rate) (the **"Screen Page"**) at or about 11:00 a. m. (Central European time) on the relevant Determination Date.

If the foregoing rate does not appear on the Screen Page or the Screen Page is not available on the relevant Determination Date, then the Reference Rate for the respective Payment Period shall be the arithmetic mean (rounded, if necessary, to the nearest one thousandth of a percentage point, 0.0005 being rounded upwards) determined by the Calculation Agent of the rates which five reference banks selected by the Calculation Agent in conjunction with the Trust (the **"Reference Banks"**), quote to prime banks on the relevant Determination Date for three months deposits in euro. Should two or more of the Reference Banks provide the relevant quotation, the arithmetic mean shall be calculated as described above on the basis of the quotations supplied. If less than two Reference Banks provide a quotation, then the Reference Rate for the respective Payment Period shall be determined by the Calculation Agent in its reasonable discretion.

"Determination Date" means in respect of each Payment Period falling in the Floating Rate Period, the second TARGET Business Day prior to the commencement of the relevant Payment Period.

Capital Payments Excluded

Trust Capital Payments are expected to be paid out of Class B Capital Payments received by the Trust from the Company. Class B Capital Payments are expected to be paid by the Company out of the Company Operating Profits.

If the Company does not declare (and is not deemed to have declared) a Class B Capital Payment in respect of any Payment Period, the holders of the Company Class B Preferred Securities will have no right to receive a Class B Capital Payment in respect of such Payment Period, and the Company will have no obligation to pay a Class B Capital Payment in respect of such Payment Period, whether or not Class B Capital Payments are declared (or deemed to have been declared) and paid on the Company Class B Preferred Securities in respect of any future Payment Period.

Class B Capital Payments are authorized to be declared and paid on any Payment Date to the extent that:

(i) the Company has an amount of Company Operating Profits for the Payment Period ending on the day immediately preceding such Payment Date at least equal to the amount of such Class B Capital Payments, and

(ii) the Bank has an amount of Bank Distributable Profits for the Bank's most recent fiscal year for which audited unconsolidated annual financial statements approved by the Bank's supervisory board are available at least equal to the aggregate amount of (A) such Class B Capital Payments, (B) previous Class B Capital Payments already paid on the basis of Bank Distributable Profits for such most recent fiscal year, and (C) capital payments, dividends or other distributions on Parity Securities, if any, *pro rata* on the basis of Bank Distributable Profits for such most recent fiscal year.

"Bank Distributable Profits" for any fiscal year is the balance sheet profit (*Bilanzgewinn*) as of the end of such fiscal year, as shown in the Bank's audited unconsolidated balance sheet approved by the Bank's supervisory board as of the end of such fiscal year. Such balance sheet profit includes the annual surplus or loss (*Jahresüberschuss/Jahresfehlbetrag*), plus any profit carried forward from previous years, *minus* any loss carried forward from previous years, *plus* transfers from capital reserves and earnings reserves, *minus* allocations to earnings reserves, all as determined in accordance with the provisions of the German Stock Corporation Act (*Aktiengesetz*) and accounting principles generally accepted in the Federal Republic of Germany as described in the German Commercial Code (*Handelsgesetzbuch*) and other applicable German law then in effect.

"Parity Securities" are (i) each class of the most senior ranking preference shares of the Bank, if any, or other instruments of the Bank qualifying as the most senior form of Tier I regulatory capital of the Bank and (ii) preference shares or other instruments qualifying as consolidated Tier I regulatory capital of the Bank or any other instrument of any entity that directly or indirectly controls, is controlled by, or is under common control with the Bank (**"Bank Affiliate"**) subject to any guarantee or support agreement of the Bank ranking *pari passu* with the obligations of the Bank under the Support Undertaking (including, but not limited to, the obligations under the 16,000 noncumulative trust preferred securities issued by Commerzbank Capital Funding Trust II).

Deemed Declaration of Capital Payments

Notwithstanding the foregoing, the Company will be authorized to declare Class B Capital Payments if the Bank or a Bank Affiliate declares or pays any capital payments, dividends or other distributions on any Parity Securities or any Junior Securities or redeems or acquires against consideration Parity Securities or Junior Securities, as set forth in detail under "Description of the Company Securities – Capital Payments". If the Company does not declare a Class B Capital Payment despite its authorization to do so, then such Capital Payments shall be deemed to have been declared and be payable in the situations described in the LLC Agreement where the Company is authorized to declare a Capital Payment.

Prohibition of Capital Payments

Despite sufficient Company Operating Profits and sufficient Bank Distributable Profits, the Company will not be permitted to make Class B Capital Payments on any Payment Date (or a date set for redemption or liquidation) if on such date there is in effect an order of the BaFin or other relevant regulatory authority pursuant to the German Banking Act or any other applicable regulatory provision prohibiting the Bank from making any distributions of its profits (including to the holders of Parity Securities).

Payments of Additional Amounts

All payments by the Company and the Trust on the Company Class B Preferred Securities and the Trust Preferred Securities, as the case may be, and any repayment upon redemption thereof, will be made without deduction or withholding for or on account of any present or future taxes, duties or governmental charges of any nature whatsoever imposed, levied or collected by or on behalf of the United States of America, Germany and the jurisdiction of residence of any obligor of Debt Securities (or any jurisdiction from which payments are made) (each, a **"Relevant Jurisdiction"**) or by or on behalf of any political subdivision or authority therein or thereof having the power to tax (collectively, **"Withholding Taxes"**), unless such deduction or withholding is required by law. In such event, the Company or the Trust, as the case may be, will pay, as additional Class B Capital Payments or Trust Capital Payments, as the case may be, Additional Amounts as may be necessary in order that the net amounts received by the Company and the holders of the Company Class B Preferred Securities and Trust Preferred Securities, after such deduction or withholding, will equal the amounts that otherwise would have been received had no such deduction or withholding been required.

However, no such Additional Amounts will be payable in respect of the Company Class B Preferred Securities and the Trust Preferred Securities under certain circumstances set out in detail in "Description of the Company Securities" and "Description of the Trust Securities".

Redemption

On the Initial Redemption Date or on any Floating Payment Date thereafter, the Company Class B Preferred Securities shall be redeemable at the option of the Company, in whole but not in part. Any such redemption will be at the Redemption Price. If the Company redeems the Company Class B Preferred Securities, the Trust must redeem the Trust Preferred Securities.

The Company may exercise its right to redeem the Company Class B Preferred Securities only if it has:

(i) given at least 30 days' prior notice (or such longer period as may be required by the relevant regulatory authorities) to the holders of the Company Class B Preferred Securities of its intention to redeem the Company Class B Preferred Securities on the Redemption Date, and

(ii) obtained any required regulatory approvals.

Limitations on Redemption

No redemption of the Company Class B Preferred Securities for any reason may take place unless on the Redemption Date:

– the Company has sufficient funds (by reason of the Debt Securities, Permitted Investments (as defined below) or the Support Undertaking) to pay the Redemption Price and to pay in full an amount corresponding to the Capital Payments accrued and unpaid as of the Redemption Date, plus any Additional Amounts;

– the Bank has an amount of Bank Distributable Profits for the Bank's most recent fiscal year for which audited unconsolidated annual financial statements approved by the Bank's supervisory board are available at least equal to the Class B Capital Payments on the Company Class B Preferred Securities accrued and unpaid as of the Redemption Date, plus Additional Amounts, if any; and

– no order of the BaFin or other relevant regulatory authority pursuant to the German Banking Act or any other applicable regulatory provision is in effect prohibiting the Bank from making any distributions of its profits (including to the holders of Parity Securities).

"Permitted Investments" means debt obligations of the Bank or of one or more Bank Subsidiaries (which Bank Subsidiaries meet the definition of a "company controlled by its parent company" as defined in Rule 3a-5 under the Investment Company Act) unconditionally guaranteed by the Bank (which may in either case act through a non-German branch) on a subordinated basis or in European government securities with a maturity of six months or less; provided, in each case, that such investment does not result in a Company Special Redemption Event (as defined under "Description of the Company Securities – Company Class B Preferred Securities – Redemption").

Special Redemption Events

Upon the occurrence of a Trust Special Redemption Event (as defined under "Description of the Trust Securities – Redemption") holders of the Trust Preferred Securities will be entitled, in accordance with the terms of the Trust Agreement to receive a corresponding number of the Company Class B Preferred Securities.

Upon the occurrence of a Company Special Redemption Event the Company shall have the right to redeem the Company Class B Preferred Securities at any time, in whole but not in part, and upon at least 30 days' prior notice, subject to the Company having obtained any required regulatory approvals. If the Company Class B Preferred Securities are redeemed prior to the Initial Redemption Date, such redemption shall be at the Early Redemption Price, unless the Company Class B Preferred Securities are redeemed solely as a result of a Tax Event as described under (B) of the definition of Tax Event set out herein in which case the Company Class B Preferred Securities will be redeemed at the Redemption Price.

Any redemption of the Company Class B Preferred Securities on or after the Initial Redemption Date will be at the Redemption Price.

Make-Whole Amount

The **"Make-Whole Amount"** will be determined by the Calculation Agent and will equal the Present Value on the relevant Redemption Date of (i) the liquidation preference amount per Company Class B Preferred Security and (ii) the remaining scheduled Class B Capital Payments up to but excluding the Initial Redemption Date. The **"Present Value"** will be determined by the Calculation Agent by discounting the liquidation preference amount of the Company Class B

	Preferred Securities and the remaining scheduled Class B Capital Payments to 12 April 2016 (exclusive) on an annual basis, assuming a 365-day year or a 366-day year, as the case may be, and the actual number of days elapsed in such year and using the Adjusted Comparable Yield plus 0.50 %. The **"Adjusted Comparable Yield"** will be the yield at the Early Redemption Calculation Date on the euro benchmark security selected by the Calculation Agent, after consultation with the Bank, as having a maturity comparable to the remaining term of the Company Class B Preferred Securities to the Initial Redemption Date, that would be utilized, at the time of selection and in accordance with customary banking practice, in pricing new issues of corporate debt securities of comparable maturity. "**Early Redemption Calculation Date**" means the third Business Day prior to the date on which the Company Class B Preferred Securities are redeemed prior to the Initial Redemption Date in accordance with the LLC Agreement.
Tax Event	**"Tax Event"** means the receipt by the Bank of an opinion of a nationally recognized law firm or other tax adviser in a Relevant Jurisdiction, experienced in such matters, to the effect that, as a result of (i) any amendment to, or clarification of, or change (including any announced prospective change) in, the laws or treaties (or any regulations or interpretations thereunder) of the Relevant Jurisdiction or any political subdivision or taxing authority thereof or therein affecting taxation, (ii) any judicial decision, official administrative pronouncement, published or private ruling, regulatory procedure, notice or announcement (including any notice or announcement of intent to adopt such procedures or regulations) by any legislative body, court, governmental authority or regulatory body (**"Administrative Action"**) or (iii) any amendment to, clarification of, or change in the official position or the interpretation of such Administrative Action or any interpretation or pronouncement that provides for a position with respect to such Administrative Action that differs from the theretofore generally accepted position in each case, by any legislative body, court, governmental authority or regulatory body, irrespective of the manner in which such amendment, clarification or change is made known, which amendment, clarification or change is effective, or which pronouncement or decision is announced, on or after the date of issuance of the Company Securities and the Trust Securities, there is more than an insubstantial risk that (A) the Trust or the Company is or will be subject to more than a de minimis amount of taxes, duties or other governmental charges, (B) the Trust, the Company or an obligor on the Debt Securities would be obligated to pay Additional Amounts or Additional Interest Amounts or (C) the Bank or any other obligor of the Debt Securities (x) may not, for purposes of determining its taxable income for the purposes of determining German corporate income tax in any year, deduct in full interest payments on the Debt Securities or (y) would, other than in cases where the Capital Payments may not be declared by the Company, be subject to tax on income of the Company under the rules of the German Foreign Taxation Act (*Außensteuergesetz*); provided, however, that none of the foregoing shall constitute a Tax Event if it may be avoided by the Bank (or the relevant obligor of the Debt Securities), the Trust or the Company taking reasonable measures under the circumstances. "**Additional Interest Amounts**" means any additional amounts of interest payable by the Bank or another obligor pursuant to the terms of the Debt Securities as a result of a deduction or withholding on payments thereunder as may be necessary in order that the net amounts received by the Company, after such deduction or withholding, will equal the amounts that would have been received had no such withholding or deduction been required.
Listing	Application has been made to the Irish Stock Exchange for the Trust Preferred Securities to be admitted to the Official List and trading on its regulated market. At the date of this Prospectus it is intended to subsequently make an application to list the Trust Preferred Securities on the official market (*amtlicher Markt*) of the Frankfurt Stock Exchange.

Notices	All notices to the holders of the Trust Preferred Securities will be given by the Trust (i) for so long as any of the Trust Preferred Securities are listed on the Irish Stock Exchange and the Irish Stock Exchange so requires, to the Company Announcement Office of the Irish Stock Exchange through the Irish Paying Agent and (ii) to Clearstream Frankfurt, Clearstream Luxembourg and Euroclear and (iii) for so long as the Trust Preferred Securities are listed on the Frankfurt Stock Exchange and the rules of such stock exchange so require, by publication in at least one daily newspaper having general circulation in Germany (which is expected to be the *Börsen-Zeitung*). In accordance with its published rules and regulations, Clearstream Frankfurt will notify the holders of securities accounts to which any Trust Preferred Securities are credited of any such notices received by it.
Governing Law	The LLC Agreement, including the terms of the Company Class A Preferred Security and the Company Class B Preferred Securities, and the Trust Agreement, including the terms of the Trust Securities, will be governed by Delaware law. The Support Undertaking and the Initial Debt Securities will be governed by German law.

Summary in respect of the Risk Factors

Risk Factors relating to the Transaction

Risks Associated with the Financial Condition of the Bank

There can be no assurances that the Bank will have sufficient Bank Distributable Profits, which are shown on its audited unconsolidated annual financial statements approved by the Bank's supervisory board for any fiscal year, for the Company to declare and pay Class B Capital Payments at the Stated Rate in full.

No Guaranteed Capital Payments

The Company's ability to declare Class B Capital Payments on the Company Class B Preferred Securities (and, in turn, the Trust's ability to make Trust Capital Payments on the Trust Preferred Securities) is limited by the terms of the LLC Agreement. The Company's Board of Directors has discretion in declaring and making Class B Capital Payments (except with respect to deemed declarations that are mandatory).

Any Class B Capital Payments will be dependent on the future profits or losses of the Bank and the manner in which profits, if any, are allocated by the Bank's management and shareholders. The Bank's management and shareholders are under no obligation to approve sufficient Bank Distributable Profits for purposes of declaring and making Class B Capital Payments with respect to any financial year. Even if the Bank has sufficient Bank Distributable Profits, the Company will not be able to make Class B Capital Payments on any Payment Date if, on such date, there is an order of the BaFin or any other relevant regulatory authority in effect, which prohibits the Bank from making distributions of its profits.

Discretionary and Noncumulative Capital Payments

Class B Capital Payments on the Company Class B Preferred Securities are discretionary. The LLC Agreement provides that it is the Company's policy to distribute all of the Company Operating Profits. However, even if sufficient Bank Distributable Profits are available, holders of the Company Class B Preferred Securities, and in turn, holders of the Trust Preferred Securities, will have no right to receive any amounts in respect of a Payment Period unless the Company's Board of Directors declares, or is deemed to have declared, Class B Capital Payments for the relevant Payment Period, which would then be available to the Trust for Trust Capital Payments on the Trust Preferred Securities.

Class B Capital Payments are not cumulative. Class B Capital Payments in subsequent periods will not be increased to compensate for any shortfalls in Class B Capital Payments in previous Payment Periods.

Relationships with the Bank and the Commerzbank Group; No Voting Rights; Certain Conflicts of Interest

The Bank and its affiliates are, and will continue to be, significantly involved in running the Company and the Trust. The Bank will control the Company through its (or any of its majority-owned subsidiaries) power, as holder of the Company Common Security, to elect a majority of the Board of Directors. The Trust, to the extent that it is the holder of the Company Class B Preferred Securities, will generally have no right to vote to elect members of the Board of Directors.

The Company expects that all initial and future directors and officers of the Company, as well as the three regular trustees of the Trust in accordance with the Trust Agreement will be officers or employees of the Bank or one of its affiliates (**"Regular Trustees"**). Consequently, conflicts of interest may arise for officers and employees of the Bank and its affiliates in the discharge of their duties as officers or employees of the Company or as Regular Trustees of the Trust.

Special Redemption Risks

Redemption Upon Occurrence of a Company Special Redemption Event. The Company Class B Preferred Securities (and, consequently, the Trust Preferred Securities) will be redeemable at any time at the option of the Company, in whole but not in part, upon the occurrence of a Company Special Redemption Event. A Company Special Redemption Event will arise if, as a result of changes in, or the interpretation of, the law:

– there are changes in the tax status of the Company;

– Additional Amounts or Additional Interest Amounts relating to Withholding Taxes become applicable to payments on the Company Class B Preferred Securities, the Trust Securities, or the Debt Securities;

– the Bank is not permitted to treat the Company Class B Preferred Securities as Tier I regulatory capital on a consolidated basis; or

– the Company qualifies as an "investment company" within the meaning of the Investment Company Act.

Liquidation of the Trust Upon Occurrence of a Trust Special Redemption Event. If a Trust Special Redemption Event occurs with respect to the Trust, the Trust will be dissolved and liquidated. Upon a dissolution and liquidation, each holder of Trust Preferred Securities will receive a corresponding number of Company Class B Preferred Securities. There can be no assurance as to the market price for the Company Class B Preferred Securities that are distributed after dissolution and liquidation of the Trust or that a market for these securities will subsequently develop and be sustained thereafter. Accordingly, and as a result of the potential tax liability accruing to holders of Company Class B Preferred Securities received on dissolution and liquidation of the Trust, the Company Class B Preferred Securities may trade at a discount to the price of the Trust Preferred Securities for which they were exchanged.

No Fixed Redemption Date

There is no fixed redemption date for the Company Class B Preferred Securities and, hence, the Trust Preferred Securities. Even though the Company Class B Preferred Securities and the Trust Preferred Securities may be redeemed on the Initial Redemption Date or on any Floating Payment Date thereafter, there can be no assurance that the Company will opt to redeem the Company Class B Preferred Securities on the Initial Redemption Date or on any Floating Payment Date thereafter.

Whether or not the Company decides to redeem the Company Class B Preferred Securities will depend on a number of factors, most of which are outside the control of the Bank and the Company.

No Guarantee Provided by the Support Undertaking

The Bank and the Company have entered into the Support Undertaking for the benefit of the Company and the holders of the Company Class B Preferred Securities. However, the Support Undertaking does not represent a guarantee from the Bank that the Company will be authorized to declare and make a Class B Capital Payment for any Payment Period. Furthermore, the Bank's obligations under the Support Undertaking and under the Debt Securities constitute obligations that are subordinated to all existing and future unsubordinated indebtedness of the Bank. Accordingly, the Company's rights under the Support Undertaking and the Debt Securities will rank behind the rights of all other creditors of the Bank in the event of the liquidation or dissolution of the Bank, and *pari passu* with amounts payable to the holders of Parity Securities.

Banking Regulatory Restrictions

The Company is a subsidiary of the Bank, which is subject to German banking regulations. Banking and other regulatory authorities in Germany could make determinations regarding the Bank that could adversely affect the Company's ability to make Class B Capital Payments in respect of the Company Class B Preferred Securities.

No Prior Public Market and Resale Restrictions

The Trust Preferred Securities are newly issued securities, and there is currently no public market in the Trust Preferred Securities. Prior to the listing on the Irish Stock Exchange and the Frankfurt Stock Exchange, there will have been no public market for the Trust Preferred Securities. There is no guarantee that the purchase price of the Trust Preferred Securities will correspond to the price at which the securities will actually be traded following the offering.

Fixed Rate Securities and Floating Rate Securities are exposed to Specific Market Risks

A holder of a security with a fixed compensation rate is exposed to the risk that the price of such security falls as a result of changes in the current interest rate on the capital market (market interest rate). While the nominal compensation rate of a security with a fixed compensation rate is fixed during the life of such security or during a certain period of time, the market interest rate typically changes on a daily basis. As the market interest rate changes, the price of such security changes in the opposite direction. If the market interest rate increases, the price of such security typically falls, until the yield of such security is approximately equal to the market interest rate. If the market interest rate falls, the price of a security with a fixed compensation rate typically increases, until the yield of such security is approximately equal to the market interest rate. Holders of Trust Preferred Securities should be aware that movements of the market interest rate can adversely effect the price of the Trust Preferred Securities and can lead to losses for the holders of the Trust Preferred Securities if they sell the Trust Preferred Securities during the period in which the compensation rate of the Trust Preferred Securities is fixed. A holder of a security with a floating compensation rate is exposed to the risk of fluctuating compensation rate levels and uncertain compensation income. Fluctuating compensation rate levels make it impossible to determine the yield of such securities.

Risk Factors relating to the Trust

The Trust is a funding vehicle for the Commerzbank Group which has been established solely for the purpose of issuing the Trust Preferred Securities and the Trust Common Security and investing the proceeds from the issuance of the Trust Preferred Securities in the Company Class B Preferred Securities which are expected to constitute the sole assets of the Trust. In the event that the Company fails to make a payment under the Company Class B Preferred Securities and the Bank fails to make a payment under the Support Undertaking, the Trust will not be in a position to meet its payment obligations under the Trust Preferred Securities.

Risk Factors relating to the Company

The Company is a funding vehicle for the Commerzbank Group which has been established solely for the purpose of issuing the Company Class A Preferred Security, the Company Class B Preferred Securities and the Company Common Security and investing the proceeds from the issuance of the Company Class B Preferred Securities in the Initial Debt Securities which are expected to constitute the sole assets of the Company. In the event that the Bank fails to make a payment under the Initial Debt Securities, the Company will not be in a position to meet its payment obligations under the Company Class B Preferred Securities and, in turn, unless sufficient payments are made by the Bank under the Support Undertaking, the Trust will not be in a position to meet its payment obligations under the Trust Preferred Securities.

Risk Factors relating to Commerzbank

General

Commerzbank Aktiengesellschaft is subject to various market- and sector-specific as well as company-specific risks, which – if they materialised – could have a considerable impact on its net assets, financial position and earnings performance, and could also result in the Bank having insufficient Bank Distributable Profits for the Company to declare and pay Class B Capital Payments on the Company Class B Preferred Securities, or in the Bank not being able to satisfy its payment obligations to the Company under the Debt Securities or the Support Undertaking. The occurrence of any of these events would reduce the amounts of Class B Capital Payments on the Company Class B Preferred Securities, which, in turn, would reduce the amounts available to the Trust for periodic distributions to holders of the Trust Preferred Securities. In addition, if a voluntary or involuntary liquidation, dissolution, or winding up of the Bank were to occur, holders of the Trust Preferred Securities could lose all or part of their investment.

Economic setting

Demand for the products and services offered by the Bank is mainly dependent upon economic performance as a whole. The Bank's business activities are primarily focused on European markets, and here for the most part on the German market. It is therefore dependent to a particularly high degree on an economic rebound in the European economic and monetary union, and most of all in Germany. Should the overall economic conditions deteriorate further or should the incentives and reforms necessary to boost the German and the European economies fail to materialize, this could have a serious negative impact on the Bank's net assets, financial position and earnings performance.

Intensive competition

Germany's banking sector is characterized by intensive competition. The intensive competition makes it not always possible to achieve adequate margins in individual business areas, or transactions in one area have to offset weak-margin or zero-margin transactions in others. In addition, due to intensive competition, lending terms and conditions do not always reflect the credit risk properly. Should the Bank not be able to offer its products and services on competitive terms and conditions, thereby achieving margins which at least cover the costs and risks related to its business activities, this could have a serious negative impact on the Bank's net assets, financial position and earnings performance.

Credit risk

Commerzbank is exposed to credit risk, i. e. the risk of losses or lost profits as a result of the default or deterioration in the creditworthiness of counterparties and also the resulting negative changes in the market value of financial products. Apart from the traditional risk, credit risk also covers country risk and issuer risk, as well as counterparty and settlement risk arising from trading transactions.

Market risk

Market risk covers the potential negative change in value of the Bank's positions as a result of changes in market prices – for example, interest rates, currency and equity prices, or parameters which influence prices (volatilities, correlations). Fluctuations in current interest rates (including changes in the relative levels of short- and long-term interest rates) could adversely affect the results of the Commerzbank Group's banking activities. Should the Commerzbank Group be unable to balance mismatches between interest-bearing assets and liabilities, the consequences of a narrowing of the interest margin and interest income might be a considerable adverse impact on the Commerzbank Group's earnings performance.

Some of the revenues and some of the expenses of the Commerzbank Group arise outside the eurozone. As a result, it is subject to a currency risk. As the Commerzbank Group's consolidated annual financial statements are drawn up in euros, foreign-currency transactions and the non-euro positions of the individual annual financial statements of the subsidiaries, which are consolidated in the Commerzbank Group's annual financial statements, are translated into euros at the exchange rates valid at the end of the respective period. The Commerzbank Group's results are subject, therefore, to the effects of the euro's fluctuations against other currencies, e. g. the US dollar. If, due to currency fluctuations, the revenues denominated in a currency other than the euro prove to be lower on translation, while expenses denominated in a currency other than the euro prove to be higher on translation, this might have an adverse impact on the Commerzbank Group's financial position and earnings performance.

The trading profit of the Commerzbank Group may be volatile and is dependent on numerous factors which lie beyond the Commerzbank Group's control, such as the general market environment, trading activity as a whole, the interest-rate level, currency fluctuations and general market volatility. No guarantee exists, therefore, that the level of the trading profit achieved in the 2005 financial year can be maintained or even improved upon. A substantial decline in the trading profit of the Commerzbank Group or an increase in trading losses may adversely affect the Commerzbank Group's ability to operate profitably.

Liquidity risk

Commerzbank is exposed to liquidity risk, i. e. the risk that the Bank is unable to meet its current and future payment commitments, or is unable to meet them on time (solvency or refinancing risk). In addition, the risk exists for Commerzbank that inadequate market liquidity (market-liquidity risk) will prevent the Bank from selling trading positions at short notice or hedging them, or that it can only dispose of them at a lower price. Liquidity risk can arise in various forms. It may happen that on a given day the Bank is unable to meet its payment commitments and then has to procure liquidity at short notice in the market on expensive conditions. There is also the danger that deposits are withdrawn prematurely or lending commitments are taken up unexpectedly.

Lowering of the Commerzbank Group's ratings

A downgrading or the mere possibility of a downgrading of the rating of the Bank or one of its subsidiaries might have adverse effects on the relationship with customers and on the sales of the products and services of the company in question. In this way, new business could suffer, the company's competitiveness in the market might be reduced, and its funding costs would increase substantially. A downgrading of the rating would also have adverse effects on the costs to the Group of raising equity and borrowed funds and might lead to new liabilities arising or to existing liabilities being called that are dependent upon a given rating being maintained. It could also happen that, after a downgrading, Commerzbank would have to provide additional collateral for derivatives in connection with rating-based collateral agreements. If the rating of the Bank or one of its major subsidiaries were to fall to within reach of the non-investment grade category, the operating business of the Bank or the subsidiary in question, and consequently the funding costs of all Group companies, would suffer considerably. In turn this would have an adverse effect on the Commerzbank Group's ability to be active in certain business areas.

Operational risk

Operational risk is an independent type of risk due to the ever greater complexity of banking activities and also, above all, due to the much more widespread use of sophisticated technologies in banking over the past few years. Large-scale institutional banking business, such as that conducted by the Commerzbank Group, is becoming ever more dependent upon highly developed information technology (IT) systems. IT systems are subject to a series of problems, such as computer viruses, hackers, impairments of the key IT centres, as well as software or hardware errors. Harmonization of the IT systems of the banking and financial subsidiaries of the Commerzbank Group in order to create a single

IT architecture represents a special challenge. In addition, IT systems regularly need to be updated in order to meet the changing business and regulatory requirements. In particular, compliance with the Basel II rules will make further large demands on the functioning of the Commerzbank Group's IT systems. It may not prove possible to implement on time the upgrades needed in connection with the introduction of the Basel II rules and they may not function as required.

Strategic risk

After completing its restructuring measures, which were primarily geared to cutting costs and stabilising revenues in Investment Banking, Commerzbank set itself fundamental strategic goals. Should the Commerzbank Group be unable to implement completely its published strategic plans, or if the costs of achieving these goals exceed the Commerzbank Group's expectations, the future earnings performance of the Commerzbank Group and also the future share price of Commerzbank and its competitiveness might suffer considerably.

Risk associated with the acquisition of Eurohypo

Through the acquisition of the stakes of Deutsche Bank Aktiengesellschaft and Allianz/Dresdner Bank Aktiengesellschaft in Eurohypo Aktiengesellschaft (**"Eurohypo"**) and subject to the approval of the relevant authorities, the Bank will in the result hold more than 98 % of the common shares in Eurohypo (for further information see "Description of the Bank – Acquisition of Eurohypo").

In the event of a material deterioration of Eurohypo's business, the market value of the Eurohypo common stock held by the Bank may decrease and/or future dividends on the Eurohypo common shares may be lower than currently expected or may not be paid at all. If the value of the Eurohypo common stock decreases not only temporarily against the price at which such shares were purchased by the Bank, the Bank may be forced to write down the book value of its participation in Eurohypo which in turn would adversely affect the Bank´s operating results and could have a serious negative impact on the Bank´s general financial condition.

Risk from equity holdings in other companies

Commerzbank has various equity holdings in listed and non-listed companies. The efficient steering of a portfolio of listed and non-listed companies calls for high funding costs, which might not be fully compensated for by the dividends that can be realized through the equity holdings. It cannot be ruled out that either stock-market developments in the respective home countries of the listed equity holdings or developments specific to individual companies will create the need for further valuation allowances in the equity holdings portfolio in future or that Commerzbank will be unable to dispose of its equity holdings on or off the stock exchange at acceptable prices above the current book value. Should another negative trend for share prices develop, this could have a serious negative impact on the Bank's net assets, financial position and earnings performance.

Regulatory risk

The business activity of the Commerzbank Group is regulated and supervised by the central banks and supervisory authorities of the countries in which it operates. In each of these countries, the Commerzbank Group has to have a banking licence or at least has to notify the national supervisory authority. Changes may take place in the system of banking supervision of the various countries and changes in the supervisory requirements in one country may impose additional obligations on the companies of the Commerzbank Group. Furthermore, compliance with changes in the supervisory regulations may lead to a considerable increase in operating expenses, which might have an adverse effect on the financial position and earnings performance of the Commerzbank Group.

Summary in respect of the Bank

Commerzbank Aktiengesellschaft (the **"Bank"** or **"Commerzbank"** and, together with its consolidated subsididiaries, the **"Commerzbank Group"** or the **"Group"**) is a stock corporation (*Aktiengesellschaft*) under German law. The Bank's registered office is located in Frankfurt am Main and its head office is at Kaiserplatz, 60261 Frankfurt am Main, Federal Republic of Germany (telephone: +49 (0) 69 136-20). The Bank is registered in the commercial register of the lower regional court (*Amtsgericht*) of Frankfurt am Main under the number HRB 32 000.

Commerzbank sees itself as a major German private-sector bank. Its products and services for retail and corporate customers extend to all aspects of banking. The Bank is also active in specialised fields – partly covered by its subsidiaries – such as mortgage banking and real-estate business, leasing and asset management. Its services are concentrated on managing customers' accounts and handling payments transactions, loan, savings and investments plans, and also on securities transactions. Additional financial services are offered within the framework of the Bank's bancassurance strategy of cooperating with leading companies in finance-related sectors, including home loan savings schemes and insurance products. The Commerzbank Group's operating activities are bundled into two divisions: Corporate and Investment Banking, on the one hand, and Retail Banking and Asset Management, on the other.

Commerzbank's business activities are mainly concentrated on the German market. In corporate business, Western, Central and Eastern Europe and also the USA are considered core markets. Additional information regarding the Bank is available in the sections "General Information on the Bank" and "Business of Commerzbank".

Selected Financial Information

*Commerzbank Aktiengesellschaft (unconsolidated – prepared in accordance with German generally accepted accounting principles (**"German GAAP"**))*

Income Statement

	2005 (audited)	2004 (audited)
	(€ million)	
Result from ordinary activities before restructuring expenses and expenses arising from special factors	1,264	557
Result from ordinary activities after restructuring expenses and expenses arising from special factors	734	432
Net income/net loss for the year	328	150
Distributable profit	328	150

Balance Sheet

	31 December 2005 (audited)	31 December 2004 (audited)
	(€ million)	
Balance sheet total	281,729	250,798
Cash reserve	4,627	2,891
Debt issued by public-sector borrowers, and bills of exchange rediscountable at central banks	3,060	1,055
Claims on banks	80,736	61,174
Claims on customers	112,608	106,821
Bonds and other fixed income securities	48,986	43,618
Liabilities to banks	121,210	107,960
Liabilities to customers	94,141	83,680
Securitized liabilities	30,321	26,597

*Commerzbank Group (consolidated – prepared in accordance with International Accounting Standards (**"IAS"**) / International Financial Reporting Standards (**"IFRS"**)*

Income Statement

	2005 (audited)	2004 (audited) (1)
Operating profit (€ million)	1,717	1,011
Operating profit per share (€)	2.84	1.70
Pre-tax profit/loss (€ million)	1,680	796
Net profit/loss (€ million)	1,165	362
Net profit/loss per share (€)	1.93	0.61
Operating return on equity (%)	16.8	9.9
Cost/income ratio in operating business (%)	67.1	70.9
Pre-tax return on equity (%)	16.4	7.8

(1) restated due to amendments of the IFRS in order to assure comparability with the 2005 figures.

Balance Sheet

	31 December 2005 (audited)	31 December 2004 (audited) (1)
	(€ billion)	
Balance sheet total	444.9	424.9
Risk weighted assets according to BIS	149.7	139.7
Equity as shown in balance sheet	13.7	11.0
Own funds as shown in balance sheet	21.8	19.9

(1) restated due to amendments of the IFRS in order to assure comparability with the 2005 figures.

Summary in respect of the Company

The Company is a limited liability company that was formed under the Delaware Limited Liability Company Act, as amended (the **"LLC Act"**) pursuant to the filing of the Certificate of Formation dated 22 February 2006 with the Secretary of State of the State of Delaware on 22 February 2006 and the entering into of an initial limited liability company agreement by the Bank as the initial member. The location of the principal executive offices of the Company is c/o Commerzbank AG, New York Branch, 2 World Financial Center, New York, New York 10281, USA.

Pursuant to the LLC Agreement, the Company will issue two classes of non-voting preferred securities, the Company Class A Preferred Security and the Company Class B Preferred Securities, and one class of common security, the Company Common Security. The Bank of New York or any successor entity in a merger, consolidation or amalgamation, in its capacity as property trustee of the Trust, will initially hold 100 % of the issued and outstanding Company Class B Preferred Securities. The Bank will initially hold the issued and outstanding Company Common Security. The Bank will hold the issued and outstanding Company Class A Preferred Security.

The sole purposes of the Company are:

(i) to issue the Company Class A Preferred Security, the Company Class B Preferred Securities and the Company Common Security;

(ii) to invest the proceeds of the Company Class B Preferred Securities in the Initial Debt Securities;

(iii) upon any redemption of the Initial Debt Securities prior to the Maturity Date which does not involve a redemption of the Company Class B Preferred Securities, to reinvest the proceeds in Substitute Debt Securities, provided that (i) the Substitute Debt Securities shall not include debt securities that are issued by a corporation organized under the laws of the United States of America or any of its states or that are shown as a liability on the books of a U.S. branch of the Bank or a Bank Subsidiary, or the proceeds of which are lent to such a branch or Bank Subsidiary except in the ordinary course of the lender's business, (ii) such substitution or replacement does not result in a Company Special Redemption Event (as defined under "Description of the Company Securities – Company Class B Preferred Securities – Redemption"), (iii) the Bank, unless it itself is the substitute obligor, guarantees on a subordinated basis, at least equal to the ranking of the Initial Debt Securities, the obligations of the substitute obligor, and (iv) the Bank has obtained any required regulatory approval;

(iv) in the event of any default on the Debt Securities, to enforce its rights for payment of any overdue amounts;

(v) after the Maturity Date, if the Company Class B Preferred Securities have not been redeemed on the Maturity Date, to invest in Permitted Investments;

(vi) to enter into and, in certain circumstances, to enforce the Support Undertaking for the sole benefit of the holders of the Company Class B Preferred Securities; and

(vii) to engage in those other activities necessary or incidental thereto.

The Company may also, without the consent of the holders of the Company Class B Preferred Securities, in the future issue, in one or more transactions, further Company Class B Preferred Securities (with identical terms as the Company Class B Preferred Securities described herein save for the issue date, the date from which Class B Capital Payments accrue, the issue price and any other deviations required for compliance with applicable law) in consideration of the receipt of Additional Debt Securities in a principal amount equal to the aggregate liquidation preference amount of such additional Company Class B Preferred Securities.

Summary in respect of the Trust

The Trust is a statutory trust formed under the Delaware Statutory Trust Act, as amended (the **"Trust Act"**), pursuant to an initial Declaration of Trust executed by the Company, as depositor, The Bank of New York, as property trustee under the initial Declaration of Trust and The Bank of New York (Delaware), as Delaware trustee under the initial Declaration of Trust, and the filing of the Certificate of Trust with the Secretary of State of the State of Delaware on 23 February 2006. The location of the principal executive office of the Trust is c/o Commerzbank AG, New York Branch, 2 World Financial Center, New York, New York 10281, USA.

The Bank will own the Trust Common Security representing a capital contribution in respect thereof equal to € 1,000.

The Trust has been established as a special purpose vehicle and will use all the proceeds derived from the issuance of the Trust Preferred Securities to purchase the Company Class B Preferred Securities from the Company, and, accordingly, the assets of the Trust will consist solely of the Company Class B Preferred Securities. The Trust exists for the sole purposes of:

(i) issuing the Trust Securities representing beneficial interests in the assets of the Trust,

(ii) investing the proceeds from the issuance of the Trust Preferred Securities in the Company Class B Preferred Securities, and

(iii) engaging in those other activities necessary or incidental thereto.

The Trust may also, without the consent of the holders of the Trust Preferred Securities, in the future issue, in one or more transactions, further Trust Preferred Securities (with identical terms as the Trust Preferred Securities described herein save for the issue date, the date from which Trust Capital Payments accrue, the issue price and any other deviations required for compliance with applicable law) in consideration of the receipt of an equal number of additional Company Class B Preferred Securities.

RISK FACTORS

The following is a non-exhaustive description of certain risk factors with respect to the Trust Preferred Securities and the financial situation of the Trust, the Company and the Bank which prospective investors should consider before deciding to purchase the Trust Preferred Securities. The sequence in which the following risk factors are listed is not an indication of their likelihood to occur or of the extent of their commercial consequences. Additional risks and uncertainties not presently known to the Bank, or that the Bank now believes are immaterial, could also impair the business or the financial position of the Bank or the Company's ability to make distributions on the Company Class B Preferred Securities. Prospective investors should consider all of the information provided in this Prospectus and consult with their own professional advisers if they consider it necessary.

Risk Factors relating to the transaction

Risks Associated with the Financial Condition of the Bank

There can be no assurances that the Bank will have sufficient Bank Distributable Profits, which are shown on its audited unconsolidated annual financial statements approved by the Bank's supervisory board for any fiscal year, for the Company to declare and pay Class B Capital Payments at the Stated Rate in full. In addition, a deterioration of the Bank's financial condition could also result in the Bank having insufficient Bank Distributable Profits for the Company to declare and pay Class B Capital Payments on the Company Class B Preferred Securities, or in the Bank not being able to satisfy its payment obligations to the Company under the Debt Securities or the Support Undertaking. The occurrence of any of these events would reduce the amounts of Class B Capital Payments on the Company Class B Preferred Securities, which, in turn, would reduce the amounts available to the Trust for periodic distributions to holders of the Trust Preferred Securities. In addition, if a voluntary or involuntary liquidation, dissolution, or winding up of the Bank were to occur, holders of the Trust Preferred Securities could lose all or part of their investment.

No Guaranteed Capital Payments

The Company's ability to declare Class B Capital Payments on the Company Class B Preferred Securities (and, in turn, the Trust's ability to make Trust Capital Payments on the Trust Preferred Securities) is limited by the terms of the LLC Agreement. Although it is the Company's policy to distribute the full amount of the Company Operating Profits for each financial year as Class B Capital Payments to the holders of the Company Class B Preferred Securities, the Company's Board of Directors has discretion in declaring and making these payments (except with respect to deemed declarations that are mandatory). See "Description of the Company Securities – Company Class B Preferred Securities – Class B Capital Payments".

Any Class B Capital Payments will be dependent on the future profits or losses of the Bank and the manner in which profits, if any, are allocated by the Bank's management and shareholders. The Bank's management and shareholders are under no obligation to approve sufficient Bank Distributable Profits for purposes of declaring and making Class B Capital Payments with respect to any financial year. If the Bank records an annual surplus (*Jahresüberschuss*) for a financial year, its Bank Distributable Profits may still be insufficient if its management and shareholders decide to allocate all of its annual surplus to reserves. Moreover, if the Bank were not to record an annual surplus in a given financial year, the Bank's management and shareholders are under no obligation to make up the deficit from its reserves to ensure that the Bank has sufficient Bank Distributable Profits for making Class B Capital Payments.

Even if the Bank has sufficient Bank Distributable Profits, the Company will not be able to make Class B Capital Payments on any Payment Date if, on such date, there is an order of the BaFin or any other relevant regulatory authority in effect, which prohibits the Bank from making distributions of its profits. To the extent the Company is not permitted to make Class B Capital Payments on any Payment Date, this will reduce the amounts available to the Trust for Trust Capital Payments on the Trust Preferred Securities. See "Description of the Company Securities – Company Class B Preferred Securities – Class B Capital Payments" and "Description of the Trust Securities – Trust Capital Payments".

Discretionary and Noncumulative Capital Payments

Class B Capital Payments on the Company Class B Preferred Securities are discretionary. The LLC Agreement provides that it is the Company's policy to distribute all of the Company Operating Profits. However, even if sufficient Bank Distributable Profits are available, holders of the Company Class B Preferred Securities, and in turn, holders of the Trust Preferred Securities, will have no right to receive any amounts in respect of a Payment Period unless the Company's Board of Directors declares, or is deemed to have declared, Class B Capital Payments for the relevant Payment Period, which would then be available to the Trust for Trust Capital Payments on the Trust Preferred Securities. See "Description of the Company Securities – Company Class B Preferred Securities – Class B Capital Payments".

Class B Capital Payments are not cumulative. Class B Capital Payments in subsequent periods will not be increased to compensate for any shortfalls in Class B Capital Payments in previous Payment Periods.

Relationships with the Bank and the Commerzbank Group; No Voting Rights; Certain Conflicts of Interest

The Bank and its affiliates are, and will continue to be, significantly involved in running the Company and the Trust. The Bank will control the Company through its (or any of its majority-owned subsidiaries) power, as holder of the Company Common Security, to elect a majority of the Board of Directors. The Trust, to the extent that it is the holder of the Company Class B Preferred Securities, will generally have no right to vote to elect members of the Board of Directors. The only exception is that holders of Company Class B Preferred Securities will have the right to elect one independent member to the Board of Directors, the Independent Enforcement Director, if:

– the Company fails to make Class B Capital Payments (and Additional Amounts thereon) on the Company Class B Preferred Securities at the Stated Rate in full as and when due for the first Payment Period or subsequently for two consecutive Payment Periods; or

– a holder of the Company Class B Preferred Securities has notified the Company that the Bank has failed to perform any of its obligations under the Support Undertaking and this failure continues for 60 days after the date such notice is given.

The Company expects that all initial and future directors and officers of the Company, as well as the three regular trustees of the Trust in accordance with the Trust Agreement will be officers or employees of the Bank or its affiliates (**"Regular Trustees"**). Under the Services Agreement, Commerzbank Aktiengesellschaft, New York Branch will provide certain accounting, legal, tax, and other support services to the Company and the Trust. Consequently, conflicts of interest may arise for officers and employees of the Bank and its affiliates in the discharge of their duties as officers or employees of the Company or as Regular Trustees of the Trust.

It is the intention of the Bank, the Company, and the trustees of the Trust that the terms of any agreements and transactions, and in particular the LLC Agreement and the Trust Agreement, be fair to all parties and consistent with terms that could be achieved on an arm's-length basis. However, there can be no assurance that such agreements or transactions will be on terms as favourable as those that could have been obtained from unaffiliated third parties.

Special Redemption Risks

Redemption Upon Occurrence of a Company Special Redemption Event. The Company Class B Preferred Securities (and, consequently, the Trust Preferred Securities) will be redeemable at any time at the option of the Company, in whole but not in part, upon the occurrence of a Company Special Redemption Event (as defined under "Description of the Company Securities – Company Class B Preferred Securities – Redemption"). A Company Special Redemption Event will arise if, as a result of changes in, or the interpretation of, the law:

– there are changes in the tax status of the Company;

– Additional Amounts relating to Withholding Taxes become applicable to payments on the Company Class B Preferred Securities, the Trust Securities, or the Debt Securities;

- the Bank is not permitted to treat the Company Class B Preferred Securities as Tier I regulatory capital on a consolidated basis; or
- the Company qualifies as an "investment company" within the meaning of the Investment Company Act.

See "Description of the Trust Securities – Redemption", and ("Description of the Company Securities – Company Class B Preferred Securities – Redemption").

Liquidation of the Trust Upon Occurrence of a Trust Special Redemption Event. If a Trust Special Redemption Event (as defined under "Description of the Trust Securities – Redemption") occurs with respect to the Trust, the Trust will be dissolved and liquidated. Upon a dissolution and liquidation, each holder of Trust Preferred Securities will receive a corresponding number of Company Class B Preferred Securities. Holders of these Company Class B Preferred Securities and their nominees will be subject to the nominee reporting requirements under the Code, and the Company will report to the IRS, on Schedule K-1, the *pro rata* share in the Company's income, gain, loss, deduction, or credit of each holder of Company Class B Preferred Securities for the then prior calendar year. There can be no assurance as to the market price for the Company Class B Preferred Securities that are distributed after dissolution and liquidation of the Trust or that a market for these securities will subsequently develop and be sustained thereafter. Accordingly, and as a result of the potential tax liability accruing to holders of Company Class B Preferred Securities received on dissolution and liquidation of the Trust, the Company Class B Preferred Securities may trade at a discount to the price of the Trust Preferred Securities for which they were exchanged.

No Fixed Redemption Date

There is no fixed redemption date for the Company Class B Preferred Securities and, hence, the Trust Preferred Securities. Even though the Company Class B Preferred Securities and the Trust Preferred Securities may be redeemed on the Initial Redemption Date or on any Floating Payment Date thereafter, there can be no assurance that the Company will opt to redeem the Company Class B Preferred Securities on the Initial Redemption Date or on any Floating Payment Date thereafter.

Whether or not the Company decides to redeem the Company Class B Preferred Securities will depend on a number of factors – most of which are outside the control of the Bank and the Company – including, for example:

- the regulatory capital and the refinancing options of the Bank at such time;
- the regulatory assessment of the Company Class B Preferred Securities and the Debt Securities;
- whether the required prior consent of the BaFin has been obtained; and
- the general level of interest in the Company Class B Preferred Securities and capital market conditions.

No Guarantee Provided by the Support Undertaking

The Bank and the Company have entered into the Support Undertaking for the benefit of the Company and the holders of the Company Class B Preferred Securities. However, the Support Undertaking does not represent a guarantee from the Bank that the Company will be authorized to declare and make a Class B Capital Payment for any Payment Period. Furthermore, the Bank's obligations under the Support Undertaking and under the Debt Securities constitute obligations that are subordinated to all existing and future unsubordinated indebtedness of the Bank. Accordingly, the Company's rights under the Support Undertaking and the Debt Securities will rank behind the rights of all other creditors of the Bank in the event of the liquidation or dissolution of the Bank, and *pari passu* with amounts payable to the holders of Parity Securities. See "Description of the Support Undertaking" and "Description of the Debt Securities". The Bank has not entered into any restrictive covenants regarding its ability to incur additional indebtedness ranking *pari passu* or prior to its obligations under the Support Agreement and the Debt Securities.

Banking Regulatory Restrictions

The Company is a subsidiary of the Bank, which is subject to German banking regulations. Banking and other regulatory authorities in Germany could make determinations regarding the Bank that could adversely affect the Company's ability to make Class B Capital Payments in respect of the Company Class B Preferred Securities. In addition, the Bank and its subsidiaries are active in providing financial products and services throughout Europe and in the United States of America. The international scope of the Bank's business operations may result in United States federal or state authorities, European Union authorities or authorities in individual European countries exerting regulatory authority over the Bank and its subsidiaries. These regulatory authorities could make determinations regarding the Bank or its subsidiaries that could adversely affect their ability to, among other things:

– make distributions to holders of their securities;
– engage in transactions with affiliates;
– purchase or transfer assets, satisfy obligations; or
– make redemption or liquidation payments to holders of securities.

No Prior Public Market and Resale Restrictions

The Trust Preferred Securities are newly issued securities, and there is currently no public market in the Trust Preferred Securities. Application has been made to list the Trust Preferred Securities on the Official List of the Irish Stock Exchange and listing of the Trust Preferred Securities is expected to occur shortly following the closing of the Offering. At the date of this Prospectus it is intended to subsequently make an application to list the Trust Preferred Securities on the official market (*amtlicher Markt*) of the Frankfurt Stock Exchange. Prior to any of these listings, there will have been no public market for the Trust Preferred Securities. There is no guarantee that the purchase price of the Trust Preferred Securities will correspond to the price at which the securities will actually be traded following the offering. Moreover, there can be no assurance that an active trading market for the Trust Preferred Securities will subsequently develop and be sustained thereafter. Investors should expect liquidity and the market prices for the Trust Preferred Securities to fluctuate with changes in:

– market and economic conditions;
– the financial condition and prospects of the Bank; and
– other factors that generally influence the secondary market prices of securities.

The Trust Preferred Securities have not been registered under the Securities Act and will be subject to a number of resale restrictions. See "General Information – Selling Restrictions".

Fixed Rate Securities and Floating Rate Securities are exposed to Specific Market Risks

A holder of a security with a fixed compensation rate is exposed to the risk that the price of such security falls as a result of changes in the current interest rate on the capital market (market interest rate). While the nominal compensation rate of a security with a fixed compensation rate is fixed during the life of such security or during a certain period of time, the market interest rate typically changes on a daily basis. As the market interest rate changes, the price of such security changes in the opposite direction. If the market interest rate increases, the price of such security typically falls, until the yield of such security is approximately equal to the market interest rate. If the market interest rate falls, the price of a security with a fixed compensation rate typically increases, until the yield of such security is approximately equal to the market interest rate. Holders of Trust Preferred Securities should be aware that movements of the market interest rate can adversely effect the price of the Trust Preferred Securities and can lead to losses for the holders of the Trust Preferred Securities if they sell the Trust Preferred Securities during the period in which the compensation rate of the Trust Preferred Securities is fixed.

A holder of a security with a floating compensation rate is exposed to the risk of fluctuating compensation rate levels and uncertain compensation income. Fluctuating compensation rate levels make it impossible to determine the yield of such securities.

Risk Factors relating to the Trust

The Trust is a funding vehicle for the Commerzbank Group which has been established solely for the purpose of issuing the Trust Preferred Securities and the Trust Common Security and investing the proceeds from the issuance of the Trust Preferred Securities in the Company Class B Preferred Securities which are expected to constitute the sole assets of the Trust. In the event that the Company fails to make a payment under the Company Class B Preferred Securities and the Bank fails to make a payment under the Support Undertaking, the Trust will not be in a position to meet its payment obligations under the Trust Preferred Securities.

Risk Factors relating to the Company

The Company is a funding vehicle for the Commerzbank Group which has been established solely for the purpose of issuing the Company Class A Preferred Security, the Company Class B Preferred Securities and the Company Common Security and investing the proceeds from the issuance of the Company Class B Preferred Securities in the Initial Debt Securities which are expected to constitute the sole assets of the Company. In the event that the Bank fails to make a payment under the Debt Securities, the Company will not be in a position to meet its payment obligations under the Company Class B Preferred Securities and, in turn, unless sufficient payments are made by the Bank under the Support Undertaking, the Trust will not be in a position to meet its payment obligations under the Trust Preferred Securities.

Risk Factors relating to Commerzbank

General

Commerzbank Aktiengesellschaft is subject to various market- and sector-specific as well as company-specific risks, which – if they materialised – could have a considerable impact on its net assets, financial position and earnings performance, and could also result in the Bank having insufficient Bank Distributable Profits for the Company to declare and pay Class B Capital Payments on the Company Class B Preferred Securities, or in the Bank not being able to satisfy its payment obligations to the Company under the Debt Securities or the Support Undertaking. The occurrence of any of these events would reduce the amounts of Class B Capital Payments on the Company Class B Preferred Securities, which, in turn, would reduce the amounts available to the Trust for periodic distributions to holders of the Trust Preferred Securities. In addition, if a voluntary or involuntary liquidation, dissolution, or winding up of the Bank were to occur, holders of the Trust Preferred Securities could lose all or part of their investment.

Economic setting

Demand for the products and services offered by the Bank is mainly dependent upon economic performance as a whole. In the area of Corporate and Investment Banking, for example, sluggish economic activity has a direct impact on companies' demand for credit and causes lending to decline and average creditworthiness to deteriorate. As there is also a greater likelihood of companies becoming insolvent and consequently defaulting on their loans in a shaky economic environment, higher provisioning is necessary. Moreover, a poorer corporate profit outlook leads to lower evaluations of companies and as a result to less interest in both mergers and acquisitions and such capital-market transactions as IPOs, capital increases and takeovers; accordingly, the revenues from advising clients and placing their shares decline when economic activity is sluggish. Furthermore, proprietary trading and the trading profit are also dependent upon the capital-market situation and the expectations of market participants. In the Retail Banking and Asset Management division, lower company evaluations prompt investors to turn to forms of investment entailing less risk (such as money-market funds rather than other fund products), the sale of which may generate only weaker commissions.

The Bank's business activities are primarily focused on European markets, and here for the most part on the German market. It is therefore dependent to a particularly high degree on an economic rebound in the European economic and monetary union, and most of all in Germany. Should the overall economic conditions deteriorate further or should the incentives and reforms necessary to boost the German and the European economies fail to materialize, this could have a serious negative impact on the Bank's net assets, financial position and earnings performance.

Intensive competition

Germany's banking sector is characterized by intensive competition. Overcapacity exists in some cases in business involving private investors. In corporate business, especially in the field investment banking, German banks compete with a number of foreign institutions, which have substantially expanded their presence in the German market over the past few years. The intensive competition makes it not always possible to achieve adequate margins in individual business areas, or transactions in one area have to offset weak-margin or zero-margin transactions in others. In addition, due to intensive competition, lending terms and conditions do not always reflect the credit risk properly.

Commerzbank competes not only with other private-sector banks but also with cooperative banks and public-law banks (savings banks and Landesbanks). Whereas private-sector banks have an obligation to their shareholders to increase value and to make a profit, the public-law institutions base their raison d'être on their public duty to provide broad sections of the population with banking products and services at a fair price. On account of this commitment to the public good, the desire to make a profit is not the prime goal of the public-law institutions. However, due to the elimination of institutional liability and guarantor liability in July 2005 the competitive advantage of public-law institutions ceases to exist and it is expected, that they will be more and more exposed to fierce competition. Still, in some cases they do not offer their products and services at market prices or at prices which reflect the risks involved; private-sector banks could not do this.

Should the Bank not be able to offer its products and services on competitive terms and conditions, thereby achieving margins which at least cover the costs and risks related to its business activities, this could have a serious negative impact on the Bank's net assets, financial position and earnings performance.

Credit risk

Commerzbank is exposed to credit risk, i. e. the risk of losses or lost profits as a result of the default or deterioration in the creditworthiness of counterparties and also the resulting negative changes in the market value of financial products. Apart from the traditional risk, credit risk also covers country risk and issuer risk, as well as counterparty and settlement risk arising from trading transactions.

This can arise, for instance, through customers' lack of liquidity or insolvency, which may be due either to the economic downturn, mistakes made in the corporate management of the relevant customers or competitive reasons. Such credit risks exist in every transaction which a bank conducts with a customer, including the purchase of securities (risk of price losses due to the unexpected deterioration in the creditworthiness of an issuer (= issuer risk)) or, for instance, the hedging of credit risk by means of credit derivatives (= counterparty risk). A credit risk exists to an especially high degree, however, in connection with the granting of credits, since, if this risk is realized, not only is the compensation for the activity lost, but also and above all the loans which have been made available. The Bank believes that adequate provision has been made for all of the Commerzbank Group's recognized potentially or acutely endangered credit commitments. It cannot be ruled out, however, that Commerzbank will have to make further provision for possible loan losses or realize further loan losses, possibly as a consequence of the persistently weak economic situation, the continuing deterioration in the financial situation of borrowers from Commerzbank, the increase in corporate and private insolvencies (particularly in Germany), the decline in the value of collateral, the impossibility in some cases of realizing collateral values or a change in the provisioning and risk-management requirements. This could have a serious negative impact on the Commerzbank Group's net assets, financial position and earnings performance.

Market risk

Market risk covers the potential negative change in value of the Bank's positions as a result of changes in market prices – for example, interest rates, currency and equity prices, or parameters which influence prices (volatilities, correlations).

Fluctuations in current interest rates (including changes in the relative levels of short- and long-term interest rates) could affect the results of the Commerzbank Group's banking activities. Changes in the level of both the short- and the long-term interest rates always affect the level of gains and losses on securities held in the Commerzbank Group's financial investments portfolio and the point of time at which these gains and losses were realized. In the Commerzbank Group's financial investments portfolio, the euro-denominated fixed-income securities have a great weight. As a result, interest-rate fluctuations in the eurozone have a marked impact on the value of the financial investments portfolio. A rise in the interest-rate level could substantially reduce the value of the fixed-income financial investments, and unforeseen interest-rate fluctuations could have a very adverse effect on the value of the bond and interest-rate derivative portfolios held by the Commerzbank Group.

The Commerzbank Group's management of interest-rate risk also influences the treasury result. The relationship of assets to liabilities as well as any imbalance stemming from this relationship causes the revenues from the Commerzbank Group's banking activities to change with different correlations when interest rates fluctuate. Significant for the Commerzbank Group are above all changes in the interest-rate level for different maturity brackets and currencies in which the Commerzbank Group holds interest-sensitive positions. An imbalance between interest-bearing assets and interest-bearing liabilities with regard to maturities can have a considerable adverse effect on the financial position and earnings performance of Commerzbank's banking business in the relevant month or quarter. Should the Commerzbank Group be unable to balance mismatches between interest-bearing assets and liabilities, the consequences of a narrowing of the interest margin and interest income might be a considerable adverse impact on the Commerzbank Group's earnings performance.

Some of the revenues and some of the expenses of the Commerzbank Group arise outside the eurozone. As a result, it is subject to a currency risk. As the Commerzbank Group's consolidated annual financial statements are drawn up in euros, foreign-currency transactions and the non-euro positions of the individual annual financial statements of the subsidiary, which are consolidated in the Commerzbank Group's annual financial statements, are translated into euros at the exchange rates valid at the end of the respective period. The Commerzbank Group's results are subject, therefore, to the effects of the euro's fluctuations against other currencies, e. g. the US dollar. If, due to currency fluctuations, the revenues denominated in a currency other than the euro prove to be lower on translation, while expenses denominated in a currency other than the euro prove to be higher on translation, this might have an adverse impact on the Commerzbank Group's financial position and earnings performance.

The trading profit of the Commerzbank Group may be volatile and is dependent on numerous factors which lie beyond the Commerzbank Group's control, such as the general market environment, trading activity as a whole, the interest-rate level, currency fluctuations and general market volatility. No guarantee exists, therefore, that the level of the trading profit achieved in the 2005 financial year can be maintained or even improved upon. A substantial decline in the trading profit of the Commerzbank Group or an increase in trading losses may adversely affect the Commerzbank Group's ability to operate profitably.

Liquidity risk

Commerzbank is exposed to liquidity risk, i. e. the risk that the Bank is unable to meet its current and future payment commitments, or is unable to meet them on time (solvency or refinancing risk). In addition, the risk exists for Commerzbank that inadequate market liquidity (market-liquidity risk) will prevent the Bank from selling trading positions at short notice or hedging them, or that it can only dispose of them at a lower price. Liquidity risk can arise in various forms. It may happen that on a given day the Bank is unable to meet its payment commitments and then has to procure liquidity at short notice in the market on expensive conditions. There is also the danger that deposits are withdrawn prematurely or lending commitments are taken up unexpectedly.

Lowering of the Commerzbank Group's ratings

The rating agencies Standard & Poor's, Moody's and Fitch Ratings use ratings to assess whether a potential borrower will be able in future to meet its credit commitments as agreed. A major element in the rating for this purpose is an appraisal of a company's net assets, financial position and earnings performance. A bank's rating is an important comparative element in its competition with other banks. In particular, it also has a significant influence on the individual ratings of the most important subsidiaries. A downgrading or the mere possibility of a downgrading of the rating of the Bank or one of its subsidiaries might have adverse effects on the relationship with customers and on the sales of the products and services of the company in question. In this way, new business could suffer, the company's competitiveness in the market might be reduced, and its funding costs would increase substantially. A downgrading of the rating would also have adverse effects on the costs to the Group of raising equity and borrowed funds and might lead to new liabilities arising or to existing liabilities being called that are dependent upon a given rating being maintained. It could also happen that, after a downgrading, Commerzbank would have to provide additional collateral for derivates in connection with rating-based collateral agreements. If the rating of the Bank or one of its major subsidiaries were to fall to within reach of the non-investment grade category, the operating business of the subsidiary in question, and consequently the funding costs of all Group companies, would suffer considerably. In turn this would have an adverse effect on the Commerzbank Group's ability to be active in certain business areas.

Operational risk

Operational risk is an independent type of risk due to the ever greater complexity of banking activities and also, above all, due to the much more widespread use of sophisticated technologies in banking over the past few years. Large-scale institutional banking business, such as that conducted by the Commerzbank Group, is becoming ever more dependent upon highly developed information technology (IT) systems. IT systems are subject to a series of problems, such as computer viruses, hackers, impairments of the key IT centres, as well as software or hardware errors. Harmonization of the IT systems of the banking and financial subsidiaries of the Commerzbank Group in order to create a single IT architecture represents a special challenge. In addition, IT systems regularly need to be updated in order to meet the changing business and regulatory requirements. In particular, compliance with the Basel II rules will make further large demands on the functioning of the Commerzbank Group's IT systems. It may not prove possible to implement on time the upgrades needed in connection with the introduction of the Basel II rules and they may not function as required. Even if the Commerzbank Group adopts measures to protect itself against the abovementioned problems, they still can respresent serious risks for the Commerzbank Group.

Strategic risk

After completing its restructuring measures, which were primarily geared to cutting costs and stabilising revenues in Investment Banking, Commerzbank set itself the following fundamental strategic goals early in 2004: increasing operational profitability, sharpening its business profile and further improving capital and risk management. Commerzbank has made it clear that attaining these goals is essential in order for it to achieve a sustained improvement in both its earnings performance and future growth. A series of factors, including a market decline and market fluctuations, changes in the Commerzbank Group's market position and changed market conditions in the core markets of the Commerzbank Group, i.e. above all in Germany and Western Europe, or unfavourable macroeconomic conditions in these markets, might make it impossible for the Commerzbank Group to achieve some or all of the goals which it has set itself. Should the Commerzbank Group be unable to implement completely its published strategic plans, or if the costs of achieving these goals exceed the Commerzbank Group's expectations, the future earnings performance of the Commerzbank Group and also the future share price of Commerzbank and its competitiveness might suffer considerably.

Risk associated with the acquisition of Eurohypo

Through the acquisition of the stakes of Deutsche Bank Aktiengesellschaft and Allianz/Dresdner Bank Aktiengesellschaft in Eurohypo Aktiengesellschaft (**"Eurohypo"**) and subject to the approval of the relevant authorities, the Bank will in the result hold more than 98 % of the common shares in Eurohypo (for further information see "Description of the Bank – Acquisition of Eurohypo").

In the event of a material deterioration of Eurohypo's business, the market value of the Eurohypo common stock held by the Bank may decrease and/or future dividends on the Eurohypo common shares may be lower than currently expected or may not be paid at all. If the value of the Eurohypo common stock decreases not only temporarily against the price at which such shares were purchased by the Bank, the Bank may be forced to write down the book value of its participation in Eurohypo which in turn would adversely affect the Bank´s operating results and could have a serious negative impact on the Bank´s general financial condition.

Risk from equity holdings in other companies

Commerzbank has various equity holdings in listed and non-listed companies. The efficient steering of a portfolio of listed and non-listed companies calls for high funding costs, which might not be fully compensated for by the dividends that can be realized through the equity holdings.

For the most part, Commerzbank also holds only minority stakes in large listed companies in Germany and abroad. This equity holding structure makes it impossible to procure immediately and efficiently adequate information in order to counteract in good time possibly negative equity holdings. It cannot be ruled out that either stock-market developments in the respective home countries of the listed equity holdings or developments specific to individual companies will create the need for further valuation allowances in the equity holdings portfolio in future or that Commerzbank will be unable to dispose of its equity holdings on or off the stock exchange at acceptable prices above the current book value. Should another negative trend for share prices develop, this could have a serious negative impact on the Bank's net assets, financial position and earnings performance.

Regulatory risk

The business activity of the Commerzbank Group is regulated and supervised by the central banks and supervisory authorities of the countries in which it operates. In each of these countries, the Commerzbank Group has to have a banking licence or at least has to notify the national supervisory authority. Changes may take place in the system of banking supervision of the various countries and changes in the supervisory requirements in one country may impose additional obligations on the companies of the Commerzbank Group. Furthermore, compliance with changes in the supervisory regulations may lead to a considerable increase in operating expenses, which might have an adverse effect on the financial position and earnings performance of the Commerzbank Group. In addition, regulatory authorities could make determinations regarding the Bank or its subsidiaries that could adversely affect their ability to be active in certain business areas.

PRESENTATION OF FINANCIAL INFORMATION

The Bank's unconsolidated financial information as of and for the annual periods ended on 31 December 2004 and 2005 has been prepared in accordance with German generally accepted accounting principles (**"German GAAP"**) and has been audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (former firm name PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft) who, in each case, have issued an unqualified auditor's report.

The Bank's consolidated financial information as of and for the annual periods ended on 31 December 2004 and 2005 has been prepared in accordance with International Financial Reporting Standards (**"IFRS"**) and has been audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (former firm name PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft) who, in each case, have issued an unqualified auditor's report.

All financial information in relation to the Bank presented in this Prospectus is based on the Bank's unconsolidated and consolidated audited annual financial statements as of and for the annual period ended on 31 December 2004 and 2005.

Eurohypo's consolidated financial information as of and for the annual periods ended on 31 December 2004 and 31 December 2005 has been prepared in accordance with IFRS and has been audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft who, in each case, have issued an unqualified auditor's report.

This Prospectus does not contain any pro forma financial information to reflect the Bank's acquisition of further Eurohypo common shares resulting in the Bank holding more than 98% of Eurohypo common shares and the effects of a consolidation of Eurohypo in the Bank's future consolidated annual financial statements. Furthermore, investors should be aware of the fact that the pure addition of balance sheet items derived from the annual financial statements of the Bank and Eurohypo inlcuded in this Prospectus would lead to incorrect results as the Bank and Eurohypo maintain various business contacts. Therefore, the addition of assets and liabilities and/or income and expenses resulting from such business contacts would result in double-counting.

USE OF PROCEEDS

The net proceeds from the sale of the Trust Preferred Securities, € 1,000,000,000, will be invested by the Trust in the Company Class B Preferred Securities. The Company will use the funds from the sale of the Company Class B Preferred Securities to make an investment in the Initial Debt Securities. The Bank intends to use the proceeds of the sale of the Initial Debt Securities to partially finance the acquisition of Eurohypo.

For purposes of measuring regulatory capital adequacy, the Bank expects to treat the Company Class B Preferred Securities as consolidated Tier I regulatory capital and the proceeds received from the Company under the Initial Debt Securities as unconsolidated lower Tier II regulatory capital. For a discussion of regulatory capital and the measurement of its adequacy, see "Regulation".

CAPITALIZATION OF THE BANK AND THE COMMERZBANK GROUP

The following table sets out the regulatory capital positions of the Bank and the Commerzbank Group as at 31 December 2005 as compared to 31 December 2004. The regulatory capital positions have been calculated in accordance with the rules of the Basel Committee on Banking Supervision.

	As at 31 December 2005	As at 31 December 2004
	(€ million)	
1. Regulatory capital of the Bank		
Core capital (*Kernkapital*)	10,332.00	8,355.00
Supplementary capital (*Ergänzungskapital*)		
Profit Participation Certificates (*Genussscheine*) and others	2,787.00	2,096.00
Short-term (1)	–	–
Medium-term (2)	913.00	779.00
Long-term 3)	1,874.00	1,318.00
Subordinated Liabilities	4,473.00	4,178.00
Short-term (1)	205.00	103.00
Medium-term (2)	2,642.00	2,060.00
Long-term (3)	1,626.00	2,014.00
General loan loss provision and Deduction	746.00	1,085.00
Total Supplementary Capital	6,514.00	5,189.00
Total regulatory capital – Bank	16,846.00	13,544.00
2. Regulatory capital of the Commerzbank Group		
Core capital (*Kernkapital*)	12,161.00	10,484.00
Supplementary capital (*Ergänzungskapital*)		
Profit Participation Certificates (*Genussscheine*) and others	2,873.00	2,696.00
Short-term (1)	392.00	213.00
Medium-term (2)	1,408.00	1,365.00
Long-term (3)	1,073.00	1,118.00
Subordinated Liabilities	3,683.00	4,443.00
Short-term (1)	–	–
Medium-term (2)	1,858.00	1,506.00
Long-term (3)	1,825.00	2,937.00
General loan loss provision and Deduction	–	–
Total Supplementary Capital	6,556.00	7,139.00
Total regulatory capital – Bank	18,717.00	17,623.00

(1) Maturity of less than one year (Indebtedness with a maturity of less than one year does not qualify as Supplementary Capital).
(2) Maturity between one and five years.
(3) Maturity of more than five years.

DISTRIBUTABLE PROFITS OF THE BANK

The Company's authority to declare Class B Capital Payments for any Payment Period depends, among other things, on the Bank Distributable Profits for the Bank's most recent fiscal year for which audited unconsolidated annual financial statements have been approved by the Bank's supervisory board.

"Bank Distributable Profits" for any fiscal year is the balance sheet profit (*Bilanzgewinn*) as of the end of such fiscal year, as shown in the Bank's audited unconsolidated balance sheet approved by the Bank's supervisory board as of the end of such fiscal year. Such balance sheet profit includes the annual surplus or loss (*Jahresüberschuss/-fehlbetrag*), plus any profit carried forward from previous years, minus any loss carried forward from previous years, plus transfers from capital reserves and earnings reserves, minus allocations to earnings reserves, all as determined in accordance with the provisions of the German Stock Corporation Act (*Aktiengesetz*) and accounting principles generally accepted in the Federal Republic of Germany as described in the German Commercial Code (*Handelsgesetzbuch*) and other applicable German law then in effect.

Bank Distributable Profits are determined on the basis of the Bank's audited unconsolidated annual financial statements required by the German Stock Corporation Act (*Aktiengesetz*) which are prepared in accordance with accounting principles generally accepted in the Federal Republic of Germany as described in the German Commercial Code (*Handelsgesetzbuch*) and other applicable German law then in effect. Bank Distributable Profits in respect of any fiscal year includes, in addition to annual profit (*Jahresüberschuss*), transfers made by the Bank, in its discretion, of amounts carried on its balance sheet as other retained earnings. In addition, in determining Bank Distributable Profits for any fiscal year, capital reserves or other retained earnings may be withdrawn to offset any annual loss (*Jahresfehlbetrag*) which may be incurred by the Bank; no other transfers from the capital reserves may be made for the purpose of making Class B Capital Payments whereas the Bank may withdraw further amounts from other retained earnings for creating positive Bank Distributable Profits.

The following table sets out the Bank Distributable Profits, retained earnings and capital reserves of the Bank for the financial years ended 31 December 2005, 2004 and 2003, respectively. **The financial information presented in the following table is not indicative of the Bank's Bank Distributable Profits, retained earnings and capital reserves in the future.**

	2005	2004	2003
		(€ million)	
Bank Distributable Profits	328	150	0
Other retained earnings (1)	2,133	2,100	2,108
Capital reserve (2)	5,918	4,705	4,697

(1) May result in Bank Distributable Profits if withdrawn at the sole discretion of the Bank.
(2) May be used to offset any annual net loss but not for creating positive Bank Distributable Profits.

COMMERZBANK CAPITAL FUNDING TRUST I

General

Commerzbank Capital Funding Trust I is a statutory trust formed under the Delaware Statutory Trust Act, as amended (the **"Trust Act"**), pursuant to the initial Declaration of Trust dated 23 February 2006 executed by the Company, as depositor, The Bank of New York, as Property Trustee under the initial Declaration of Trust and The Bank of New York (Delaware), as Delaware trustee under the initial Declaration of Trust (the **"Delaware Trustee"**), and the filing of the Certificate of Trust with the Secretary of State of the State of Delaware on 23 February 2006. The file number of the Secretary of State of the State of Delaware referring to the Trust is 4115088.

The Trust will issue 20,000 Trust Preferred Securities with a liquidation preference amount of € 50,000 each and one Trust Common Security with a liquidation amount of € 1,000. The Bank will own the Trust Common Security representing a capital contribution in respect thereof equal to € 1,000. The Trust Common Security will rank *pari passu,* and payments thereon will be made *pro rata* with the Trust Preferred Securities, except that in liquidation and in certain circumstances described under "Description of the Trust Securities – Subordination of the Trust Common Security", the rights of the holder of the Trust Common Security to periodic distributions and to payments upon liquidation, redemption and otherwise will be subordinated to the rights of the holders of the Trust Preferred Securities.

Purpose

The Trust has been established as a special purpose vehicle and will use all the proceeds derived from the issuance of the Trust Preferred Securities to purchase the Company Class B Preferred Securities from the Company, and, accordingly, the assets of the Trust will consist solely of the Company Class B Preferred Securities. The Trust exists for the sole purposes of:

(i) issuing the Trust Securities representing beneficial interests in the assets of the Trust,

(ii) investing the proceeds from the issuance of the Trust Preferred Securities in the Company Class B Preferred Securities, and

(iii) engaging in those other activities necessary or incidental thereto.

The Trust may also, without the consent of the holders of the Trust Preferred Securities, in the future issue, in one or more transactions, further Trust Preferred Securities (with identical terms as the Trust Preferred Securities described herein save for the issue date, the date from which Trust Capital Payments accrue, the issue price and any other deviations required for compliance with applicable law) in consideration of the receipt of an equal number of additional Company Class B Preferred Securities.

Trustees

Pursuant to the Trust Agreement, there will be five trustees of the Trust (**"Trustees"**).

The Regular Trustees are expected to be individuals who are employees or officers of the Bank or one of its affiliates. The initial Regular Trustees will be Werner Boensch, Joachim Doepp and John Reilly with their business address at the address of the Trust c/o Commerzbank AG, New York Branch, 2 World Financial Center, New York, New York 10281, USA. The third Trustee, the Property Trustee, will be a financial institution that is unaffiliated with the Bank. The fourth Trustee will be the Delaware Trustee. Initially, The Bank of New York, a New York banking corporation, will act as Property Trustee, and The Bank of New York (Delaware) will act as Delaware Trustee, until, in each case, removed or replaced by the holder of the Trust Common Security.

Assets

The Property Trustee will hold title to the Company Class B Preferred Securities for the benefit of the holders of the Trust Preferred Securities, and the Property Trustee will have the power to exercise all rights, powers and privileges with respect to the Company Class B Preferred Securities under the LLC Agreement.

Property Account

In addition, the Property Trustee will maintain exclusive control of a segregated non-interest bearing trust account to hold all payments made in respect of the Company Class B Preferred Securities for the benefit of the holders of the Trust Preferred Securities (the **"Property Account"**). The Bank or a Bank Subsidiary, as the holder of the Trust Common Security, will have the right to appoint, remove or replace any of the Trustees and to increase or decrease the number of Trustees, provided that at least one Trustee will be the Delaware Trustee, at least one Trustee will be the Property Trustee and at least one Trustee will be a Regular Trustee.

Covenants of the Bank in relation to the Trust

For so long as the Trust Preferred Securities remain outstanding, the Bank will covenant:

(i) that the Trust Common Security will be held by the Bank or by a Bank Subsidiary;

(ii) to cause the Trust to remain a statutory trust and not to voluntarily dissolve, wind up, liquidate or be terminated, except as permitted by the Trust Agreement; and

(iii) not to take any action that would cause the Trust to be treated as a corporation for United States federal income tax purposes.

Voting Rights

The rights of the holders of the Trust Preferred Securities, including economic rights, rights to information and voting rights, are as set forth in the Trust Agreement and the Trust Act. See "Description of the Trust Securities". Under the Services Agreement among the Trust, the Company and Commerzbank Aktiengesellschaft, New York Branch as the Servicer, the Servicer will be obligated, among other things, to provide legal, accounting, tax and other general support services to the Trust and the Company, to maintain compliance with all applicable U.S. and German local, state and federal laws, and to provide administrative, record-keeping and secretarial services for the Company and the Trust. The fees and expenses of the Company and the Trust, including any taxes, duties, assessments or governmental charges of whatsoever nature (other than Withholding Taxes) imposed by any taxing authority upon the Company or the Trust, and all other obligations of the Company and the Trust (other than with respect to the Trust Securities or the Company Securities) will be paid by the Bank.

Principal Executive Office

The location of the principal executive office of the Trust is c/o Commerzbank AG, New York Branch, 2 World Financial Center, New York, New York 10281, USA, telephone no. +1 212 266-7200.

Capitalization

The following table sets forth the capitalization of the Trust as of 28 March 2006 and as adjusted to reflect the consummation of the Offering of 20,000 Trust Preferred Securities and the use of the net proceeds therefrom as described under "Use of Proceeds".

	Actual	As Adjusted
	(€ thousands)	
Debt		
Total debt	0	0
Securityholders' Interests		
Trust Preferred Securities: none issued and outstanding, actual; and 20,000 Trust Preferred Securities issued and outstanding, as adjusted	0	1,000,000
Trust Common Security: none issued and outstanding, actual; and 1 Trust Common Security issued and outstanding, as adjusted	0	1
Total securityholders' interests	0	1,000,001
Total Capitalization	0	1,000,001

Since the date of its establishment, the Trust has not commenced operations and no financial statements have been made up as at the date of this Prospectus.

Legal Proceedings

The Trust is not and has not been engaged in any governmental, legal or arbitration proceedings which may have, or have had in the recent past, significant effects on the financial position or profitability of the Trust nor, as far as the Trust is aware, are any such governmental, legal or arbitration proceedings pending or threatened.

Material Contracts

Other than the agreements in connection with the Transaction, the Trust has not entered into any material contracts that are not entered into in the ordinary course of the Trust's business.

COMMERZBANK CAPITAL FUNDING LLC I

General

Commerzbank Capital Funding LLC I is a limited liability company that was formed under the Delaware Limited Liability Company Act, as amended (the **„LLC Act"**) pursuant to the filing of the Certificate of Formation with the Secretary of State of the State of Delaware on 22 February 2006 and the entering into of an initial limited liability company agreement by the Bank as the initial member. The file number of the Secretary of State of the State of Delaware referring to the Company is 4114220.

Pursuant to the LLC Agreement, the Company will issue two classes of non-voting preferred securities, the Company Class A Preferred Security and the Company Class B Preferred Securities, and one class of common security, the Company Common Security. The Property Trustee will initially hold 100 % of the issued and outstanding Company Class B Preferred Securities. The Bank will initially hold the issued and outstanding Company Common Security. The Bank will hold the issued and outstanding Company Class A Preferred Security.

Purpose

The sole purposes of the Company are:

(i) to issue the Company Class A Preferred Security, the Company Class B Preferred Securities and the Company Common Security;

(ii) to invest the proceeds of the Company Class B Preferred Securities in the Initial Debt Securities;

(iii) upon any redemption of the Initial Debt Securities prior to the Maturity Date which does not involve a redemption of the Company Class B Preferred Securities, to reinvest the proceeds in Substitute Debt Securities, provided that (i) the Substitute Debt Securities shall not include debt securities that are issued by a corporation organized under the laws of the United States of America or any of its states or that are shown as a liability on the books of a U.S. branch of the Bank or a Bank Subsidiary, or the proceeds of which are lent to such a branch or Bank Subsidiary except in the ordinary course of the lender's business, (ii) such substitution or replacement does not result in a Company Special Redemption Event (as defined under „Description of the Company Securities – Company Class B Preferred Securities – Redemption"), (iii) the Bank, unless it itself is the substitute obligor, guarantees on a subordinated basis, at least equal to the ranking of the Initial Debt Securities, the obligations of the substitute obligor, and (iv) the Bank has obtained any required regulatory approval;

(iv) in the event of any default on the Debt Securities, to enforce its rights for payment of any overdue amounts;

(v) after the Maturity Date, if the Company Class B Preferred Securities have not been redeemed on the Maturity Date, to invest in Permitted Investments;

(vi) to enter into and, in certain circumstances, to enforce the Support Undertaking for the sole benefit of the holders of the Company Class B Preferred Securities; and

(vii) to engage in those other activities necessary or incidental thereto.

The Company may also, without the consent of the holders of the Trust Preferred Securities, in the future issue, in one or more transactions, further Company Class B Preferred Securities (with identical terms as the Company Class B Preferred Securities described herein save for the issue date and the commencement of interest payments thereon) in consideration of the receipt of Additional Debt Securities in a principal amount equal to the aggregate liquidation preference amount of such additional Company Class B Preferred Securities.

Covenants under the LLC Agreement

For so long as the Company Class B Preferred Securities remain outstanding, the LLC Agreement provides that:

(i) the Company will remain a limited liability company and, to the fullest extent permitted by law, will not voluntarily or involuntarily liquidate, dissolve, wind up or be terminated, except as permitted by the LLC Agreement;

(ii) the Bank and the Company will take no action that would cause the Company to be treated as a corporation for United States federal income tax purposes;

(iii) the Bank undertakes that the Bank or a Bank Subsidiary will maintain sole ownership of the Company Common Security and that the Bank or a Bank Subsidiary will maintain sole ownership of the Company Class A Preferred Security; and

(iv) the Bank or a Bank Subsidiary may transfer the Company Common Security to the Bank or a Bank Subsidiary, as the case may be, and the Bank or a Bank Subsidiary may transfer the Class A Preferred Security to the Bank or a Bank Subsidiary, as the case may be, provided that prior to such transfer it has received an opinion of a nationally recognized law firm in the United States of America experienced in such matters to the effect that:

(A) the Company will not be treated as a corporation for United States federal income tax purposes,

(B) such transfer will not cause the Company to be required to register under the Investment Company Act, and

(C) such transfer will not adversely affect the limited liability of the holders of the Company Class B Preferred Securities.

Voting Rights

The rights of the holders of the Company Class B Preferred Securities, including economic rights, rights to information and voting rights, are set forth in the LLC Agreement and the LLC Act. See „Description of the Company Securities – Company Class B Preferred Securities".

Board of Directors; Independent Enforcement Director

The Company's business and affairs will be conducted by its Board of Directors, which initially will consist of three members, elected by the Bank or a Bank Subsidiary as the holder of the Company Common Security. The initial directors of the Company will be Werner Boensch, Joachim Doepp and John Reilly with their business address at the address of the Company c/o Commerzbank AG, New York Branch, 2 World Financial Center, New York, New York 10281, USA. The Company expects that all initial and future directors and officers of the Company will be officers or employees of the Bank or its affiliates. Consequently, conflicts of interest may arise for officers and employees of the Bank and its affiliates in the discharge of their duties as officers or employees of the Company. Other than that there are no potential conflicts of interest between any duties of the Company and the above members of the Company's management and their private interests.

However, in the event that:

– the Company fails to pay Class B Capital Payments (including Additional Amounts thereon) on the Company Class B Preferred Securities at the Stated Rate in full as and when due for the first Payment Period or subsequently for two consecutive Payment Periods; or

– a holder of the Company Class B Preferred Securities has notified the Company that the Bank has failed to perform any obligation under the Support Undertaking and such failure continues for 60 days after such notice is given,

then the holders of the Company Class B Preferred Securities will have the right to appoint the Independent Enforcement Director. The Independent Enforcement Director's term will end if, in such Independent Enforcement Director's sole determination, Class B Capital Payments have been made on the Company Class B Preferred Securities at the Stated Rate in full for at least two consecutive Payment Periods and the Bank is in compliance with its obligations under the Support Undertaking.

Amendments to the LLC Agreement

So long as any Company Class B Preferred Securities are outstanding, the Company will not, without the vote of the holders of at least 66 2/3 % of the aggregate liquidation preference amount of the Company Class B Preferred Securities, voting separately as a class (excluding any Company Class B Preferred Securities held by the Bank or any Bank Subsidiary),

(i) amend, alter, repeal or change any provision of the LLC Agreement (including the terms of the Company Class B Preferred Securities) if such amendment, alteration, repeal or change would materially adversely affect the rights, preferences, powers or privileges of the Company Class B Preferred Securities, or

(ii) effect any merger, consolidation, or business combination involving the Company, or any sale of all or substantially all of the assets of the Company, provided, that any such merger, consolidation, or business combination involving the Company, or any sale of all or substantially all of the assets of the Company, also must comply with the requirements set forth under „Description of the Company Securities – Mergers, Consolidations and Sales".

Additional Equity Securities

The Company will not, without the consent of all the holders of the Company Class B Preferred Securities (excluding any Company Class B Preferred Securities held by the Bank or any Bank Subsidiary), issue any additional equity securities of the Company (other than additional Company Class B Preferred Securities with identical terms as the Company Class B Preferred Securities described herein save for the issue date, the date from which Class B Capital Payments accrue, the issue price and any other deviations required for compliance with applicable law) ranking prior to or *pari passu* with the Company Class B Preferred Securities as to periodic distribution rights or rights on liquidation or dissolution of the Company.

Permitted Investments

After the Initial Redemption Date, if the Company Class B Preferred Securities have not been redeemed on the Initial Redemption Date, the Company will invest in Permitted Investments. The Company will select for purchase Permitted Investments in the following order of priority and within each category on terms that are the best available in relation to providing funds for the payment of Class B Capital Payments, any Additional Amounts and the Redemption Price:

– first, debt obligations of the Bank or of a Bank Subsidiary, unconditionally guaranteed by the Bank on a subordinated basis that ranks at least *pari passu* with the Debt Securities, provided, however, that the debt obligations shall not include Securities issued by a Bank Subsidiary organized under the laws of the United States or any of its States or that are shown as a liability on the books of a U.S. branch of the Bank or of a Bank Subsidiary, or the proceeds of which are lent to such a branch or Bank Subsidiary except in the ordinary course of the lender's business, and

– second, in the event such an investment is not available, in European government securities with a maturity of six months or less.

Services Agreement

The Company will also enter into the Services Agreement with the Trust and the Servicer, under which the Servicer will be obligated, among other things, to provide legal, accounting, tax and other general support services to the Company and the Trust, to maintain compliance with all applicable U.S. and German local, state and federal laws, and to provide administrative, record-keeping and secretarial services for the Company and the Trust. The fees and expenses of the Trust and the Company, including any taxes, duties, assessments or governmental charges of whatever nature (other than Withholding Taxes) imposed by any taxing authority upon the Company or the Trust, and all other obligations of the Company and the Trust (other than with respect to the Trust Securities or the Company Securities) will be paid by the Bank.

Support Undertaking

The holders of the Company Class B Preferred Securities are third-party beneficiaries of the Support Undertaking between the Bank and the Company. See „Description of the Support Undertaking".

Principal Executive Office

The location of the principal executive offices of the Company is c/o Commerzbank AG, New York Branch, 2 World Financial Center, New York, New York 10281, USA, telephone no. +1 212 266-7200.

Capitalization

The following table sets forth the capitalization of the Company as of 28 March 2006 and as adjusted to reflect the consummation of the Offering of 20,000 Trust Preferred Securities and the use of the net proceeds therefrom as described under „Use of Proceeds".

	Actual	As Adjusted
	(€ thousands)	
Debt		
Total debt	0	0
Securityholders' Equity		
Company Class B Preferred Securities: none issued and outstanding, actual; and 20,000 Company Class B Preferred Securities issued and outstanding, as adjusted	0	1,000,000
Company Class A Preferred Securities: none issued and outstanding, actual; and 1 Company Class A Preferred Security issued and outstanding, as adjusted	0	1
Company Common Security: none issued and outstanding, actual; and 1 Company Common Security issued and outstanding, as adjusted	0	1
Total securityholders' interests	0	1,000,002
Total Capitalization	0	1,000,002

Since the date of its formation, there has been no significant change in the financial or trading positions of the Company.

Legal Proceedings

The Company is not and has not been engaged in any governmental, legal or arbitration proceedings which may have, or have had in the recent past, significant effects on the financial position or profitability of the Company nor, as far as the Company is aware, are any such governmental, legal or arbitration proceedings pending or threatened.

Material Contracts

Other than the agreements in connection with the Transaction, the Company has not entered into any material contracts that are not entered into in the ordinary course of the Company's business.

DESCRIPTION OF THE TRUST SECURITIES

The Trust Preferred Securities will be issued pursuant to the terms of the Trust Agreement. The following describes the material terms and provisions of the Trust Preferred Securities. This description does not purport to be complete and is subject to, and qualified in its entirety by reference to, the terms and provisions of the Trust Agreement and the Trust Act.

Form, Denomination and Title

The Trust Preferred Securities will be issued in fully registered form on 30 March 2006, without interest coupons attached, in minimum denominations of € 50,000 each.

The Trust Preferred Securities will not be issued in bearer form.

The Trust Agreement authorizes the Regular Trustees of the Trust to issue the Trust Preferred Securities, which represent beneficial interests in the assets of the Trust. Title to the Company Class B Preferred Securities will be held by the Property Trustee for the benefit of the holders of the Trust Preferred Securities. The Trust Agreement does not permit the Trust to acquire any assets other than the Company Class B Preferred Securities, issue any securities other than the Trust Preferred Securities or incur any indebtedness.

Capital Payments

Trust Capital Payments will be payable by the Trust on a noncumulative basis and accrue on the liquidation preference amount of € 50,000 per Trust Preferred Security.

In the period from and including the Issue Date to but excluding the Initial Redemption Date (the **"Fixed Rate Period"**), Trust Capital Payments shall accrue at a rate of 5.012 % per annum (the **"Fixed Rate"**) and will be made annually in arrear on 12 April in each year falling in the Fixed Rate Period (commencing on 12 April 2007) and on the Initial Redemption Date (each such date, a **"Fixed Payment Date"**). If a Fixed Payment Date is not a Business Day, the holder of the Trust Preferred Securities shall not be entitled to any Trust Capital Payment until the next following Business Day and shall not be entitled to further interest or other payment in respect of such delay. Trust Capital Payments in relation to the first Payment Period (with a term of more than one year), payable on the first Fixed Payment Date, will amount to € 2,595.25 per Trust Preferred Security. If, at any time during the Fixed Rate Period, Trust Capital Payments payable on any Fixed Payment Date are to be calculated for a period of less than one year, such Trust Capital Payments shall be calculated on the basis of the actual number of days elapsed in such calculation period, divided by the actual number of days (365 or 366) in the respective annual payment period.

In the period from and including the Initial Redemption Date to but excluding the date of redemption of the Trust Preferred Securities (the **"Floating Rate Period"**), Trust Capital Payments for the respective Payment Period shall accrue at the Floating Rate and will be made quarterly in arrear on 12 January, 12 April, 12 July and 12 October in each year falling in the Floating Rate Period (commencing on 12 July 2016) and on the Redemption Date, unless such date would otherwise fall on a day which is not a Business Day, in which event payment shall be made on the first following day which is a Business Day, unless it would thereby fall into the next calendar month, in which event payment shall be made on the immediately preceding Business Day (each such date, a **"Floating Payment Date"**). Trust Capital Payments payable on any Floating Payment Date are calculated on the basis of the actual number of days elapsed in the respective Payment Period, divided by 360. The Calculation Agent will notify the Floating Rate (i) to Clearstream Frankfurt, Clearstream Luxembourg and Euroclear and (ii) for so long as the Trust Preferred Securities are listed on the Frankfurt Stock Exchange and the rules of such stock exchange so require, by publication in at least one daily newspaper having general circulation in Germany (which is expected to be the Börsen-Zeitung) without undue delay after each Determination Date.

Trust Capital Payments on the Trust Preferred Securities are expected to be paid out of Class B Capital Payments received by the Trust from the Company. Class B Capital Payments are expected to be paid by the Company out of the Company Operating Profits. See "Description of the Company Securities – Company Class B Preferred Securities – Class B Capital Payments". If the Company does not declare (and is not deemed to have declared) a Class B Capital Payment on the Company Class B Preferred Securities in respect of any Payment Period, the holders of the Company Class B Preferred Securities will have no right to receive a Class B Capital Payment in respect of such Payment Period, and the Company will have no obligation to pay a Class B Capital Payment on the Company Class B Preferred Securities in respect of such Payment Period, whether or not Class B Capital Payments are declared and paid on the Company Class B Preferred Securities in respect of any future Payment Period. **In such a case, no Trust Capital Payments will be made on the Trust Securities in respect of the corresponding Payment Period.**

Each declared Trust Capital Payment will be payable to the holders of record of the Trust Preferred Securities as they appear on the books and records of the Trust at the close of business on the corresponding record date. The record dates for the Trust Preferred Securities will be

(i) so long as the Trust Preferred Securities remain in book-entry form, one Business Day prior to the relevant Payment Date, and

(ii) in all other cases, the 15th day prior to the relevant Payment Date.

Such Trust Capital Payments will be paid through the Property Trustee who will hold amounts received in respect of the Company Class B Preferred Securities in the Property Account for the benefit of the holders of the Trust Preferred Securities, subject to any applicable laws and regulations and the provisions of the Trust Agreement.

The right of the holders of the Trust Preferred Securities to receive Trust Capital Payments is noncumulative.

Accordingly, if the Trust does not have funds available for payment of a Trust Capital Payment in respect of any Payment Period, the holders will have no right to receive a Trust Capital Payment in respect of such Payment Period, and the Trust will have no obligation to pay a Trust Capital Payment in respect of such Payment Period, whether or not Trust Capital Payments are paid in respect of any future Payment Period.

Except as described under " – Subordination of Trust Common Securities" below, all Trust Capital Payments and other payments to holders of the Trust Preferred Securities will be distributed among holders of record *pro rata,* based on the proportion that the aggregate liquidation preference amount of the Trust Preferred Securities held by each holder bears to the aggregate liquidation preference amount of all Trust Preferred Securities.

Payments of Additional Amounts

All payments on the Trust Preferred Securities by the Trust, and any repayment upon redemption thereof, will be made without withholding or deduction for or on account of Withholding Taxes unless the Trust is required by law to make such deduction or withholding. In such event, the Trust will pay, as additional Trust Capital Payments, such Additional Amounts as may be necessary in order that the net amounts received by the holders of the Trust Preferred Securities will equal the amounts that would have been received had no such deduction or withholding been required.

However, no such Additional Amounts will be payable in respect of the Trust Preferred Securities:

– if and to the extent that the Company is unable to pay corresponding amounts in respect of the Company Class B Preferred Securities because such payment would exceed the Bank Distributable Profits for the Bank's most recent fiscal year for which audited unconsolidated annual financial statements have been approved by the Bank's supervisory board (after subtracting from such Bank Distributable Profits the amount of the Class B Capital Payments and capital payments, dividends or other distributions on Parity Securities, if any, already paid on the basis of such Bank Distributable Profits on or prior to the date on which such Additional Amounts will be payable); or

– with respect to any Withholding Taxes that are payable by reason of a holder or beneficial owner of the Trust Preferred Securities having some connection with any Relevant Jurisdiction other than by reason only of the mere holding of the Trust Preferred Securities; or

- with respect to any Withholding Taxes if such deduction or withholding is required to be made pursuant to any European Union directive on the taxation of savings (including the directive adopted on 3 June 2003) or any law implementing or complying with, now introduced in order to conform to, any such directive; or
- with respect to any Withholding Taxes that can be avoided if the holder or beneficial owner of the Trust Preferred Securities makes a declaration of non-residence or other similar claim for exemption to the relevant tax authority or complies with any reasonable certification, documentation, information or other reporting requirement imposed by the relevant tax authority; or
- with respect to any Withholding Taxes imposed on account of any inheritance, thrift, estate, personal property, sales or transfer taxes, or on account of any taxes that are payable otherwise than by withholding from payments in respect of the Trust Preferred Securities; or
- with respect to any Withholding Taxes that the holder or beneficial owner of the Trust Preferred Securities can avoid or reduce by presenting the relevant Trust Preferred Securities to another paying agent in a member state of the European Union; or
- with respect to any Withholding Taxes that would not have been so imposed if the holder of the Trust Preferred Securities would have presented the relevant Trust Preferred Securities for payment within 30 days of the date that payment was due or became available for payment, except to the extent that such holder would have been entitled to such Additional Amounts on presenting such Trust Preferred Securities for payment on the last day of such period of 30 days; or
- with respect to any Withholding Taxes which would not be payable if the Trust Preferred Securities had been kept in safe custody with, and the payments had been collected by, a credit institution.

Trust Enforcement Events

The occurrence, at any time, of:

(i) non-payment of Trust Capital Payments (plus any Additional Amounts thereon, if any) on the Trust Preferred Securities or the Company Class B Preferred Securities at the Stated Rate in full as and when due for the first Payment Period or subsequently for two consecutive Payment Periods; or

(ii) a failure by the Bank to perform any of its obligations under the Support Undertaking

will constitute an enforcement event under the Trust Agreement with respect to the Trust Preferred Securities (a **"Trust Enforcement Event"**); provided, that, pursuant to the Trust Agreement, the holder of the Trust Common Security will be deemed to have waived any Trust Enforcement Event with respect to the Trust Common Security until all Trust Enforcement Events with respect to the Trust Preferred Securities have been cured, waived or otherwise eliminated. Until such Trust Enforcement Events with respect to the Trust Preferred Securities have been so cured, waived or otherwise eliminated, the Property Trustee will be deemed to be acting solely on behalf of the holders of the Trust Preferred Securities and only the holders of the Trust Preferred Securities will have the right to direct the Property Trustee with respect to certain matters under the Trust Agreement. In the case of non-payment of Capital Payments (plus any Additional Amounts thereon, if any) on the Company Class B Preferred Securities referred to in clause (i) above or the continuation of a failure by the Bank to perform any obligation under the Support Undertaking for a period of 60 days after notice thereof has been given to the Company by the Property Trustee or any holder of the Company Class B Preferred Securities, holders of the Company Class B Preferred Securities will have the right to appoint the Independent Enforcement Director; see "Description of the Company Securities – Company Class B Preferred Securities – Voting Rights". Upon the occurrence of a Trust Enforcement Event, the Property Trustee will have the right to enforce the rights of the holders of the Company Class B Preferred Securities, including:

(i) claims to receive Class B Capital Payments (only if and to the extent declared or deemed to have been declared) on the Company Class B Preferred Securities;

(ii) appointment of the Independent Enforcement Director (to the extent that such Trust Enforcement Event results from non-payment of Capital Payments at the Stated Rate in full or the continuation of a failure by the Bank to perform any obligation under the Support Undertaking for a period of 60 days after notice thereof has been given to the Company by the Property Trustee or any holder of the Company Class B Preferred Securities); and

(iii) assertion of the rights under the Support Undertaking as it relates thereto.

If the Property Trustee fails to enforce its rights under the Company Class B Preferred Securities after a holder of the Trust Preferred Securities has made a written request, such holder of record of the Trust Preferred Securities may directly institute a legal proceeding against the Company to enforce the Property Trustee's rights under the Company Class B Preferred Securities without first instituting any legal proceeding against the Property Trustee, the Trust or any other person or entity.

Redemption

Upon redemption of the Company Class B Preferred Securities, the Trust must apply the Redemption Price received in connection therewith to redeem a corresponding number of the Trust Preferred Securities.

The Company Class B Preferred Securities are redeemable at the option of the Company, in whole but not in part, on the Initial Redemption Date and on any Floating Payment Date thereafter, at the Redemption Price. The Company will also have a right to redeem the Company Class B Preferred Securities at any time prior to the Initial Redemption Date upon at least 30 days' prior notice, in whole but not in part, upon the occurrence of a Company Special Redemption Event (as defined under "Description of the Company Securities – Company Class B Preferred Securities – Redemption").

Any redemption prior to the Initial Redemption Date upon the occurrence of a Company Special Redemption Event (as defined under "Description of the Company Securities – Company Class B Preferred Securities – Redemption") will be made at the Early Redemption Price, unless the Company Class B Preferred Securities are redeemed solely as a result of a Tax Event as described under (B) of the definition of Tax Event set out herein in which case the Company Class B Preferred Securities will be redeemed at the Redemption Price. The Company may exercise its right to redeem the Company Class B Preferred Securities only if it has:

(i) given at least 30 days' prior notice (or such longer period as required by the relevant regulatory authorities) to the holders of the Company Class B Preferred Securities of its intention to redeem the Company Class B Preferred Securities on the Redemption Date, and

(ii) obtained any required regulatory approvals.

The Trust Agreement will provide that the Property Trustee will give notice to the holders of the Trust Preferred Securities of the Company's intention to redeem the Company Class B Preferred Securities on the Redemption Date not fewer than 30 days before the Redemption Date.

The Company Class B Preferred Securities and the Trust Preferred Securities will not have any scheduled maturity date and will not be redeemable at any time at the option of the holders thereof.

Upon any redemption of the Company Class B Preferred Securities, the proceeds of such redemption will simultaneously be applied to redeem a corresponding amount of the Trust Preferred Securities. Any Company Class B Preferred Securities or Trust Preferred Securities that are redeemed will be cancelled, and not reissued, following their redemption.

Upon the occurrence of a Trust Special Redemption Event (as defined below) or in the event of any voluntary or involuntary liquidation, dissolution, winding up or termination of the Trust, holders of the Trust Preferred Securities will be entitled, in accordance with the terms of the Trust Agreement, to receive a corresponding number of the Company Class B Preferred Securities.

A **"Trust Special Redemption Event"** means

(i) a Tax Event (as defined below) solely with respect to the Trust, but not with respect to the Company, or

(ii) an Investment Company Act Event (as defined below) solely with respect to the Trust, but not with respect to the Company.

A **"Tax Event"** means the receipt by the Bank of an opinion of a nationally recognized law firm or other tax adviser in a Relevant Jurisdiction, experienced in such matters, to the effect that, as a result of

(i) any amendment to, or clarification of, or change (including any announced prospective change) in, the laws or treaties (or any regulations or interpretations thereunder) of the Relevant Jurisdiction or any political subdivision or taxing authority thereof or therein affecting taxation,

(ii) any judicial decision, official administrative pronouncement, published or private ruling, regulatory procedure, notice or announcement (including any notice or announcement of intent to adopt such procedures or regulations) by any legislative body, court, governmental authority or regulatory body (each, an **"Administrative Action"**), or

(iii) any amendment to, clarification of, or change in the official position or the interpretation of such Administrative Action or any interpretation or pronouncement that provides for a position with respect to such Administrative Action that differs from the theretofore generally accepted position in each case, by any legislative body, court, governmental authority or regulatory body, irrespective of the manner in which such amendment, clarification or change is made known, which amendment, clarification or change is effective, or which pronouncement or decision is announced,

on or after the date of issuance of the Company Securities and the Trust Securities, there is more than an insubstantial risk that

(A) the Trust or the Company is or will be subject to more than a *de minimis* amount of taxes, duties or other governmental charges, or

(B) the Trust, the Company or an obligor on the Debt Securities would be obligated to pay Additional Amounts or Additional Interest Amounts, or

(C) the Bank or any other obligor of the Debt Securities (x) may not, for purposes of determining its taxable income for the purposes of determining German corporate income tax in any year, deduct in full interest payments on the Debt Securities, or (y) would, other than in cases where the Capital Payments may not be declared by the Company, be subject to tax on income of the Company under the rules of the German Foreign Taxation Act (*Außensteuergesetz*);

provided, however, that none of the foregoing shall constitute a Tax Event if it may be avoided by the Bank (or the relevant obligor of the Debt Securities), the Trust or the Company taking reasonable measures under the circumstances.

An **"Investment Company Act Event"** means that the Bank shall have requested and received an opinion of a nationally recognized U. S. law firm experienced in such matters to the effect that there is more than an insubstantial risk that the Company or the Trust is or will be considered an "investment company" within the meaning of the Investment Company Act as a result of any judicial decision, any pronouncement or interpretation (irrespective of the manner made known), the adoption or amendment of any law, rule or regulation, or any notice or announcement (including any notice or announcement of intent to adopt such law, rule or regulation) by any U. S. legislative body, court, governmental agency, or regulatory authority, in each case after the date of the issuance of the Company Class B Preferred Securities and the Trust Preferred Securities.

If, at any time, a Trust Special Redemption Event occurs and is continuing, the Regular Trustees will, within 90 days following the occurrence of such Trust Special Redemption Event, dissolve the Trust upon not less than 30 nor more than 60 days' notice to the holders of the Trust Preferred Securities and upon not less than 30 nor more than 60 days' notice to, and consultation with Clearstream Frankfurt, with the result that, after satisfaction of the claims of creditors of the Trust, if any, Company Class B Preferred Securities would be distributed on a *pro rata* basis to the holders of the Trust Preferred Securities in liquidation of such holders' interest in the Trust, provided, however, that, if, at such time, the Trust has the opportunity to eliminate, within such 90-day period, the Trust Special Redemption Event by taking some ministerial action (a ministerial act is an administrative action such as filing a form or making an election), or some other similar reasonable measures, which in the sole judgment of the Bank will cause no adverse effect on the Company, the Trust, the Bank or the holders of the Trust Preferred Securities and will involve no material costs, then the Trust will pursue any such measure in lieu of dissolution.

On the date fixed for any distribution of the Company Class B Preferred Securities, upon dissolution of the Trust:

(i) the Trust Securities will no longer be deemed to be outstanding, and

(ii) certificates representing Trust Preferred Securities will be deemed to represent the Company Class B Preferred Securities having a liquidation preference amount equal to the liquidation preference amount of the Trust Preferred Securities and the liquidation preference amount of the Trust Common Security until such certificates are presented to the Company or its agent for transfer or re-issuance.

If the Company Class B Preferred Securities are distributed to the holders of the Trust Preferred Securities, the Bank will use its commercially reasonable efforts to cause the Company Class B Preferred Securities to be eligible for clearing and settlement through Clearstream Frankfurt or a successor clearing agent.

Redemption Procedures

If the Trust gives a notice of redemption in respect of the Trust Securities (which notice will be irrevocable), and if the Company has paid to the Property Trustee a sufficient amount of cash in connection with the related redemption of the Company Class B Preferred Securities, then, by 10.00 a.m., Frankfurt am Main time, on the Redemption Date, the Trust will irrevocably deposit with Clearstream Frankfurt funds sufficient to pay the amount payable on redemption of book-entry certificates and will give Clearstream Frankfurt irrevocable instructions and authority to pay such amount to holders of the Trust Preferred Securities. If notice of redemption will have been given and funds are deposited as required, then upon the date of such deposit, or the Redemption Date, as applicable, Capital Payments shall cease to accumulate on the Trust Securities so called for redemption and all rights of holders of such Trust Preferred Securities so called for redemption will cease, except the right of the holders of such Trust Preferred Securities to receive the redemption price for such Trust Preferred Securities, but without interest thereon.

Purchases of the Trust Preferred Securities

Subject to the foregoing redemption provisions and procedures and applicable law (including, without limitation, U.S. federal securities laws), the Bank or its subsidiaries may at any time and from time to time purchase outstanding Trust Preferred Securities by tender, in the secondary market or by private agreement.

Subordination of the Trust Common Security

Payment of Trust Capital Payments and other distributions on, and amounts on redemption of, the Trust Preferred Securities will generally be made *pro rata* based on the liquidation preference amount of the Trust Preferred Securities and the capital contribution in respect of the Trust Common Security, as the case may be. However, upon the liquidation of the Trust and during the continuance of a default under the Debt Securities or a failure by the Bank to perform any obligation under the Support Undertaking, holders of the Trust Preferred Securities will effectively have a preference over the holder of the Trust Common Security with respect to payments of Trust Capital Payments and other distributions and amounts upon redemption or liquidation of the Trust.

In the case of any Trust Enforcement Event, the holder of the Trust Common Security will be deemed to have waived any such Trust Enforcement Event until all such Trust Enforcement Events with respect to the Trust Preferred Securities have been cured, waived or otherwise eliminated. Until all Trust Enforcement Events with respect to the Trust Preferred Securities have been so cured, waived or otherwise eliminated, the Property Trustee will act solely on behalf of the holders of the Trust Preferred Securities and not on behalf of the holder of the Trust Common Security, and only the holders of the Trust Preferred Securities will have the right to direct the Property Trustee to act on their behalf.

Liquidation Distribution Procedure upon Dissolution

Pursuant to the Trust Agreement and following the issuance of Trust Securities, the Trust will dissolve:

(i) upon the bankruptcy, insolvency or dissolution of the Bank;

(ii) upon the filing of a certificate of cancellation or its equivalent with respect to the Company or upon the vote of at least a majority of the outstanding Trust Securities, voting together as a single class, to file a certificate of cancellation with respect to the Trust;

(iii) upon the distribution of all of the Company Class B Preferred Securities due to the occurrence of a Trust Special Redemption Event;

(iv) upon the entry of a decree of a judicial dissolution of the Company or the Trust; or

(v) upon the redemption of all of the Trust Preferred Securities.

In the event of any voluntary or involuntary liquidation, dissolution, winding up or termination of the Trust, the holders of the Trust Preferred Securities will be entitled to receive, after payment of the liabilities to creditors of the Trust, if any, a corresponding amount of the Company Class B Preferred Securities. The holders of the Trust Preferred Securities will effectively have a preference over the holder of the Trust Common Security with respect to distributions upon liquidation of the Trust.

Statute of Limitation

The prescription period for claims for the payment of Trust Capital Payments, Additional Amounts and the Redemption Price is three years after the date on which the respective payment has become due and payable.

Voting Rights

Except as expressly required by applicable law, or except as provided for in the Trust Agreement, the holders of the Trust Preferred Securities will not be entitled to vote on the affairs of the Trust or the Company. So long as the Trust holds any Company Class B Preferred Securities, the holders of the Trust Preferred Securities will have the right to direct the Property Trustee to enforce the voting rights attributable to such Company Class B Preferred Securities. These voting rights may be waived by the holders of the Trust Preferred Securities by written notice to the Property Trustee and in accordance with applicable laws.

Subject to the requirement of the Property Trustee obtaining a tax opinion as set forth in the last sentence of this paragraph, the holders of a majority of the outstanding Trust Preferred Securities (excluding Trust Preferred Securities held by the Bank or its affiliates) have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Property Trustee, and to direct the exercise of any trust or power conferred upon the Property Trustee under the Trust Agreement, including the right to direct the Property Trustee, as holder of the Company Class B Preferred Securities, to:

(i) exercise the remedies available to it under the LLC Agreement as a holder of the Company Class B Preferred Securities; or

(ii) consent to any amendment, modification or termination of the LLC Agreement or the Company Class B Preferred Securities where such consent will be required;

provided, however, that where a consent or action under the LLC Agreement would require the consent or act of the holders of more than a majority of the Company Class B Preferred Securities affected thereby, only the holders of the percentage of the aggregate liquidation preference amount of the Trust Securities outstanding which is at least equal to the percentage of the Company Class B Preferred Securities required to so consent or act under the LLC Agreement, may direct the Property Trustee to give such consent or take such action on behalf of the Trust; see "Description of the Company Securities – Company Class B Preferred Securities – Voting Rights". Except with respect to directing the time, method and place of conducting a proceeding for a remedy as described above, the Property

Trustee will be under no obligation to take any of the actions described in clause (i) or (ii) above unless, *inter alia,* the Property Trustee has obtained an opinion of independent tax counsel in the United States of America to the effect that as a result of such action, the Trust will not be treated as a corporation for U.S. federal income tax purposes and that after such action each holder of the Trust Preferred Securities will continue to be treated as owning an beneficial interest in the Company Class B Preferred Securities.

Any required approval or direction of holders of the Trust Preferred Securities may be given at a separate meeting of holders of the Trust Preferred Securities convened for such purpose, at a meeting of all of the holders of the Trust Securities or pursuant to a written consent. The Regular Trustees will cause a notice of any meeting at which holders of the Trust Preferred Securities are entitled to vote, or of any matter upon which action by written consent of such holders is to be taken, to be made in the manner described below under "– Notices". Each such notice will include a statement setting forth the following information:

(i) the date of such meeting or the date by which such action is to be taken;

(ii) a description of any resolution proposed for adoption at such meeting on which such holders are entitled to vote or of such matter upon which written consent is sought; and

(iii) instructions for the delivery of proxies or consents.

No vote or consent of the holders of the Trust Preferred Securities will be required for the Trust to redeem and cancel Trust Preferred Securities or distribute Company Class B Preferred Securities in accordance with the Trust Agreement.

Notwithstanding that holders of the Trust Preferred Securities are entitled to vote or consent under any of the circumstances described above, any of the Trust Preferred Securities that are beneficially owned at such time by the Bank or any entity directly or indirectly controlled by, or under direct or indirect common control with, the Bank, will not be entitled to vote or consent and will, for purposes of such vote or consent, be treated as if such Trust Preferred Securities were not outstanding, except for the Trust Preferred Securities purchased or acquired by the Bank or its affiliates in connection with transactions effected by or for the account of customers of the Bank or any of its affiliates or in connection with distribution or trading or market-making activities in connection with such Trust Preferred Securities in the ordinary course of business; *provided, however,* that persons (other than affiliates of the Bank) to whom the Bank or any of its affiliates have pledged Trust Preferred Securities may vote or consent with respect to such pledged Trust Preferred Securities pursuant to the terms of such pledge.

Holders of the Trust Preferred Securities will have no rights to appoint or remove the Regular Trustees, who may be appointed, removed or replaced solely by the holder of the Trust Common Security, which will be the Bank or a Bank Subsidiary.

Securityholder Meetings

Meetings of the holders of any class of Trust Securities may be called at any time by the Regular Trustees to consider and act on any matter on which holders of such class of Trust Securities are entitled to act under the terms of the Trust Agreement, the terms of the Trust Securities, the LLC Agreement, the Delaware Statutory Trust Act or other applicable law. The Regular Trustees shall call a meeting of the holders of a class if directed to do so by the holders of at least 10 % in liquidation amount of such class of Trust Securities. Such direction must be given by delivering to the Regular Trustees one or more calls in writing stating that the signing holders of the Trust Securities wish to call a meeting and indicating the general or specific purpose for which the meeting is to be called.

Except to the extent otherwise provided in the terms of the Trust Securities, the following provisions shall apply to meetings of holders of the Trust Securities:

– Notice of any meeting shall be given to all the holders of the Trust Securities having a right to vote thereat at least 7 days and not more than 60 days before the date of such meeting. Any action that may be taken at a meeting of the holders may be taken without a meeting if a consent in writing setting forth the action so taken is signed by the holders owning not less than the minimum amount of Trust Securities in a liquidation amount that would be necessary to authorize or take such action at a meeting at which all holders having a right to vote thereon were present and voting. Notice of the taking of action without a meeting will be given to the holders of the Trust Securities entitled to vote who have not consented in writing. The Regular Trustees may specify that any written ballot submitted to the holder for the purpose of taking any action without a meeting shall be returned to the Trust within the time specified by the Regular Trustees.

– Subject to the terms of the Trust Agreement, each holder of a Trust Security may authorize any person to act for it by proxy on all matters in which a holder is entitled to participate, including waiving notice of any meeting, or voting or participating at a meeting.

– Each meeting of the holders of the Trust Securities shall be conducted by the Regular Trustees or by such other person that the Regular Trustees may designate.

Merger, Consolidation or Amalgamation of the Trust

The Trust may not consolidate, amalgamate, merge with or into, or be replaced by, or convey, transfer or lease its properties and assets substantially as an entirety to, any corporation or other entity, except as described below. The Trust may, with the consent of a majority of the Regular Trustees and without the consent of the holders of the Trust Securities, the Property Trustee or the Delaware Trustee, consolidate, amalgamate, merge with or into, or be replaced by a trust organized as such under the laws of any State of the United States of America; provided, that:

(i) if the Trust is not the survivor, such successor entity either

(A) expressly assumes all of the obligations of the Trust to the holders of the Trust Securities or

(B) substitutes for the Trust Securities for other securities having substantially the same terms as the Trust Preferred Securities, and ranking the same as the Trust Preferred Securities with respect to Trust Capital Payments, distributions and rights upon liquidation, redemption or otherwise (the **"Trust Successor Securities"**),

(ii) the Company expressly acknowledges a trustee of such successor entity possessing the same powers and duties as the Property Trustee as the holder of the Company Class B Preferred Securities,

(iii) such merger, consolidation, amalgamation or replacement does not cause the Trust Preferred Securities (including the Trust Successor Securities) to be downgraded by any statistical rating organization nationally recognized in the United States of America,

(iv) such merger, consolidation, amalgamation or replacement does not adversely affect the rights, preferences and privileges of the holders of the Trust Preferred Securities (including any Trust Successor Securities) in any material respect,

(v) such successor entity has purposes substantially identical to that of the Trust,

(vi) the obligations of the Bank pursuant to the Support Undertaking will continue in full force and effect, and

(vii) prior to such merger, consolidation, amalgamation or replacement, the Bank has received an opinion of a nationally recognized law firm in the United States of America experienced in such matters to the effect that:

(A) such merger, consolidation, amalgamation or replacement will not adversely affect the rights, preferences and privileges of the holders of the Trust Preferred Securities (including the Trust Successor Securities) in any material respect,

(B) following such merger, consolidation, amalgamation or replacement, neither the Trust nor such successor entity will be required to register under the Investment Company Act,

(C) following such merger, consolidation, amalgamation or replacement, the Trust (or such successor trust) will not be treated as a corporation for U.S. federal income tax purposes, and

(D) following such merger, consolidation, amalgamation or replacement, the Company will not be treated as a corporation for United States federal income tax purposes.

Notwithstanding the foregoing, the Trust will not, except with the consent of holders of 100 % of the outstanding Trust Preferred Securities (excluding Trust Preferred Securities held by the Bank and a Bank Subsidiary), consolidate, amalgamate, merge with or into, or be replaced by any other entity or permit any other entity to consolidate, amalgamate, merge with or into, or replace it, if such consolidation, amalgamation, merger or replacement would cause the Trust or the successor entity to be treated as a corporation for United States federal income tax purposes.

Modification of the Trust Agreement

The Trust Agreement may be modified and amended if approved by a majority of the Regular Trustees (and in certain circumstances the Property Trustee and the Delaware Trustee), provided, that, if any proposed amendment provides for, or the Regular Trustees otherwise propose to effect:

(i) any action that would materially adversely affect the powers, preferences or special rights of the Trust Securities, whether by way of amendment to the Trust Agreement or otherwise, or

(ii) the dissolution, winding up or termination of the Trust other than pursuant to the terms of the Trust Agreement, then the holders of the Trust Securities voting together as a single class will be entitled to vote on such amendment or proposal and such amendment or proposal will not be effective except with the approval of at least a majority of the outstanding Trust Securities affected thereby; provided, further that, if any amendment or proposal referred to in clause (i) above would adversely affect only the Trust Preferred Securities or the Trust Common Security, then only the affected class will be entitled to vote on such amendment or proposal and such amendment or proposal will not be effective except with the approval of a majority of such class of the Trust Securities outstanding.

The Trust Agreement may be amended without the consent of the holders of the Trust Securities to:

(i) cure any ambiguity,

(ii) correct or supplement any provision in the Trust Agreement that may be defective or inconsistent with any other provision of the Trust Agreement,

(iii) add to the covenants, restrictions or obligations of the Bank,

(iv) conform to any change in the Investment Company Act or the rules or regulations thereunder, or

(v) modify, eliminate and add to any provision of the Trust Agreement to such extent as may be necessary or desirable; provided, that, no such amendment will have a material adverse effect on the rights, preferences or privileges of the holders of the Trust Securities.

Notwithstanding the foregoing, no amendment or modification may be made to the Trust Agreement if such amendment or modification would:

(i) cause the Trust to be treated as a corporation for United States federal income tax purposes,

(ii) cause the Company to be treated as a corporation for such purposes,

(iii) reduce or otherwise adversely affect the powers of the Property Trustee, or

(iv) cause the Trust or the Company to be required to register under the Investment Company Act.

Form, Clearing, Transfers and Settlement

Trust Preferred Securities will be issued initially in the form of a temporary global certificate (the **"Temporary Global Certificate"**). Beneficial interests in the Temporary Global Certificate will be exchanged for beneficial interests in a permanent global certificates (the **"Permanent Global Certificate"** and, together with the Temporary Global Certificate, the **"Global Certificates"**) after a period of 40 consecutive days beginning on the first day after the (i) the Closing Date or, if later, (ii) the completion of the distribution of the Trust Preferred Securities (the **"Restricted Period"**) has ended.

The Global Certificates will be deposited upon issuance with, and registered in the name of, Clearstream Frankfurt for credit to accountholders in Clearstream Frankfurt, including Euroclear and Clearstream Luxembourg.

Beneficial interests in the Trust Preferred Securities will be shown only on, and transfers thereof will be effected only through, book-entry records maintained by Clearstream Frankfurt and their respective participants and, except in limited circumstances, provided for in the Trust Agreement (such as, for example, closure of the Clearing System). Trust Preferred Securities in definitive form will not be issued. Holders of beneficial interests in the Global Certificates must rely upon the procedures of Clearstream Frankfurt and (if applicable) its respective participants (including Euroclear and Clearstream Luxembourg) to exercise any rights of a holder under the Global Certificates, Transfers and payments in respect if the Trust Preferred Securities may be effected through the Paying Agents subject to the terms of the Trust Preferred Securities and the operating procedures of Clearstream Frankfurt. None of the Bank, the Company or the Trust will have any responsibility or liability for any aspect of the records relating to the payments made on account of beneficial interests in the Global Certificates or for maintaining, supervising or reviewing any records relating to such beneficial interests.

Certifications by Holders of the Temporary Global Certificate

On or after the expiration of the Restricted Period, a certificate must be provided by or on behalf of a holder of a beneficial interest in the Temporary Global Certificate to the Principal Paying Agent, certifying that the beneficial owner of the interest in the Temporary Global Certificate is not a U. S. Person. Unless such certificate is provided:

(i) the holder of such beneficial interest will not receive any payments of dividends, redemption price or any other payment with respect to such holder's beneficial interest in the Temporary Global Certificate,

(ii) such beneficial interest may not be exchanged for a beneficial interest in the Permanent Global Certificate, and

(iii) settlement of trades with respect to such beneficial interest will be suspended.

In the event that any holder of a beneficial interest in the Temporary Global Certificate fails to provide such certification, exchanges of interests in the Temporary Global Certificate for interests in the Permanent Global Certificate and settlements of trades of all beneficial interests in the Temporary Global Certificate may be temporarily suspended.

Paying Agents, Transfer Agent and Calculation Agent, Payments

Commerzbank Aktiengesellschaft will act as Principal Paying Agent, Transfer Agent and Calculation Agent for the Trust Preferred Securities. Commerzbank Europe (Ireland) will act as Irish Paying Agent. The Trust may at any time appoint additional agents and/or terminate the appointment of any agent. However, no such termination shall take effect until a new agent has been appointed.

Payments in respect of the Trust Preferred Securities will be made to or as directed by the Clearstream Frankfurt as the registered holder of the Global Certificate representing the Trust Preferred Securities. Payments made to Clearstream Frankfurt shall be made by wire transfer, and Clearstream Frankfurt will credit the relevant accounts of its participants (including Euroclear and Clearstream Luxembourg) on the applicable dates.

Registration of transfers of the Trust Preferred Securities will be effected without charge by or on behalf of the Company, but upon payment (with the giving of such indemnity as the Property Trustee may require) in respect of any tax or other governmental charges that may be imposed in relation to it; provided, that no transfer or exchange of the Trust Preferred Securities may be registered except in limited circumstances. The Property Trustee will not be required to register or cause to be registered the transfer of the Trust Preferred Securities after such Trust Preferred Securities have been called for redemption.

Information Concerning the Property Trustee

The Property Trustee, prior to the occurrence of a Trust Enforcement Event, undertakes to perform only such duties as are specifically set forth in the Trust Agreement and, after the occurrence of a Trust Enforcement Event, will exercise the same degree of care as a prudent person would exercise in the conduct of his or her own affairs. Subject to such provisions, the Property Trustee is under no obligation to exercise any of the powers vested in it by the Trust Agreement, though it may do so at its discretion or at the request of any holder of the Trust Preferred Securities if it is satisfied, in its sole discretion, that the repayment of funds or cover for personal financial liability is assured to it, by way of indemnity or otherwise. The holders of the Trust Preferred Securities will not be required to offer such indemnity in the event such holders, by exercising their rights, direct the Property Trustee to take any action following a Trust Enforcement Event.

Notices

All notices to the holders of the Trust Preferred Securities will be given by the Trust (i) for so long as any of the Trust Preferred Securities are listed on the Irish Stock Exchange and the Irish Stock Exchange so requires, to the Company Announcement Office of the Irish Stock Exchange through the Irish Paying Agent and (ii) to Clearstream Frankfurt, Clearstream Luxembourg and Euroclear and (iii) for so long as any Trust Preferred Securities are listed on the Frankfurt Stock Exchange and the rules of such stock exchange so require, by publication in at least one daily newspaper having general circulation in Germany (which is expected to be the *Börsen-Zeitung*). In accordance with its published rules and regulations, Clearstream Frankfurt will notify the holders of securities accounts with it to which any Trust Preferred Securities are credited of any such notices received by it.

Governing Law

The Trust Agreement and the Trust Securities will be governed by, and construed in accordance with, the laws of the State of Delaware.

Miscellaneous

The Regular Trustees are authorized and directed to conduct the affairs of and to operate the Trust in such a way that the Trust will not be required to register under the Investment Company Act.

DESCRIPTION OF THE COMPANY SECURITIES

The following describes the material terms and provisions of the Company Securities, including the Company Class B Preferred Securities. This description is qualified in its entirety by reference to the terms and provisions of the LLC Agreement.

Upon the execution of the LLC Agreement, the Company will issue the Company Common Security, the Company Class A Preferred Security and Company Class B Preferred Securities. For so long as any Company Class B Preferred Securities remain outstanding, the Company Common Security will be owned directly by the Bank or a Bank Subsidiary and the Company Class A Preferred Security will be owned by the Bank or a Bank Subsidiary.

All of the Company Class B Preferred Securities will be owned by the Trust.

Company Common Security

Subject to the rights of the holders of the Company Class B Preferred Securities to appoint the Independent Enforcement Director, all voting rights are vested in the Company Common Security.

The Company Common Security is entitled to one vote per security. The Company Common Security is currently, and upon consummation of the Offering will be, held by the Bank or a Bank Subsidiary.

Capital payments may be declared and paid on the Company Common Security only if all Class B Capital Payments on the Company Class B Preferred Securities, if any, in respect of the relevant Payment Period have been declared and paid. The Company does not expect to pay dividends on the Company Common Security.

In the event of the voluntary or involuntary liquidation, dissolution, termination or winding up of the Company, after the payment of all debts and liabilities and after there have been paid or set aside for the holders of all the Company Preferred Securities the full preferential amounts to which such holders are entitled, the holder of the Company Common Security will be entitled to share equally and *pro rata* in any remaining assets.

Company Class A Preferred Security

The Company Class A Preferred Security is non-voting. Capital payments on the Company Class A Preferred Security will be payable when, as and if declared by the Board of Directors; such a declaration will occur only to the extent the Board of Directors does not declare Class B Capital Payments on the Company Class B Preferred Securities at the Stated Rate in full on any Payment Date.

It is expected that the holder of the Company Class A Preferred Security will receive capital payments only to the extent that:

(i) Class B Capital Payments are not permitted to be declared on the Company Class B Preferred Securities on any Payment Date at the Stated Rate in full due to insufficient Bank Distributable Profits for the Bank's most recent fiscal year preceding such Payment Period for which audited annual financial statements approved by the Bank's supervisory board are available or an order of the BaFin (or any other relevant regulatory authority) pursuant to the German Banking Act or any other applicable regulatory provision prohibiting the Bank from making any distribution of its profits (including to the holders of the Parity Securities), and

(ii) the Company has sufficient Company Operating Profits.

The Company currently does not intend to pay capital payments on the Company Class A Preferred Security. The payment of capital payments on the Class A Preferred Security is not a condition to the payment of Class B Capital Payments on the Company Class B Preferred Securities.

In the event of any voluntary or involuntary liquidation, dissolution or winding up or termination of the Company, the Company Class B Preferred Securities will rank junior to the Company Class A Preferred Security, and the Company Class B Preferred Securities will rank senior to the Company Common Security; provided, that any payments made by the Bank pursuant to the Support Undertaking will be payable by the Company solely to the holders of the Company Class B Preferred Securities. Accordingly, upon any liquidation, the holder of the Company Class A Preferred Security will be entitled to receive a liquidation distribution of the Debt Securities or Permitted Investments (including accrued and unpaid interest thereon). In the event of the liquidation of the Company, the Independent Enforcement Director will enforce the Support Undertaking solely for the benefit of the holders of the Company Class B Preferred Securities. With respect to the Company's rights under the Support Undertaking, the Company Class B Preferred Securities will rank senior to the Company Class A Preferred Security and payments thereunder will be distributed by the Company solely to the holders of the Company Class B Preferred Securities. For a description of the circumstances under which an Independent Enforcement Director may be elected, see "– Company Class B Preferred Securities – Voting Rights".

Company Class B Preferred Securities

General

The Company will observe all corporate formalities necessary to issue the Company Class B Preferred Securities under the laws of the State of Delaware and the Company Class B Preferred Securities will be validly issued, fully paid and non-assessable when they are issued. The holders of the Company Class B Preferred Securities will have no pre-emptive rights with respect to any other securities of the Company (i. e., will have no rights to acquire any additional securities issued by the Company on a preferential basis). The Company Class B Preferred Securities will not have any scheduled maturity date, will not be redeemable at any time at the option of the holders thereof, will not be convertible into any other securities of the Company and will not be subject to any sinking fund or other obligation of the Company for their repurchase or redemption. The LLC Agreement prohibits the Company, without the consent of all holders of the Company Class B Preferred Securities (excluding any Company Class B Preferred Securities held by the Bank or a Bank Subsidiary), from issuing any debt obligations or any further class or series of equity securities (other than additional Company Class B Preferred Securities with identical terms as the Company Class B Preferred Securities described herein save for the issue date, the date from which Class B Capital Payments accrue, the issue price and any other deviations required for compliance with applicable law) ranking prior to or *pari passu* with the Company Class B Preferred Securities as to periodic distribution rights or rights upon liquidation or dissolution of the Company.

Capital Payments

Class B Capital Payments will be payable on a noncumulative basis and accrue on the liquidation preference amount of € 50,000 per Class B Preferred Security.

In the Fixed Rate Period, Class B Capital Payments shall accrue at a rate equal to the Fixed Rate and will be made annually in arrear on each Fixed Payment Date. If a Fixed Payment Date is not a Business Day, the holder of the Company Class B Preferred Securities shall not be entitled to any Class B Capital Payment until the next following Business Day and shall not be entitled to further interest or other payment in respect of such delay. Class B Capital Payments in relation to the first Payment Period (with a term of more than one year), payable on the first Fixed Payment Date, will amount to € 2,595.25 per Company Class B Preferred Security. If, at any time during the Fixed Rate Period, Class B Capital Payments payable on any Fixed Payment Date are to be calculated for a period of less than one year, such Class B Capital Payments shall be calculated on the basis of the actual number of days elapsed in such calculation period, divided by the actual number of days (365 or 366) in the respective annual payment period.

In the Floating Rate Period, Class B Capital Payments for the respective Payment Period shall accrue at the Floating Rate and will be made quarterly in arrear on each Floating Payment Date. Class B Capital Payments payable on any Floating Payment Date are calculated on the basis of the actual number of days elapsed in the respective Payment Period, divided by 360.

Class B Capital Payments are expected to be paid by the Company out of amounts received on the Debt Securities or Permitted Investments held by the Company. If the Company does not declare (and is not deemed to have declared) a Class B Capital Payment on the Company Class B Preferred Securities in respect of any Payment Period, the holders of the Company Class B Preferred Securities will have no right to receive a Class B Capital Payment on the Company Class B Preferred Securities in respect of such Payment Period, and the Company will have no obligation to pay a Class B Capital Payment on the Company Class B Preferred Securities in respect of such Payment Period, whether or not Class B Capital Payments are declared (or deemed to have been declared) and paid on the Company Class B Preferred Securities in respect of any future Payment Period.

Class B Capital Payments are authorized to be declared and paid on any Class B Payment Date to the extent that:

(i) the Company has an amount of Company Operating Profits for the Payment Period ending on the day immediately preceding such Payment Date at least equal to the amount of such Capital Payments, and

(ii) the Bank has an amount of Bank Distributable Profits for the Bank's most recent fiscal year for which audited unconsolidated annual financial statements approved by the Bank's supervisory board are available at least equal to the aggregate amount of (A) such Class B Capital Payments, (B) previous Class B Capital Payments already paid on the basis of Bank Distributable Profits for such most recent fiscal year, and (C) capital payments, dividends or other distributions on Parity Securities (as defined below), if any, *pro rata* on the basis of Bank Distributable Profits for such most recent fiscal year.

Notwithstanding the foregoing, the Company will be authorized to declare Class B Capital Payments if the Bank or a Bank Affiliate declares or pays any capital payments, dividends or other distributions on any Parity Securities. If the Company does not declare despite its authorization to do so, then such Capital Payments shall be deemed to have been declared and be payable in the situations described in the LLC Agreement where the Company is authorized to declare a Capital Payment.

The Class B Capital Payments to be made as a result of such a deemed declaration will be payable on the first Payment Date falling contemporaneously with or immediately after the date on which the Bank, or the Bank Subsidiary, as the case may be, declared the related dividend or made the related payment. If the dividend or other payment or distribution on Parity Securities was in the full stated amount payable on such Parity Securities in the then current fiscal year through the relevant Payment Date, Class B Capital Payments will be deemed declared at the Stated Rate in full for the then current fiscal year through such Payment Date. If the dividend or other payment or distribution on Parity Securities was only a partial payment of the amount so owing, the amount of the Class B Capital Payment deemed declared on the Company Class B Preferred Securities will be adjusted proportionally.

Further, notwithstanding the foregoing, if the Bank or a Bank Affiliate declares or pays any capital payments, dividend or other payment on Junior Securities as defined below (excluding capital payments, dividends or other distributions by a Bank Affiliate exclusively to the Bank or a Bank Subsidiary), the Company will be deemed to have declared Class B Capital Payments at the Stated Rate in full for payment in the following manner:

(i) for any Payment Period falling in the Fixed Rate Period

- If such Junior Securities pay distributions annually, Capital Payments will be deemed declared for payment at the Stated Rate in full on the first Payment Date falling contemporaneously with or immediately following the date on which such capital payment, dividend or other distribution was made;
- If such Junior Securities pay distributions semi-annually, (y) if only one such distribution was made in the Payment Period preceding the relevant Payment Date, Capital Payments will be deemed declared for payment in one half of the amount that would be payable at the Stated Rate in full on the Payment Date falling contemporaneously with and/or immediately following the date on which such capital payment, dividend or other distribution was made, or (z) if two such distributions were made in such Payment Period, Capital Payments will be deemed declared for payment in the full amount that would be payable at the Stated Rate in full on the

Payment Date falling contemporaneously with and/or immediately following the date of which such capital payment, dividend or other distribution was made; and

- If such Junior Securities pay distributions quarterly, (w) if only one such distribution was made in the Payment Period preceding the relevant Payment Date, Capital Payments will be deemed to have been declared for payment in one quarter of the amount that would be payable at the Stated Rate in full on the Payment Date falling contemporaneously with and/or immediately following the date on which such capital payment, dividend or other distribution was made, or (x) if two such distributions were made in the Payment Period preceding the relevant Payment Date, Capital Payments will be deemed to have been declared for payment in one half of the amount that would be payable at the Stated Rate in full on the Payment Date falling contemporaneously with and/or immediately following the date on which such capital payment, dividend or other distribution was made, or (y) if three such distributions were made in the Payment Period preceding the relevant Payment Date, Capital Payments will be deemed to have been declared for payment in three quarters of the amount that would be payable at the Stated Rate in full on the Payment Date falling contemporaneously with and/or immediately following the date on which such capital payment, dividend or other distribution was made, or (z) if four such distributions were made in the Payment Period preceding the relevant Payment Date, Capital Payments will be deemed to have been declared for payment at the Stated Rate in full on the Payment Date falling contemporaneously with and/or immediately following the date on which such capital payment, dividend or other distributions was made.

(ii) For any Payment Period falling in the Floating Rate Period:

- If such Junior Securities pay distributions annually, Class B Capital Payments will be deemed declared for payment at the Stated Rate in full on the first four Payment Dates falling contemporaneously with or immediately following the date on which such capital payment, dividend or other distribution was made;
- If such Junior Securities pay distributions semi-annually, Class B Capital Payments will be deemed declared for payment at the Stated Rate in full on the first two Payment Date falling contemporaneously with and/or immediately following the date on which such capital payment, dividend or other distribution was made; and
- If such Junior Securities pay distributions quarterly, Class B Capital Payments will be deemed to have been declared for payment at the Stated Rate in full on the Payment Date falling contemporaneously with and/or immediately following the date on which such capital payment, dividend or other distribution was made.

If the Bank or any of its subsidiaries redeems, repurchases or otherwise acquires any Parity Securities or Junior Securities for any consideration except by conversion into or exchange for shares of common stock of the Bank, the Company will be deemed to have declared Class B Capital Payments at the Stated Rate in full for payment on the first Payment Date falling contemporaneously with and/or immediately following the date on which such redemption, repurchase or other acquisition occurred. Notwithstanding the previous sentence, no Class B Capital Payment will be deemed to have been declared for any redemption, repurchase or acquisition:

(i) in connection with transactions effected by or for the account of customers of the Bank or a Bank Subsidiary or in connection with the distribution, trading or market-making in respect of such securities,

(ii) in connection with the satisfaction by the Bank or a Bank Subsidiary of its obligations under any employee benefit plans or similar arrangements with or for the benefit of employees, officers, directors or consultants,

(iii) occurring as a result of a reclassification of the capital stock of the Bank or a Bank Subsidiary or the exchange or conversion of one class or series of such capital stock for another class or series of such capital stock, or

(iv) constituting the purchase of fractional interests in shares of the capital stock of the Bank or a Bank Subsidiary pursuant to the provisions of any security being converted into or exchanged for such capital stock.

Despite sufficient Company Operating Profits and sufficient Bank Distributable Profits, the Company will not be permitted to make Class B Capital Payments on any Payment Date (or a date set for redemption or liquidation) if on such date there is in effect an order of the BaFin or other relevant regulatory authority pursuant to the German Banking Act or any other applicable regulatory provision prohibiting the Bank from making any distribution of its profits (including to the holders of the Parity Securities). The Company will have no obligation to make up, at any time, any Class B Capital Payments not paid in full by the Company as a result of insufficient Company Operating Profits, insufficient Bank Distributable Profits or an order of the BaFin.

"Junior Securities" means (i) common stock of the Bank, (ii) each class of preference shares or other instruments of the Bank ranking junior to Parity Securities of the Bank, if any, and any other instrument of the Bank ranking *pari passu* or junior to any of these, and (iii) preference shares or any other instrument of any Bank Affiliate subject to any guarantee or support agreement of the Bank ranking junior to the obligations of the Bank under the Support Undertaking.

Each declared Class B Capital Payment will be payable to the holders of record as they appear on the securities register of the Company at the close of business on the corresponding record date. The record dates for the Company Class B Preferred Securities will be:

– for those Company Class B Preferred Securities held by the Property Trustee, so long as the Trust Preferred Securities remain in book-entry form, and for Company Class B Preferred Securities held in book-entry form, one Business Day prior to the relevant Payment Date, and

– in all other cases, the 15th day prior to the relevant Payment Date.

Payment of Additional Amounts

All payments on the Company Class B Preferred Securities, and any repayment upon redemption thereof, will be made without any deduction or withholding for or on account of Withholding Taxes, unless the Company is required by law to make such deduction or withholding. The Company will pay, as additional Class B Capital Payments, such Additional Amounts as may be necessary in order that the net amounts received by the holders of the Company Class B Preferred Securities and the Trust Preferred Securities, after any deduction or withholding for or on account of Withholding Taxes, will equal the amounts that would otherwise have been received in respect of the Company Class B Preferred Securities and the Trust Preferred Securities, respectively, in the absence of such withholding or deduction.

No such Additional Amounts, however, will be payable in respect of the Company Class B Preferred Securities and the Trust Preferred Securities:

(i) if and to the extent that the Company is unable to pay such Additional Amounts because such payment would exceed the Bank Distributable Profits for the Bank's most recent fiscal year for which audited unconsolidated annual financial statements have been approved by the Bank's supervisory board (after subtracting from such Bank Distributable Profits the amount of Class B Capital Payments and capital payments, dividends or other distributions on Parity Securities, if any, already paid on the basis of such Bank Distributable Profits on or prior to the date on which such Additional Amounts will be payable); or

(ii) with respect to any Withholding Taxes that are payable by reason of a holder or beneficial owner of the Company Class B Preferred Securities (other than the Trust) or Trust Preferred Securities having some connection with any Relevant Jurisdiction other than by reason of the mere holding of the Company Class B Preferred Securities or Trust Preferred Securities; or

(iii) with respect to any Withholding Taxes if such deduction or withholding is required to be made pursuant to any European Union directive on the taxation of savings (including the directive adopted on 3 June 2003) or any law implementing or complying with, now introduced in order to conform to, any such directive; or

(iv) with respect to any Withholding Taxes that can be avoided if the holder or beneficial owner of the Company Class B Preferred Securities (other than the Trust) or the Trust Preferred Securities makes a declaration of non-residence or other similar claim for exemption to the relevant tax authority or complies with any reasonable certification, documentation, information or other reporting requirement imposed by the relevant tax authority; or

(v) with respect to any Withholding Taxes imposed on account of any inheritance, thrift, estate, personal property, sales or transfer taxes, or on account of any taxes that are payable otherwise than by withholding from payments in respect of the Company Class B Preferred Securities or Trust Preferred Securities; or

(vi) with respect to any Withholding Taxes that the holder or beneficial owner of the Company Class B Preferred Securities (other than the Trust) or the Trust Preferred Securities can avoid or reduce by presenting the relevant Trust Preferred Securities to another paying agent in a member state of the European Union; or

(vii) with respect to any Withholding Taxes that would not have been so imposed if the holder of the Company Class B Preferred Securities (other than the Trust) or the Trust Preferred Securities would have presented the relevant Company Class B Preferred Securities or Trust Preferred Securities for payment within 30 days of the date that payment was due or became available for payment, except to the extent that such holder would have been entitled to such Additional Amounts on presenting such Company Class B Preferred Securities or Trust Preferred Securities for payment on the last day of such period of 30 days; or

(viii) with respect to any Withholding Taxes which would not be payable if the Company Class B Preferred Securities or the Trust Preferred Securities had been kept in safe custody with, and the payments had been collected by, a credit institution.

Voting and Enforcement Rights

The Company Class B Preferred Securities will have no voting rights except as expressly required by applicable law or except as indicated below. In the event the holders of the Company Class B Preferred Securities are entitled to vote as indicated below, each Company Class B Preferred Security shall be entitled to one vote on matters on which holders of the Company Class B Preferred Securities are entitled to vote. In the event that:

(i) the Company fails to pay Class B Capital Payments (plus Additional Amounts thereon, if any) on the Company Class B Preferred Securities at the Stated Rate in full as and when due for the first Payment Period or subsequently for two consecutive Payment Periods; or

(ii) a holder of the Company Class B Preferred Securities has notified the Company that the Bank has failed to perform any obligation under the Support Undertaking and such failure continues for 60 days after such notice is given,

then the holders of the Company Class B Preferred Securities will have the right to appoint one Independent Enforcement Director.

The Independent Enforcement Director will be appointed by resolution passed by a majority of the holders of the Company Class B Preferred Securities entitled to vote thereon, as described in the LLC Agreement, present in person or by proxy at a separate general meeting of the holders of the Company Class B Preferred Securities convened for that purpose (which will be called at the request of any holder of a Company Class B Preferred Security entitled to vote thereon) or by a consent in writing adopted by a majority of the holders of the Company Class B Preferred Securities entitled to vote thereon. Any Independent Enforcement Director so appointed will vacate office if, in such Independent Enforcement Director's sole determination:

(i) the Class B Capital Payments (plus Additional Amounts thereon, if any) have been made at the Stated Rate in full by the Company for two consecutive Payment Periods, and

(ii) the Bank is in compliance with its obligations under the Support Undertaking.

Any such Independent Enforcement Director may be removed at any time, with or without cause by (and will not be removed except by) the vote of a majority of the holders of the outstanding Company Class B Preferred Securities entitled to vote, at a meeting of the Company's securityholders, or of holders of the Company Class B Preferred Securities entitled to vote thereon, called for that purpose. If the office of Independent Enforcement Director will become vacant at any time during which the holders of the Company Class B Preferred Securities are entitled to appoint an Independent Enforcement Director, the holders of the Company Class B Preferred Securities will appoint an Independent Enforcement Director as provided above.

The Independent Enforcement Director will be an additional member of the Board of Directors referred to above and will have the sole authority, right and power to enforce and settle any claim of the Company under the Support Undertaking. However, the Independent Enforcement Director will have no right, power or authority to participate in the management of the business and affairs of the Company by the Board of Directors except for:

– actions related to the enforcement of the Support Undertaking on behalf of the holders of the Company Class B Preferred Securities, and
– the distribution of amounts paid pursuant to the Support Undertaking to the holders of the Company Class B Preferred Securities.

No director, including the Independent Enforcement Director, will be a resident of the Federal Republic of Germany.

So long as any Company Class B Preferred Securities are outstanding, the Company will not, without the affirmative vote of the holders of at least 66 ⅔ % in aggregate liquidation preference amount of the Company Class B Preferred Securities, voting separately as a class (excluding any Company Class B Preferred Securities held by the Bank or a Bank Subsidiary):

(i) amend, alter, repeal or change any provision of the LLC Agreement (including the terms of the Company Class B Preferred Securities) if such amendment, alteration, repeal or change would materially adversely affect the rights, preferences, powers or privileges of the Company Class B Preferred Securities; or

(ii) agree to modify or amend any provision of, or wave any default on the payment of any amount under the Debt Securities in any manner that would materially effect the interests of the Company Class B Preferred Security holders; or

(iii) effect any merger, consolidation, or business combination involving the Company, or any sale of all or substantially all of the assets of the Company, provided, that any such merger, consolidation, or business combination involving the Company, or any sale of all or substantially all of the assets of the Company also must comply with the requirements set forth under "– Mergers, Consolidations and Sales".

The Company will not, without the unanimous consent of all the holders of the Company Class B Preferred Securities (excluding any Company Class B Preferred Securities held by the Bank or any a Bank Subsidiary), issue any additional equity securities of the Company (other than additional Company Class B Preferred Securities with identical terms as the Company Class B Preferred Securities described herein save for the issue date, the date from which Class B Capital Payments accrue, the issue price and any other deviations required for compliance with applicable law) ranking prior to or *pari passu* with the Company Class B Preferred Securities as to periodic distribution rights or rights on liquidation or dissolution of the Company.

Notwithstanding that holders of the Company Class A Preferred Security or Company Class B Preferred Securities may become entitled to vote or consent under any of the circumstances described in the LLC Agreement or in the by-laws of the Company, any Company Class A Preferred Security or any of the Company Class B Preferred Securities that are owned by the Bank, the Company or any of their respective affiliates or subsidiaries (other than the Trust), either directly or indirectly, will in such case not be entitled to vote or consent and will, for the purposes of such vote or consent, be treated as if they were not outstanding, except for a Company Class A Preferred Security or Company Class B Preferred Securities purchased or acquired by the Bank or a Bank Subsidiary in connection with transactions effected by or for the account of customers of the Bank or a Bank Subsidiary or in connection with the distribution or trading of or market-making in connection with such Company Class A Preferred Security or Company Class B Preferred Securities in the ordinary course of business. However, certain persons (other than a Bank Subsidiary), excluding the Trust, to whom the Bank or a Bank Subsidiary have pledged a Company Class A Preferred Security or Company Class B Preferred Securities may vote or consent with respect to such pledged Company Class A Preferred Security or Company Class B Preferred Securities pursuant to the terms of such pledge.

Redemption

The Company Class B Preferred Securities are redeemable at the option of the Company, in whole but not in part, at the Redemption Price on the Initial Redemption Date or on any Floating Payment Date thereafter.

The Company will also have a right to redeem the Company Class B Preferred Securities at any time prior to the Initial Redemption Date upon at least 30 days' prior notice, in whole but not in part, upon the occurrence of a (i) Tax Event, (ii) Regulatory Event, or (iii) Investment Company Act Event with respect to the Company (**"Company Special Redemption Event"**).

"Regulatory Event" means that (i) the Bank is notified by a relevant regulatory authority that, as a result of the occurrence of any amendment to, or change (including any change that has been adopted but has not yet become effective) in, the applicable banking laws of Germany (or any rules, regulations or interpretations thereunder, including rulings of the relevant banking authorities) or the guidelines of the Basel Committee for Banking Supervision after the date hereof, the Bank is not, or shall not be, allowed to treat the Company Class B Preferred Securities or the Trust Preferred Securities (or securities substantially similar to the Company Class B Preferred Securities or the Trust Preferred Securities) as core capital or Tier I regulatory capital for capital adequacy purposes on a consolidated basis, or (ii) the BaFin notifies the Bank or otherwise announces that neither the Company Class B Preferred Securities nor the Trust Preferred Securities (or securities substantially similar to the Company Class B Preferred Securities or the Trust Preferred Securities) may or may any longer be treated as Tier I regulatory capital for capital adequacy purposes on a consolidated basis.

Any redemption after the Initial Redemption Date will be made at the Redemption Price, whereas any redemption occurring prior to the Initial Redemption Date shall be at the Early Redemption Price, unless the Company Class B Preferred Securities are redeemed solely as a result of a Tax Event as described under (B) of the definition of Tax Event set out herein in which case the Company Class B Preferred Securities will be redeemed at the Redemption Price. The Company may exercise its right to redeem the Company Class B Preferred Securities only if it has:

(i) given at least 30 days' prior notice (or such longer period as required by the relevant regulatory authorities) to the holders of the Company Class B Preferred Securities of its intention to redeem the Company Class B Preferred Securities on the Redemption Date, and

(ii) obtained any required regulatory approvals.

The Company Class B Preferred Securities will not have any scheduled maturity date and will not be redeemable at any time at the option of the holders thereof.

No redemption of the Company Class B Preferred Securities for any reason may take place unless on the Redemption Date:

(i) the Company has sufficient funds (by reason of the Debt Securities, Permitted Investments or the Support Undertaking) to pay the Redemption Price or the Early Redemption Price, as the case may be,

(ii) the Bank has an amount of Bank Distributable Profits in respect of the Bank's most recent fiscal year for which audited unconsolidated annual financial statements have been approved by the Bank's supervisory board at least equal to the Class B Capital Payments on the Company Class B Preferred Securities accrued and unpaid as of the Redemption Date, plus Additional Amounts, if any; and

(iii) no order of the BaFin or other relevant regulatory authority pursuant to the German Banking Act or any other applicable regulatory provision is in effect prohibiting the Bank from making any distributions of its profits (including to the holders of the Parity Securities).

In the event that payment of the Redemption Price or the Early Redemption Price, as the case may be, is improperly withheld or refused and not paid, Class B Capital Payments will continue to accrue from the Redemption Date to the date of actual payment of such Redemption Price or such Early Redemption Price, as the case may be.

Any redemption of the Company Class B Preferred Securities, whether on the Initial Redemption Date or on any Payment Date thereafter or upon the occurrence of a Company Special Redemption Event, will not require the vote or consent of any of the holders of the Company Class B Preferred Securities.

Redemption Procedures

Notice of any redemption of the Company Class B Preferred Securities (a **"Redemption Notice"**) will be given by the Board of Directors on behalf of the Company by mail to the record holder of each Company Class B Preferred Security to be redeemed not less than 30 days prior to the date fixed for redemption, or such other time period as may be required by the relevant regulatory authorities.

For purposes of the calculation of the Redemption Date and the dates on which notices are given pursuant to the LLC Agreement, a Redemption Notice will be deemed to be given on the day such notice is first mailed, by first-class mail, postage prepaid, to holders of the Company Class B Preferred Securities. Each Redemption Notice will be addressed to the holders of the Company Class B Preferred Securities at the address of each such holder appearing in the books and records of the Company.

No defect in the Redemption Notice or in the mailing thereof with respect to any holder will affect the validity of the redemption proceedings with respect to any other holder.

If the Company has given a Redemption Notice (which notice will be irrevocable), and if the Company Class B Preferred Securities are held in certificated form, the Company, on the Redemption Date, will deposit with the Principal Paying Agent funds sufficient to pay the applicable Redemption Price or the Early Redemption Price, as the case may be, of the amount of any such Company Class B Preferred Securities and will give to the Principal Paying Agent irrevocable instructions and authority to pay such amounts to the holders of the Company Class B Preferred Securities, upon surrender of their certificates, by check, mailed to the address of the relevant holder of the Company Class B Preferred Securities appearing on the books and records of the Company on the Redemption Date.

However, for so long as the Property Trustee holds the Company Class B Preferred Securities, payment will be made by wire transfer in same day funds to, or in accordance with the instructions of, the holder of the Company Class B Preferred Securities by 10:00 a.m., Frankfurt time, on the Redemption Date. Upon satisfaction of the foregoing conditions, then immediately prior to the close of business on the date of payment, all rights of the holders of the Company Class B Preferred Securities so called for redemption will cease, except the right of the holders to receive the Redemption Price or the Early Redemption Price, as the case may be, and from and after the date fixed for redemption, such Company Class B Preferred Securities will not accrue Class B Capital Payments or bear interest.

Liquidation Distribution

Upon liquidation of the Company, the holder of the Company Class A Preferred Security has a claim senior to that of the holders of the Company Class B Preferred Securities, and the holders of the Company Class B Preferred Securities have a claim senior to that of the holder of the Company Common Security; provided that any payments made by the Bank pursuant to the Support Undertaking will be payable by the Company *pro rata* solely to the holders of the Company Class B Preferred Securities. The holder of the Company Class A Preferred Security will be entitled to receive the Debt Securities (including accrued and unpaid interest thereon) as its liquidation distribution.

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, holders of the Company Class B Preferred Securities will, subject to the limitations described below, be entitled to receive the liquidation preference amount of such Company Class B Preferred Securities, plus, in each case, accrued and unpaid Class B Capital Payments in respect of the current Payment Period and Additional Amounts, if any. The Company expects that the liquidation distribution to the holders of the Company Class B Preferred Securities will be paid out of funds received from the Support Undertaking. The holders of the Company Class B Preferred Securities will be entitled to receive their liquidation distribution before any distribution of assets is made to the holder of the Company Common Security. Under the terms of the LLC Agreement and to the fullest extent permitted by law, the Company will not be dissolved until all obligations under the Support Undertaking have been paid in full pursuant to its terms.

Mergers, Consolidations and Sales

The Company may not consolidate, amalgamate, merge with or into, or be replaced by, or convey, transfer or lease its properties and assets substantially as an entirety to, any corporation or other body, except as described below. The Company may, with the consent of the holders of the Company Class B Preferred Securities, consolidate, amalgamate, merge with or into, or be replaced by a limited partnership, limited liability company or trust organized as such under the laws of any State of the United States of America, provided, that:

(i) such successor entity either expressly assumes all of the obligations of the Company under the Company Class B Preferred Securities or substitutes for the Company Class B Preferred Securities other securities having substantially the same terms as the Company Class B Preferred Securities (the **"Company Successor Securities"**) so long as the Company Successor Securities are not junior to any equity securities of the successor entity, with respect to participation in the profits, distributions and assets of the successor entity, except that they may rank junior to the Company Class A Preferred Security or any successor Company Class A Preferred Security to the same extent that the Company Class B Preferred Securities rank junior to the Company Class A Preferred Security;

(ii) the Bank expressly acknowledges such successor entity as the holder of the Debt Securities and holds, directly or indirectly, all of the voting securities (within the meaning of Rule 3a-5 under the Investment Company Act) of such successor entity;

(iii) such consolidation, amalgamation, merger or replacement does not cause the Trust Preferred Securities (or, in the event that the Trust is liquidated, the Company Class B Preferred Securities (including any Company Successor Securities)) to be downgraded by any statistical rating organization nationally recognized in the United States of America;

(iv) such consolidation, amalgamation, merger or replacement does not adversely affect the powers, preferences and other special rights of the holders of the Trust Preferred Securities or Company Class B Preferred Securities (including any Company Successor Securities) in any material respect;

(v) such successor entity has a purpose substantially identical to that of the Company;

(vi) prior to such consolidation, amalgamation, merger or replacement, the Company has received an opinion of a nationally recognized law firm in the United States of America experienced in such matters to the effect that:

   (A) such successor entity will not be treated as a corporation for United States federal income tax purposes,

   (B) such consolidation, amalgamation, merger or replacement would not cause the Trust to be treated as a corporation for United States federal income tax purposes,

   (C) following such consolidation, amalgamation, merger or replacement, such successor entity will not be required to register under the Investment Company Act, and

   (D) such consolidation, amalgamation, merger or replacement will not adversely affect the limited liability of the holders of the Company Class B Preferred Securities; and

(vii) the Bank provides an undertaking to the successor entity under the Company Successor Securities equivalent to that provided by the Support Undertaking with respect to the Company Class B Preferred Securities.

Book-Entry and Settlement

If the Company Class B Preferred Securities are distributed to holders of the Trust Preferred Securities in connection with the involuntary or voluntary liquidation, dissolution, winding up or termination of the Trust, the Bank will use its commercially reasonable efforts to cause the Company Class B Preferred Securities (i) to be assigned the rating at which the Trust Preferred Securities are then rated and (ii) to be eligible for clearing and settlement through Clearstream Frankfurt if the Trust Preferred Securities are then eligible for clearing and settlement. As of the date of this Prospectus, the description herein of the Clearstream Frankfurt book-entry system and Clearstream Frankfurt practices as they relate to purchases, transfers, notices and payments with respect to the Trust Preferred Securities will apply in all material respects to any Company Class B Preferred Securities represented by one or more of such global certificates.

Paying Agent, Transfer Agent and Calculation Agent

Commerzbank Aktiengesellschaft will act as paying agent, transfer agent and Calculation Agent for the Company Class B Preferred Securities. Registration of transfers of the Company Class B Preferred Securities will be effected without charge by or on behalf of the Company, but upon payment (with the giving of such indemnity as the Company may require) by the relevant transferee or transferor in respect of any tax or other governmental charges that may be imposed in relation to it. The Company will not be required to register or cause to be registered the transfer of the Company Class B Preferred Securities after such Company Class B Preferred Securities have been called for redemption.

Governing Law

The LLC Agreement and the Company Class B Preferred Securities will be governed by, and construed in accordance with, the laws of the State of Delaware.

Miscellaneous

The Board of Directors is authorized and directed to conduct the affairs of the Company in such a way that:

(i) the Company will not be deemed to be required to register under the Investment Company Act; and

(ii) the Company will not be treated as a corporation for United States federal income tax purposes.

In this connection, the Board of Directors is authorized to take any action, not inconsistent with applicable law or the LLC Agreement, that the Board of Directors determines in its discretion to be necessary or desirable for such purposes.

DESCRIPTION OF THE SUPPORT UNDERTAKING

The following describes the material terms and provisions of the Support Undertaking. This description is qualified in its entirety by reference to the terms and provisions of such agreement, which is attached hereto as Appendix A.

The Bank and the Company will enter into the Support Undertaking prior to the issuance of the Company Class B Preferred Securities, pursuant to which the Bank will undertake that:

(i) the Company will at all times be in a position to meet its obligations if and when such obligations are due and payable, including Class B Capital Payments declared (or deemed declared) on, and payments due upon redemption of, the Company Class B Preferred Securities (plus Additional Amounts thereon, if any), and

(ii) in liquidation, the Company will have sufficient funds to pay the liquidation preference amounts of the Company Class B Preferred Securities, including any accrued and unpaid Class B Capital Payments plus Additional Amounts, if any.

The Bank will also undertake not to give any guarantee or similar undertaking with respect to, or enter into any other agreement relating to the support of, any Parity Securities or Junior Securities that would rank senior in any regard to the Support Undertaking, unless the Support Undertaking is amended so that it ranks at least *pari passu* with and contains substantially equivalent rights of priority as to payment as any such other guarantee or other support agreement relating to Parity Securities. So long as any Company Class B Preferred Securities remain outstanding, the Support Undertaking may not be modified or terminated without the consent of 100 % of the holders of the Company Class B Preferred Securities except for such modifications that are not adverse to the interests of the holders of the Company Class B Preferred Securities. **The Support Undertaking is not a guarantee of any kind that the Company will at any time have sufficient assets to declare a Class B Capital Payment or other distribution.**

The Bank's obligations under the Support Undertaking will be subordinated to all senior and subordinated debt obligations of the Bank, will rank *pari passu* (i) with the most senior ranking preference shares of the Bank, if any, or other instruments of the Bank qualifying as the most senior form of Tier I regulatory capital of the Bank and (ii) preference shares or other instruments qualifying as consolidated Tier I regulatory capital of the Bank or any other instrument of any Bank Affiliate subject to any guarantee or support agreement of the Bank ranking *pari passu* with the obligations of the Bank under the Support Undertaking (including, but not limited to, the obligations under the 16,000 noncumulative trust preferred securities issued by Commerzbank Capital Funding Trust II) and will rank senior to any other preference shares, if any, and the common shares of the Bank.

The holders of the Company Class B Preferred Securities will be third-party beneficiaries of the Support Undertaking. As titleholder of the Company Class B Preferred Securities for the benefit of the holders of the Trust Securities, the Property Trustee will have the power to exercise all rights, powers and privileges with respect to the Company Class B Preferred Securities under the Support Undertaking. If a holder of the Company Class B Preferred Securities has notified the Company that the Bank has failed to perform any obligation under the Support Undertaking, and such failure continues for 60 days or more after such notice is given, the holders of the Company Class B Preferred Securities (and the Trust Preferred Securities representing Company Class B Preferred Securities) will have the right to appoint the Independent Enforcement Director, who will be required to enforce the rights of the Company under the Support Undertaking.

All payments under the Support Undertaking will be distributed by the Company *pro rata* to holders of the Company Class B Preferred Securities until the holders of the Company Class B Preferred Securities receive the full amount payable under the Support Undertaking. So long as the Trust holds the Company Class B Preferred Securities, the Property Trustee will distribute such payments received by the Trust to the holders of the Trust Preferred Securities *pro rata.*

The Support Undertaking will be governed by, and construed in accordance with, German law.

DESCRIPTION OF THE SERVICES AGREEMENT

The following describes the material terms and provisions of the Services Agreement. This description is qualified in its entirety by reference to the terms and provisions of such agreement.

Under the Services Agreement, the Servicer will be obligated, among other things, to provide tax and other administrative services to the Trust and the Company. The fees and expenses of the Company and the Trust, including any taxes, duties, assessments or governmental charges of whatsoever nature (other than Withholding Taxes) imposed by any taxing authority upon the Company or the Trust, and all other obligations of the Company and the Trust (other than with respect to the Trust Securities or the Company Securities), will be paid by the Bank in accordance with the LLC Agreement.

The Services Agreement does not prevent the Bank or any of its affiliates or employees from engaging in any other activities. The Services Agreement has an initial term of two years and is renewable for additional one year periods unless the Company or the Trust delivers a notice of non-renewal in accordance with the terms of the Services Agreement. The Trust or the Company may terminate the Services Agreement at any time without entering into a new services agreement as long as the necessary tax and other administrative duties in relation to the Trust or the Company, as the case may be, are performed by or on behalf of the Trust or the Company, as the case may be.

DESCRIPTION OF THE TERMS OF THE INITIAL DEBT SECURITIES

The following describes the material terms and provisions of the Initial Debt Securities. This description is qualified in its entirety by reference to the terms and provisions of the Initial Debt Securities.

General

The Principal Amount of the Initial Debt Securities will be € 1,000,000,000 and will be at least equal to the aggregate liquidation preference amount of the Company Class B Preferred Securities. All of the proceeds from the issuance of the Company Class B Preferred Securities will be used by the Company to purchase the Initial Debt Securities. The aggregate Principal Amount of the purchased Initial Debt Securities will be such that the aggregate interest income paid on the Initial Debt Securities on any Payment Date will be sufficient to make the aggregate Class B Capital Payments on a corresponding Payment Date. The purchase of the Initial Debt Securities will occur contemporaneously with the issuance of the Company Class B Preferred Securities.

The Initial Debt Securities will consist of an issue of registered subordinated notes issued by the Bank which will not be shown as a liability on the books of a U.S. branch of the Bank, and the proceeds of which will not be lent to such a branch or Bank Subsidiary except in the ordinary course of the lender's business and which mature on the Maturity Date. Interest will be payable by the Bank in euro on the outstanding Principal Amount.

In the Fixed Rate Period, interest payments on the Debt Securities shall accrue at a rate equal to the Fixed Rate and will be made annually in arrear on each Fixed Payment Date. If a Fixed Payment Date is not a Business Day, the holder of the Debt Securities shall not be entitled to any interest payment until the next following Business Day and shall not be entitled to further interest or other payment in respect of such delay. Interest payments on the Debt Securities in relation to the first Payment Period (with a term of more than one year), payable on the first Fixed Payment Date, will amount to € 51,905,000. If, at any time during the Fixed Rate Period, interest payments payable on any Fixed Payment Date are to be calculated for a period of less than one year, such interest payments shall be calculated on the basis of the actual number of days elapsed in such calculation period, divided by the actual number of days (365 or 366) in the respective annual payment period.

In the Floating Rate Period, interest payments on the Debt Securities for the respective Payment Period shall accrue at the Floating Rate and will be made quarterly in arrear on each Floating Payment Date in relation to the Debt Securities. Interest payments on the Debt Securities payable on any Floating Payment Date are calculated on the basis of the actual number of days elapsed in the respective Payment Period, divided by 360.

Payment of interest on the Initial Debt Securities and any repayment upon redemption thereof, will be made by the Bank without deduction or withholding for Withholding Taxes imposed by Germany, the United States of America or any political subdivision thereof or any other jurisdiction from which such payment is made unless the Bank is required by law to make such deduction or withholding. In such event, the Bank (or the relevant obligor) will pay as additional interest such amounts (**"Additional Interest Amounts"**) as may be necessary in order that the net amounts received by the Company, after such deduction or withholding, will equal the amounts that would have been received had no such withholding or deduction been required; provided, that the obligation of the Bank to pay such Additional Interest Amounts shall not apply to:

(i) any tax which is payable otherwise than by deduction or withholding; or

(ii) any tax imposed on the net income of the holder of the Initial Debt Securities or that is payable by reason of the holder having some connection with the jurisdiction imposing such tax other than by reason only of the mere holding of the Initial Debt Securities; or

(iii) any tax to the extent the same would not have been so imposed but for the presentation of any Initial Debt Securities for payment on a date more than 15 days after the date on which payment became due and payable or the date on which payment thereof is duly provided for, whichever occurs later.

The Initial Debt Securities will not be redeemable prior to the Initial Redemption Date, except upon the occurrence of a Company Special Redemption Event or in the event of replacement with Substitute Debt Securities. Subject to having obtained any required regulatory approvals, the Bank may redeem the Initial Debt Securities, in whole but not in part, prior to the Initial Redemption Date, upon:

(i) the occurrence of a Company Special Redemption Event and the election of the Company to redeem the Company Class B Preferred Securities, and

(ii) at least 30 days' prior notice, at a redemption price equal to the Principal Amount plus accrued and unpaid interest and Additional Interest Amounts, if any.

The Bank may, at its option, redeem the Initial Debt Securities, in whole but not in part, on the Initial Redemption Date or on any Floating Payment Date, upon at least 30 days' prior notice, subject to having obtained any required regulatory approvals.

The Bank may not cause any redemption of the Initial Debt Securities prior to the Maturity Date (except upon the occurrence of a Company Special Redemption Event) unless:

(i) the Initial Debt Securities are replaced with Substitute Debt Securities, or

(ii) the Company is permitted and has elected to redeem an equivalent amount of the Company Class B Preferred Securities as described above, in accordance with the LLC Agreement.

Such redemption will be at a redemption price equal to the Principal Amount to be redeemed plus accrued and unpaid interest thereon, and Additional Interest Amounts, if any.

The claims under the Initial Debt Securities will be subordinated in the event of insolvency or liquidation of the Bank to the claims of all other creditors which are not also subordinated and will, in any such event, only be satisfied after all claims against the Bank which are not subordinated have been satisfied. Any right to set-off claims under the Initial Debt Securities against claims of the Bank will be excluded. No collateral is or will be given for the claims under the Initial Debt Securities; collateral that may have been or may in the future be given in connection with other indebtedness shall not secure the claims under the Initial Debt Securities.

The subordination described above cannot be subsequently restricted, and the minimum term of the Initial Debt Securities cannot subsequently be shortened. Pursuant to § 10 (5a) of the German Banking Act (*Gesetz über das Kreditwesen*), the amount of any repurchase of the Initial Debt Securities prior to the Initial Redemption Date or other redemption must be refunded, notwithstanding any agreement to the contrary, unless a statutory exemption (replacement of the Principal Amount by contribution of other, at least equivalent own funds (*haftendes Eigenkapital*) or prior approval of the BaFin to the early redemption applies.

Substitution; Redemption and Reinvesting of Proceeds

At any time, the Bank will have the right to replace the Debt Securities with Substitute Debt Securities issued by the Bank (acting directly or through a branch) or a Bank Subsidiary, provided that (i) the Substitute Debt Securities shall not include debt securities that are issued by a corporation organized under the laws of the United States of America or any of its states or that are shown as a liability on the books of a U. S. branch of the Bank or a Bank Subsidiary, or the proceeds of which are lent to such a branch or Bank Subsidiary except in the ordinary course of the lender's business, (ii) such substitution or replacement does not result in a Company Special Redemption Event (as defined under "Description of the Company Securities – Company Class B Preferred Securities – Redemption"), (iii) the Bank, unless it itself is the substitute obligor, guarantees on a subordinated basis, at least equal to the ranking of the Initial Debt Securities, the obligations of the substitute obligor, and (iv) the Bank has obtained any required regulatory approval.

After the Maturity Date, if the Company Class B Preferred Securities have not been redeemed on the Maturity Date, the Company will invest the proceeds from the repayment of the Debt Securities in Permitted Investments. The Company will attempt to purchase Permitted Investments in the following order of priority, to the extent the same are available (and within each category on terms that are the best available in relation to providing funds for the payment of Class B Capital Payments and the redemption of the Company Class B Preferred Securities):

- first, debt obligations issued by the Bank or a Bank Subsidiary and guaranteed by the Bank on a subordinated basis at least equal to the ranking of the Debt Securities, provided, however, that the debt obligations shall not include Securities issued by a Bank Subsidiary organized under the laws of the United States or any of its States or that are shown as a liability on the books of a U.S. branch of the Bank or of a Bank Subsidiary, or the proceeds of which are lent to such a branch or Bank Subsidiary except in the ordinary course of the lender's business, or
- second, in the event such investments are not available, in European government securities with a maturity of six months or less.

Additional Debt Securities

Upon the issuance of any Additional Debt Securities, the terms contained herein which apply or refer to the Initial Debt Securities shall apply or refer in the same manner to such Additional Debt Securities. Any Additional Debt Securities shall not be shown as a liability on the books of a U.S. branch of the Bank.

Governing Law

The Initial Debt Securities will be governed by, and construed in accordance with, German law.

DESCRIPTION OF THE BANK

GENERAL INFORMATION ON THE BANK

Incorporation, Seat and Object

Commerzbank Aktiengesellschaft is a stock corporation under German law and was established as Commerz- und Disconto-Bank in Hamburg in 1870. The Bank owes its present form to the re-merger of the post-war successor institutions of 1952 on 1 July 1958. The Bank's registered office is located in Frankfurt am Main and its head office is at Kaiserplatz, 60261 Frankfurt am Main, Federal Republic of Germany (telephone: +49 (0) 69 136-20). The Bank is registered in the commercial register of the lower regional court (*Amtsgericht*) of Frankfurt am Main under the number HRB 32 000.

Pursuant to Article 2 of the Bank's articles of association (*Satzung*), the object of the Bank is to conduct banking transactions and offer financial services and other related services and transactions, including the acquisition, holding and disposal of interests in other enterprises. The Bank may realize its object itself, through affiliated companies and equity participations or through the conclusion of affiliation and cooperation agreements with third parties. It is entitled to have recourse to all transactions and measures which are suitable for promoting its business object, in particular the establishment of outlets in Germany and abroad and the acquisition, management and disposal of interests in other enterprises.

Share Capital

The registered share capital of the Bank currently amounts to € 1,707,712,648.20, divided into 656,812,557 no-par-value shares. The shares are fully paid up and are in bearer form.

Major Shareholders

According to information reported to the Bank pursuant to the German Securities Trading Act (*Wertpapierhandelsgesetz*) Assicurazioni Generali S.p.A. directly and indirectly held 9.99 % of the Bank's share capital on 1 April 2002. As far as the Bank is aware such shareholding currently amounts to 8.65 %.

General Shareholders' Meetings

Once a year, the ordinary General Meeting of shareholders takes place. Above all, it resolves upon the appropriation of the distributable profit, approves the actions of the Board of Managing Directors and the Supervisory Board as well as changes to the articles of association and authorizes the Board of Managing Directors to undertake capital-raising measures. Each share entitles the bearer to one vote.

Management

As a German stock corporation, the Bank has a two-tier board system. The management board is responsible for the management of the Bank and the representation of the Bank with respect to third parties, while the supervisory board appoints and removes the members of the management board and supervises the board's activities.

Board of Managing Directors

The following table shows the current members of the Bank's board of managing directors (the **"Board of Managing Directors"**) and their respective principal areas of responsibility:

Name	Position	Principal responsibilities
Klaus-Peter Müller	Chairman	Staff departments: Strategy and Controlling, Corporate Communications and Economic Research
Martin Blessing	Member	Banking department: Corporate Banking Service departments: Transaction Banking, Information Technology
Wolfgang Hartmann	Member	Staff department: Risk Control Banking departments: Credit Operations Private Customers, Global Credit Operations
Dr. Achim Kassow	Member	Banking departments: Asset Management, Private Banking, Private and Business Customers
Klaus M. Patig	Member	Staff departments: Group Treasury, Legal Services, Human Resources Banking department: Financial Institutions
Dr. Eric Strutz	Member	Staff departments: Accounting and Taxes, Compliance and Security, Financial Controlling, Internal Auditing Service department: Organization
Nicholas Teller	Member	Banking department: Corporates & Markets

Supervisory Board

The Bank's supervisory board (the **"Supervisory Board"**) consists of 20 members (excluding the Honorary Chairman). Ten of its members are elected by the shareholders at their general meeting, and ten members are elected by the employees of the Commerzbank Group in accordance with the German Codetermination Act (*Mitbestimmungsgesetz*).

The following table sets forth the current members of the Supervisory Board:

Name	Position	Principal occupation
Dr. Walter Seipp	Honorary Chairman	
Dr. h. c. Martin Kohlhaussen	Chairman	
Uwe Tschäge (*)	Deputy Chairman	Commerzbank Aktiengesellschaft, Düsseldorf
Hans-Hermann Altenschmidt (*)	Deputy Chairman	Commerzbank Aktiengesellschaft, Essen
Dott. Sergio Balbinot	Member	Managing Director of Assicurazioni Generali S. p. A., Trieste
Herbert Bludau-Hoffmann (*)	Member	ver.di Financial Services, Essen
Astrid Evers (*)	Member	Commerzbank Aktiengesellschaft, Hamburg
Uwe Foullong (*)	Member	Member of ver.di National Executive Committee, Berlin
Daniel Hampel (*)	Member	Commerzbank Aktiengesellschaft, Berlin
Dr.-Ing. Otto Happel	Member	Manager of Luserve AG, Lucerne
Dr. jur. Heiner Hasford	Member	Member of the Board of Managing Directors of Münchener Rückversicherungs-Gesellschaft AG, Munich
Sonja Kasischke (*)	Member	Commerzbank Aktiengesellschaft, Brunswick
Wolfgang Kirsch (*)	Member	Commerzbank Aktiengesellschaft, Frankfurt am Main
Werner Malkhoff (*)	Member	Commerzbank Aktiengesellschaft, Frankfurt am Main
Klaus Müller-Gebel	Member	Lawyer, Frankfurt am Main
Dr. Sabine Reiner (*)	Member	Trade Union Specialist, Economic Policy of ver.di National Administration, Berlin
Dr. Erhard Schipporeit	Member	Member of the Board of Managing Directors of E.ON Aktiengesellschaft, Düsseldorf
Dr.-Ing. Ekkehard D. Schulz	Member	Chairman of the Board of Managing Directors of ThyssenKrupp AG, Düsseldorf
Prof. Dr. Jürgen F. Strube	Member	Chairman of the Supervisory Board of BASF Aktiengesellschaft, Ludwigshafen
Dr. Klaus Sturany	Member	Member of the Board of Managing Directors of RWE Aktiengesellschaft, Essen
Dr.-Ing. E. h. Heinrich Weiss	Member	Chairman of the Board of Management of SMS GmbH, Düsseldorf

(*) Employee Representative

The business address of the members of the Board of Managing Directors and the members of the Supervisory Board is Kaiserplatz, 60261 Frankfurt am Main, Federal Republic of Germany.

Potential Conflicts of Interest

In the 2005 financial year, members of the Board of Managing Directors and members of the Supervisory Board were involved in no conflicts of interest as defined in sections 4.3 and 5.5, respectively, of the German Corporate Governance Code except for the following:

For reasons of precaution and to avoid a potential conflict of interest arising from his simultaneous membership of the supervisory boards of Eurohypo and Commerzbank, Mr Müller-Gebel abstained from voting on the acquisition of the stakes in Eurohypo in the risk committee of the Supervisory Board of Commerzbank.

Potential conflicts of interest could occur with the following members of the Board of Managing Directors and of the Supervisory Board due to their membership in supervisory boards of Commerzbank's subsidiaries:

Mr Blessing (BRE Bank SA), Dr. Kassow (comdirect bank AG), Dr. Strutz (comdirect bank AG, Mediobanca – Banca die Credito Finanziario S. p. A.), Mr Teller (BRE Bank SA) and Mr Müller-Gebel (Eurohypo, comdirect bank AG).

Currently, there are no signs of such conflicts of interest.

Employees

As of 31 December 2005, the Commerzbank Group had 33,056 employees worldwide, including part-time employees, apprentices and trainees.

Financial Year

The Bank's financial year is the calendar year.

Independent Auditors

The auditors of the Bank for the 2004 and 2005 financial years were PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (former firm name PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft), Olof-Palme-Strasse 35, 60439 Frankfurt am Main, Federal Republic of Germany, who audited the consolidated annual financial statements of Commerzbank Aktiengesellschaft for the financial years ended 31 December 2004 and 2005, giving each of them their unqualified auditor's report. PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft is a member of the Chamber of Chartered Accountants (*Wirtschaftsprüferkammer*).

Trend Information

Since the audited consolidated annual financial statements as of 31 December 2005 were published and except for recent developments mentioned below no material adverse changes in the prospects of Commerzbank Group have occurred.

Legal and Arbitration Proceedings

During the previous twelve months, there were no governmental, legal or arbitration proceedings, nor is the Bank aware of any such proceedings pending or threatened, which may have or have had in the recent past significant effects on the Bank's and/or the Group's financial position or profitability.

Significant Change in the Bank's Financial Position

Since 31 December 2005, there has been no significant change in the financial or trading positions of the Commerzbank Group.

It is intended that the Commerzbank Group will, simultaneously with or shortly after the issuance of the Trust Preferred Securities, incur additional obligations under 16,000 noncumulative trust preferred securities in an aggregate liquidation preference amount of £ 800,000,000 issued by Commerzbank Capital Funding Trust II. The Commerzbank Group may also decide to issue additional similar instruments in the future.

Rating

As of the date of this Prospectus the following ratings were assigned to Commerzbank Aktiengesellschaft:

	Short-term	Long-term
Moody's Investors Service, New York . . .	P-1	A2
Standard & Poor's, New York	A-2	A–
Fitch Ratings London	F1	A

BUSINESS OF COMMERZBANK

Principal Activities

Commerzbank sees itself as a major German private-sector bank. Its products and services for retail and corporate customers extend to all aspects of banking. The Bank is also active in specialised fields – partly covered by its subsidiaries – such as mortgage banking and real-estate business, leasing and asset management. Its services are concentrated on managing customers' accounts and handling payments transactions, loan, savings and investments plans, and also on securities transactions. Additional financial services are offered within the framework of the Bank's bancassurance strategy of cooperating with leading companies in finance-related sectors, including home loan savings schemes and insurance products. The Commerzbank Group's operating activities are bundled into two divisions: Corporate and Investment Banking, on the one hand, and Retail Banking and Asset Management, on the other.

Corporate and Investment Banking

The three segments of the Corporate and Investment Banking division – *Mittelstand*, Corporates & Markets and International Corporate Banking – maintain business relationships with small, medium-sized and large corporate clients and are responsible for the Bank's customer-based market activities.

Mittelstand

Commerzbank is the only major bank in Germany to have a separate operational segment for *Mittelstand* firms. The *Mittelstand* segment now looks after roughly 50,000 small to medium-sized companies (SMEs) with a turnover of between € 2.5m and € 250m at around 150 larger branches. Furthermore, currently 650 larger German Corporates are served through specialised larger corporates centres in the five locations Hamburg, Düsseldorf, Frankfurt, Stuttgart and Munich. In addition to German corporate business, the Central and Eastern European region, the activities of the Polish subsidiary BRE Bank SA and the business operations of the Düsseldorf subsidiary CommerzLeasing und Immobilien AG are bundled in this segment.

In 2005, the *Mittelstand* segment registered a successful development. This was mainly due to the perceptible increase in revenues and the further decline in provisioning, attributable not only to receding insolvency figures but above all to the Bank's generally conservative risk management. Due to a rise in new business, current loan repayments were compensated for and overall lending to SMEs was held steady.

All in all, the Bank was able to expand its *Mittelstand* market share and gain almost 5,000 new clients last year.

The range of products and services has been systematically adapted to the needs of *Mittelstand* clients. This includes, for instance, an internet-based rating application, to be offered in 2006. As a result, Commerzbank will become one of the first banks to make possible an indicative rating of annual financial statements based on the rating scale of the Initiative Finanzstandort Deutschland and on the interval of the probability of default according to the Bank's own rating scheme.

Furthermore, as part of its multi-channel strategy, Commerzbank offers extensive and standardised internet services for corporate customers. With a new internet site in place, the functions of the previously separate portals companydirect and companyworld have been merged.

In addition, the programme of mezzanine financing for *Mittelstand* companies has been developed further. In this way, subordinated capital of € 350m has been made available to roughly 50 companies. At the same time, CB MezzCAP has been added to the product range. This involves bundling the profit-sharing rights held by a group of corporate clients to form a portfolio, which is then placed in the capital market in securitised form by a special-purpose entity.

In Central and Eastern Europe, too, *Mittelstand* activities were stepped up. The Bank's subsidiary in Hungary, for example, has been developing its own branch network since the start of 2005 in order to provide targeted support for small and medium-sized companies. The Bank considers this activity a pilot project for a systematic development of corporate business in the region.

Furthermore, the bank's leasing business which is operated through the subsidiary CommerzLeasing und Immobilien AG developed well in 2005 with growth rates above market average. In order to benefit from the growing market in leasing financing a leasing initiative for *Mittelstand* firms was launched in 2005, focusing on product and sales leasing.

Corporates & Markets

The Corporates & Markets business line is divided up into the sections Markets, Sales, Corporate Finance and Corporate Relationship Management. Last year, Corporates & Markets initially underwent a far-reaching strategic repositioning: Following a loss in the third quarter of 2004, unprofitable business lines were cast off and altogether some 900 front- and back-office jobs were cut. The integration of multinational corporates with the London branch and investment banking under the new roof has largely been completed and in the meantime the unit has returned to consistent profit.

All four sections of this business line developed positively in 2005. At Markets, this was particularly true for equity derivatives business. Through the close meshing of corporate and investment banking, it was also possible to boost sales of interest-rate hedging products to SMEs. Credit trading was completely revamped, the focus now falling on the active management of parts of Commerzbank's loan book and better utilisation of the Bank's emerging markets expertise.

The streamlining and clear focus for the Sales section as well as additional investment in branch distribution led to increased sales of multi-asset products to private customers. At the same time, a framework for stronger growth in the area of sales to institutional clients was built.

In Corporate Finance, a number of mandates were won to arrange syndicated loans, credit-financed company takeovers and European corporate bond issues. In line with the focus on German *Mittelstand* firms, some innovative financing instruments were launched in the securitisation area together with the *Mittelstand* segment, e.g. a new *Schuldschein* initiative, covering financings of € 0.5-5.0m and offering investors an attractive opportunity to become involved in securitised loans to SMEs. A first portfolio of such smaller loans with an overall volume of € 500m has been placed in the meantime.

As part of the reorganisation of investment banking, Corporate Relationship Management who looks after large multinational clients has been integrated in the Corporates & Markets section. For one thing, this is intended to ensure that this demanding group of clients receive intensive support and, for another, that the potential for selling complex financing solutions is explored.

International Corporate Banking

International Corporate Banking is responsible for business with corporates and financial institutions outside the *Mittelstand* segment. Here the Bank primarily concentrates on the regions of Western Europe and North America as well as Asia. In these regions, the Bank provides its largely *Mittelstand* German customers with banking services in the areas of credit, payments and external trade finance. Business with local, internationally active companies is mainly based on the Bank's extensive product expertise in structured special finance as well as sophisticated interest-rate and currency derivatives.

The operational and distributive structures in Asia and Western Europe are currently being subjected to large-scale optimisation in order to improve further the efficiency of the foreign units.

Retail Banking and Asset Management

The Retail Banking and Asset Management division comprises both traditional retail operations and support for business customers, the individual service provided for wealthy private clients and portfolio management.

Private and Business Customers

Commerzbank has roughly 5 million private customers in Germany, who are served through a network of almost 800 branches and an extensive online range of services. The product range covers the complete palette of retail business, including payments, investment and securities business as well as home and consumer loans. In combination with the insurance products of the Bank's partner Volksfürsorge from the AMB Generali group, Commerzbank also offers specially tailored solutions for private provision for old age.

On the internet, a virtual branch is available, offering practically the entire range of a traditional branch office, including the handling of payments and securities transactions.

The subsidiary comdirect bank AG offers private customers reasonably priced services in banking and above all in securities business. Its subsidiary comdirect private finance AG provides additional financial advisory services on more complex topics such as provision for old age and wealth formation.

In all areas, the Bank makes use of modern technical solutions to support the advisory process. For instance, for securities business, customer-specific investment strategies are worked out by combining information on the individual financial and assets situation and also the customer's personal investment approach with current information on the capital market derived from the Infobroker information system.

Due to systematic positioning as a provider of home loans, the volume of lending could be raised in 2005 for the first time in three years. New business was 48 % stronger than in 2004. This was achieved through a combination of individual advice and attractive market conditions. To make it easier for customers to benefit from the favourable interest-rate situation, the Bank introduced BaufiFlex, an innovative product in property financing, which responds flexibly to market conditions. Its market position in property financing is to be strengthened and expanded in 2006 through the integration of Eurohypo into the Commerzbank Group.

The branch of the future project is a systematic continuation of the strengthening of the branch network. Branches of this type are customer-oriented and focus on consulting and distribution. Apart from the use of modern self-service machines, administrative functions are being standardised, streamlined and centralised. In 2006, the range of its self-service machines is to be extended in terms of both functionalities and locations.

At end-2005, Commerzbank had over 440,000 business customers. This group includes professionals, the self-employed and businessmen as well as the proprietors of small companies with annual turnover of up to € 2.5m. Commerzbank's business customer relationship managers are stationed at over 600 locations in Germany. In response to the needs of the market, Commerzbank has optimised its business model for looking after business customers. By clearly distinguishing between the various groups, the new system of support provides more time for looking after those requiring more intensive advice. In addition, the product range has been entirely adapted to the specific needs of business customers – a combination of solutions for business financial issues and all-inclusive, individual advice in private financial matters.

Private Banking

In Private Banking, a staff of nearly 600 worldwide provide support for 22,000 clients in all aspects of wealth management. Thus, in Germany, Commerzbank is well positioned in serving wealth private clients. Its private banking services range from individual portfolio and securities management via financial investment and property management to the management of foundations, legacies and wealth. In addition to such traditional forms of investment as equities and bonds, investment funds and certificates, there was a focus in 2005 on developing alternative investments such as hedge funds, guarantee products and asset-backed securities.

With its almost 40 locations, Commerzbank currently offers a nationwide density in private banking services in Germany. Internationally, four centres of competence up to now in Zurich, Geneva, Luxembourg and Singapore round off the Bank's services for wealth private clients directly in leading financial centres and offshore markets.

Asset Management

At end-2005, Asset Management had altogether € 98bn of assets under management, for the most part concentrated at the companies in Frankfurt, London and Paris. Within an overall multi-boutique approach, these serve as centres of competence for individual markets. With effect from 1 November 2005, the organizational structure of Asset Management was adapted even more strongly to the strategic challenges of the individual markets: German Asset Management, comprising the COMINVEST group, COMSELECT and private portfolio management; International Asset Management, comprising the major participations Jupiter International and Caisse Centrale de Réescompte, and also Asset Management Real Estate with the Commerz Grundbesitz group.

Principal Markets

Commerzbank's business activities are mainly concentrated on the German market, where as an integrated provider of financial services, it maintains a nationwide branch network for offering advice and selling products to all its groups of customers. In corporate business, Western, Central and Eastern Europe and also the USA are considered core markets. In the 2005 financial year, Commerzbank achieved over 90 % (€ 1,611m) of its operating profit in Europe, including Germany. A further € 164m was generated in America and € 54m in Asia. This reflects the Bank's strategy of defining Germany, other European countries and the USA as its core markets.

Recent Developments

On 28 February 2006 Commerzbank sold 8.1 % of its stake in the Korea Exchange Bank (KEB). The transaction had a market value of about € 640m. This step continues Commerzbank's disposal of its non-strategic shareholdings. Commerzbank still holds a 6.5 % stake in KEB which is under a call option of KEB's majority shareholder Lone Star. According to press releases in March 2006, Lone Star Fund has signed a letter of intent to sell its 50.53 % stake in KEB as well as an additional 14.09 % stake in KEB part of which will be Commerzbank's remaining 6.5 % which Lone Star will purchase under its call option to South Korea's Kookmin Bank.

Strategy of the Bank

Commerzbank has set itself the goal of becoming Germany's leading commercial bank. In order to achieve this, it is pursuing a strategy of concentrating on its core competencies. In geographical terms, this involves giving priority to its home market, Germany, and then, on a selective basis, to the markets of Western and Eastern Europe and finally to other regions. The principle of selectivity also applies with regard to its core target groups. These are corporate clients, and especially small to medium-sized companies (*Mittelstand*), private and business customers and the public sector. The focus in the products and services which the Bank provides is on financing, deposit-taking and offering innovative financial solutions. Commerzbank intends to expand through organic growth combined with acquisitions wherever a suitable opportunity arises. The tight cost control practised in recent years is to be maintained.

ORGANISATIONAL STRUCTURE

The Bank is the parent company of the Commerzbank Group. The following diagram sets out the structure of the Commerzbank Group as of 31 December 2005.

BOARD OF MANAGING DIRECTORS

Corporate divisions

Group Management	Retail Banking and Asset Management	Corporate and Investment Banking	Services
Staff departments	**Banking departments**		**Service departments**
• Accounting and Taxes • Compliance and Security • Corporate Communications and Economic Research • Financial Controlling • Group Treasury • Human Resources • Internal Auditing • Legal Services • Risk Control • Strategy and Controlling	• Asset Management • Credit Operations Private Customers • Private Banking • Private and Business Customers	***Mittelstand*** • Corporate Banking • Global Credit Operations **International Corporate Banking** • Financial Institutions **Corporates & Markets**	• Information Technology • Organization • Transaction Banking
	Domestic and foreign branch network		
	Cooperation in bancassurance area		

Group companies and major holdings

Group Management	Retail Banking and Asset Management	Corporate and Investment Banking	Services
• Hypothekenbank in Essen AG • Erste Europäische Pfandbrief- und Kommunalkreditbank AG • EUROHYPO AG • Korea Exchange Bank	• COMINVEST Asset Management GmbH • COMINVEST Asset Management Ltd. • COMINVEST Asset Management S.A. • Caisse Centrale de Réescompte, S.A. • Commerz Grundbesitz-gesellschaft mbH • Jupiter International Group plc • Commerzbank Europe (Ireland) • Commerzbank International S.A. • Commerzbank (Switzerland) Ltd • Commerzbank (South East Asia) Ltd. • comdirect bank AG • COMMERZ PARTNER Beratungsgesellschaft für Vorsorge- und Finanzprodukte mbH • Commerz Service GmbH	• BRE Bank SA • Commerzbank Rt. • Commerzbank (Eurasija) SAO • Commerz (East Asia) Ltd. • P.T. Bank Finconesia • CommerzLeasing und Immobilien AG • CBG Commerz Beteiligungsgesellschaft Holding mbH • Commerzbank Capital Markets Corp.	• Commerz Business Consulting AG • pdv.com Beratungs - GmbH • SOLTRX Solutions for financial business GmbH

The following list includes a description of the main subsidiaries of the Bank:

comdirect bank AG

is a subsidiary offering its more than 650,000 customers comprehensive online banking and brokerage services. Its subsidiary comdirect private finance AG provides additional financial advisory services on more complex topics such as old-age provisions and wealth formation. At end-2005, comdirect bank AG had € 12.8bn total assets under custody. Commerzbank, which established comdirect in 1994, holds over 79 % of its equity.

Eurohypo AG

is a specialist bank for real estate and public finance business. By end-March 2006, Commerzbank will hold over 98 % of Eurohypo AG's equity as more fully described herein.

Hypothekenbank in Essen AG ("Essenhyp")

in which Commerzbank has a 51 % interest, is a German mortgage bank. Its activities include lending to the public sector and mortgage business. Essenhyp serves both institutional and retail clients. It has been especially active in promoting the Global Pfandbrief and the jumbo Pfandbrief as investment vehicles in international financial markets.

Commerzbank International S. A.

is a wholly-owned subsidiary based in Luxembourg. The business activities of Commerzbank International S. A. comprise all types of banking operations in the Grand Duchy of Luxembourg and abroad. The bank is principally active in private-client business, international lending operations, money-market, foreign-exchange and precious-metals trading, also acting as a custodian bank for funds of the Commerzbank Group and third-party funds as well. Its balance-sheet total amounted to € 8,071m at end-2004.

Commerzbank (Switzerland) Ltd

is a wholly owned private-banking subsidiary based in Zurich with a branch in Geneva. As an institution specialising in asset management and investment advice, it concentrates its business activities on acquiring and serving wealthy international private clients. At end-2004, Commerzbank (Switzerland) Ltd had total assets of Sfr875,205.

COMINVEST Asset Management GmbH ("Cominvest")

a wholly-owned subsidiary, was formed in 2002 in order to bring together Commerzbank's retail and institutional operations in the area of asset management. Cominvest maintains units in Frankfurt, Munich, Luxembourg and Dublin. Its retail funds comprise the well-established range of ADIG investment products, while in the institutional segment the funds it manages include over 300 special or non-publicly offered funds and mandates by free portfolio managers for institutional investors. Cominvest group had € 52.1bn assets under management as of 31 December 2005.

Caisse Centrale de Réescompte SA

is a Paris-based asset-management subsidiary, in which Commerzbank holds a 99 % interest. It provides asset-management services for third parties. It specialises in pursuing a "value" approach in the management of equities and maintains a traditionally strong position as a leading provider of money-market products. At end-2004, it had over € 16.0bn assets under management and investment advice.

Jupiter International Group plc

is a wholly-owned subsidiary, active in asset management. Based in London, it launches and manages international funds for retail and institutional investors. Jupiter enjoys a strong reputation in investment performance. As of 30 September 2005, it had € 18.1bn assets under management.

CommerzLeasing und Immobilien AG ("CLI")

has been active for over 35 years in the areas of leasing and real estate, serving both private-sector companies and municipal authorities. Its business activities are mainly focused on structured investments, real estate ventures, funds and equipment leasing. In 2005, the CLI group had generated a total of € 3.2bn in new business and at end-2005 had € 27bn assets under management.

BRE Bank SA

is a large Polish financial institution in which Commerzbank holds an interest of over 70 %. Providing financial services and an expanding range of products for corporate clients, BRE Bank claims a large share of the Polish corporate and institutional market. Its products include clearing and liquidity functions, electronic banking, and access to sources of financing, and meet the needs of small and medium-sized enterprises. BRE Bank is also active in financing export and foreign trade transactions. Through subsidiaries, it also provides online retail banking services.

Commerzbank Zrt.

is a wholly-owned subsidiary, based in Budapest. It focuses on providing innovative banking services for corporate clients, mainly for local small to medium-sized enterprises.

Commerzbank (Eurasija) SAO

is a wholly-owned subsidiary based in Moscow. It provides German and other European companies, but also Russian firms and state institutions with a comprehensive range of commercial banking services.

Commerzbank (South East Asia) Ltd.

is the Bank's centre of competence in the respective region for private-banking activities and for its business operations involving corporate clients.

ACQUISITION OF EUROHYPO

Overview

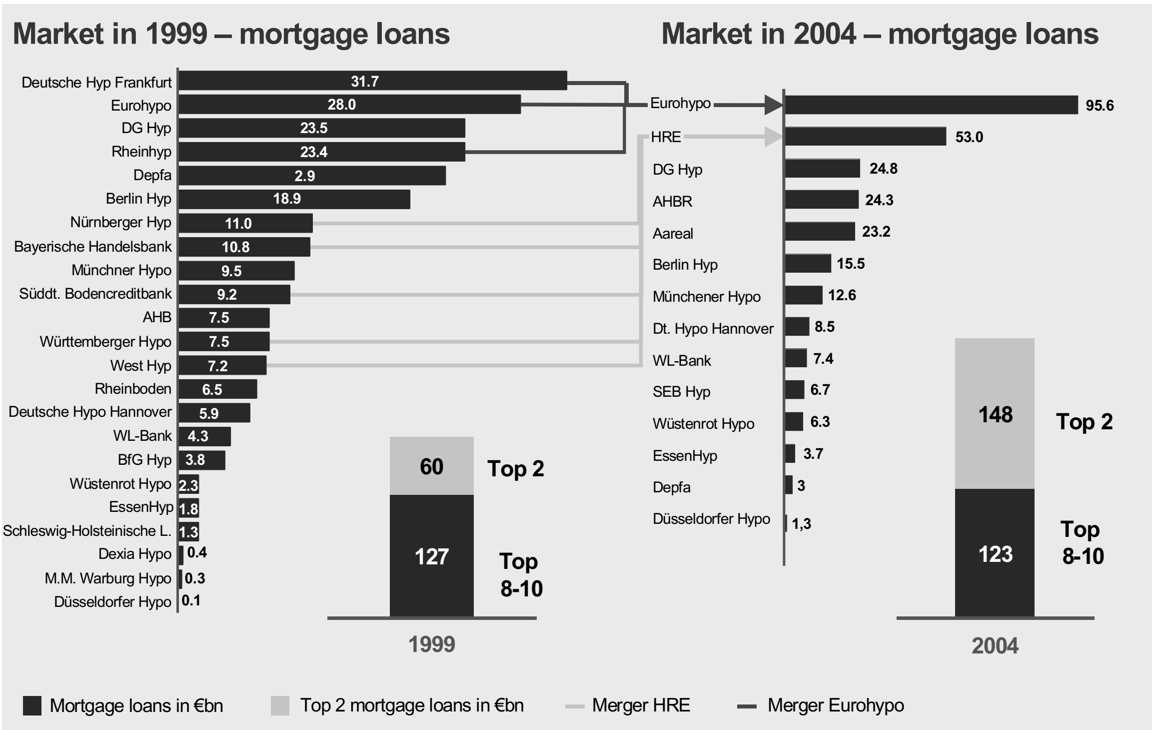
In November 2005 Commerzbank Inlandsbanken Holding AG (CIH), a wholly-owned subsidiary of Commerzbank, Deutsche Bank Aktiengesellschaft and Allianz/Dresdner Bank Aktiengesellschaft signed a share purchase agreement regarding the acquisition of all of the shares held by Deutsche Bank Aktiengesellschaft and Allianz/Dresdner Bank Aktiengesellschaft in Eurohypo in two tranches by CIH. At the closing of tranche one on 15 December 2005, Deutsche Bank Aktiengesellschaft and Allianz/Dresdner Bank Aktiengesellschaft transferred 17.1 % of their shares in Eurohypo to CIH. At the closing of tranche two, which is expected to occur on 31 March 2006, another 49.1 % of the shares in Eurohypo will be transferred from Deutsche Bank Aktiengesellschaft and Allianz/Dresdner Bank Aktiengesellschaft to CIH. The average purchase price was € 19.60 per share. Subject to the approval of all relevant authorities, Commerzbank will then indirectly hold more than 98 % of Eurohypo's shares.

Strategic rationale of the acquisition of Eurohypo

With the acquisition of Eurohypo Commerzbank pursues a number of strategic and financial goals:

- Enhancement of Commerzbank's position as one of the leading German commercial banks by market share. Following the acquisition of Eurohypo Commerzbank will have an aggregate balance sheet of almost € 700bn as of 30 September 2005 making it the second largest German bank with strong footholds in German retail banking and in the business with German "*Mittelstand*" clients (Source: *Die Bank* 8/2005). Together Commerzbank and Eurohypo will have strong market positions in commercial real estate, public sector financing (in combination with Hypothekenbank in Essen AG) and residential real estate financing. With the acquisition of Eurohypo Commerzbank aims at achieving a more stable and predictable earnings stream as a basis for future growth.

- With regard to the German mortgage banking sector Eurohypo is already the market leader by total amount of mortgage loans (as shown in the diagram below). Since 1999 a significant consolidation process within this market has taken place and this trend is believed to continue.



Source: *Verband deutscher Pfandbriefbanken*

Commerzbank and Eurohypo want to play an active part in this consolidation and concentration process and gain market share in order to reinforce their leading market position.

- On an international scale, Commerzbank and Eurohypo will have strong positions in a number of segments of the international real estate financing markets, e.g. as originator of commercial mortgage backed securities, for the issuance of European jumbo Pfandbriefe and in US real estate banking.

- Although the two companies pursue complementary business models, Commerzbank expects to realize noteworthy synergies. On the cost side it is intended to optimize processes and consolidate administration functions. Revenue enhancement will be driven by cross selling opportunities, the leverage of the Commerzbank sales platform and a broader customer base, an improved product range and the opening of new market opportunities. Joint Eurohypo and Commerzbank teams are currently identifying the exact synergy potential.

- Additionally, the issuance of hybrid capital to partly finance the acquisition, an expected reduction of capital needs under Basel II regulation and the use of Commerzbank's tax loss carry-forwards for taxation of Eurohypo's German profits are expected to result in financial benefits.

Description of Eurohypo

General Information

Eurohypo Aktiengesellschaft (**"Eurohypo"** and, together with its consolidated subsidiaries, the **"Eurohypo Group"**) is a stock corporation under German law. Its registered office is located in Helfmann-Park 5, 65760 Eschborn, Federal Republic of Germany. Eurohypo is registered in the commercial register of the lower regional court (*Amtsgericht*) of Frankfurt am Main under the number HRB 45701.

Eurohypo's current major shareholders are Deutsche Bank group, Commerzbank Group and Allianz group.

Selected Financial Information

The following table sets out historical consolidated financial information of Eurohypo Group as of 31 December 2003, 31 December 2004 and 31 December 2005.

Historical Financial Information of Eurohypo Group (– Overview (in billion €) –)

	Balance sheet figures		
	as of 31 December 2005 (audited)	as of 31 December 2004 (audited)	as of 31 December 2003 (audited)
Real estate financings	97.7	95.6	100.1
Public finance	118.8	115.2	122.2
Funding volume	209.7	202.4	212.5
Capital and reserves	6.15	5.75	5.36
Total assets	234.30	226.93	234.58

	Figures from the income statement		
	as of 31 December 2005 (audited)	as of 31 December 2004 (audited)	as of 31 December 2003 (audited)
Net interest income	1.38	1.30	1.29
Risk provisioning in lending business	– 0.27	– 0.26	– 0.21
Net commission income	0.15	0.08	0.03
Administrative expenses	0.51	0.49	0.51
Restructuring expenses	0.05	0.01	0.12
Profit before tax	0.63	0.61	0.32

Principal Activities

Eurohypo is a specialist provider of financing for the real estate and public sector markets. It engages in real estate and public sector financing activities, both directly and through its subsidiaries.

Eurohypo Group operates the following business divisions:

– Corporate Banking Germany;

– Corporate Banking Continental Europe;
– European Real Estate Investment Banking and UK Senior Lending;
– Real Estate Investment Banking and Corporate Banking USA;
– Debt Capital Markets
– Retail Banking
– Public Finance/Global Markets

Corporate Banking Germany

Eurohypo focuses on professional players in the market and expands activities in the area of syndications. The minimum credit volume per property is € 2.5m.

Corporate and Real Estate Investment Banking International

Eurohypo concentrates on large finance projects, has strong structuring and advisory capabilities as well as experienced real estate investment banking teams.

Debt Capital Markets

In this new division, Eurohypo combines the structuring and securitization of loans with syndication business, the active portfolio management of real estate credit – including the placement of non-strategic sub-portfolios.

Retail Banking

Eurohypo finances private properties in Germany with a maximum credit volume per property of € 2.5m.

Public Finance

This business area is characterized by a combined market approach of Eurohypo Aktiengesellschaft, Frankfurt am Main, and EUROHYPO, Europäische Hypothekenbank S. A., Luxembourg. Eurohypo predominantly finances central and regional governments, municipalities and public sector credit institutions. Moreover Eurohypo also participates as co-lead and co-manager in the placement of international bonds.

The Eurohypo Group raises funding for its real estate and public financing and refinancing commitments primarily through the issuance of mortgage and public Pfandbriefe. Other bonds are used to fund those parts of the Eurohypo Group's European real estate financing that is not suitable for funding via Pfandbriefe. The high proportion of other funding instruments results primarily from the Eurohypo Group's real estate financing business in European countries other than Germany and in the USA, which up to this date has not been eligible as cover assets.

Principal Markets

Eurohypo's principal geographical markets are Germany, Continental Europe, the United Kingdom and the United States of America.

Organisational Structure

Eurohypo is the parent entity to a group of companies. The following list sets out the companies included in consolidation and in at-Equity consolidation in the Eurohypo Group as of 31 December 2005.

Companies included in consolidation

AGV Allgemeine Grundstücksverwaltungs- und Verwertungsgesellschaft mbH
GVG Gesellschaft zur Verwertung von Grundbesitz mbH
IVV Immobilien-Verwaltungs- und Verwertungsgesellschaft mbH

CASIA Immobilien-Management GmbH
Forum Immobiliengesellschaft mbH
Futura Hochhausprojektgesellschaft mbH
Unica Immobiliengesellschaft mbH

EUROHYPO Europäische Hypothekenbank S. A.

Eurohypo Capital Funding LLC I, Wilmington, Delaware, USA

Eurohypo Capital Funding LLC II, Wilmington, Delaware, USA

Eurohypo Capital Funding Trust I, Wilmington, Delaware, USA

Eurohypo Capital Funding Trust II, Wilmington, Delaware, USA

Eurohypo Systems GmbH

Frankfurter Gesellschaft für Vermögensanlagen mit beschränkter Haftung
FHB Immobilienprojekte GmbH
Fi Pro-City GmbH
GBG Verwaltungs- und Verwertungsgesellschaft für Grundbesitz mbH
Messestadt Riem "Office am See I" GmbH
Messestadt Riem "Office am See II" GmbH
Messestadt Riem "Office am See III" GmbH
Nordboden Immobilien- und Handelsgesellschaft mbH
SB Bauträger GmbH & Co. Urbis Hochhaus KG
SB Bauträger GmbH & Co. Urbis Verwaltungs KG
SB-Bauträger Gesellschaft mit beschränkter Haftung
WESTBODEN-Bau- und Verwaltungsgesellschaft mbH

G-G-B Gebäude- und Grundbesitz GmbH

gr Grundstücks GmbH Objekt Corvus & Co. Sossenheim KG

gr Grundstücks GmbH Objekt Corvus

Property Invest GmbH

Wohnbau-Beteiligungsgesellschaft mbH
Westend Grundstücksgesellschaft mbH

Companies included in at-Equity consolidation

Delphi I LLC, Wilmington, Delaware, USA

Servicing Advisors Deutschland GmbH (formerly SPECIAL EUROHYPO SERVICER GmbH)

Urbanitas Grundbesitzgesellschaft mbH,

Trend Information

There has been no material adverse change in the prospects of Eurohypo since 31 December 2005.

Management and Supervisory Bodies

As a German stock corporation, Eurohypo has a two-tier board system. The management board is responsible for the management of Eurohypo and the representation of Eurohypo with respect to third parties, while the supervisory board appoints and removes the members of the management board and supervises the board's activities.

The names of the current members of the management board are: Bernd Knobloch (Chairman), Dirk Wilhelm Schuh (Deputy Chairman), Joachim Plesser, Henning Rasche and Jochen Klösges.

The supervisory board consists of 12 members. Six members are elected by the shareholders at their general meeting, and six members are elected by employees of Eurohypo in accordance with the German Employees' Representation Act.

The names of the current members of the supervisory board are: Dr. Manfred Gentz (Chairman), Brigitte Siebert (Deputy Chairwoman), Dr. Hugo Banziger, Wolfgang Barth, Herbert Bayer, Peter Birkenfeld, Dr. Andreas Georgi, Rupert Hackl, Dr.-Ing. E. h. Hans-Peter Keitel, Klaus Müller-Gebel, Cornelia Pielenz and Hans Reischl.

The business address of members of the management board and the supervisory board is Helfmann-Park 5, 65760 Eschborn, Germany.

Legal and arbitration proceedings

During the last 12 months there have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Eurohypo is aware) which may have, or have had in the recent past, significant effects on Eurohypo's and/or Eurohypo Group's financial position or profitability.

Significant Change in Eurohypo Aktiengesellschaft's Financial Position

There has occurred no significant change in the financial position of Eurohypo Group since the end of the last financial period, 31 December 2005.

REGULATION

The following explains certain regulatory matters which are of significance for the business of the Commerzbank Group.

Overview

The Commerzbank Group's operations throughout the world are subject to the banking supervisory regimes of the various jurisdictions in which the Commerzbank Group conducts business. Banking supervisory regulations contain, *inter alia,* restrictions on Commerzbank's banking and non-banking activities, capital adequacy requirements, limitations of large exposures, conduct of business rules, requirements as to Commerzbank's organisational structure and numerous reporting requirements. Furthermore, they provide various regulatory authorities with investigative and enforcement powers with respect to the Commerzbank Group. In addition, a number of countries in which Commerzbank operates impose limitations on (or which affect) foreign or foreign-owned or controlled banks and financial services institutions, which have an impact on its business activities including:

- restrictions on the opening of local offices, branches or subsidiaries and the types of banking and non-banking activities that may be conducted by those local offices, branches or subsidiaries;
- restrictions on the acquisition of local banks or requirements of specified percentages of local ownership or specified numbers of local management personnel; and
- restrictions on investment and other financial flows in and out of the country.

Changes in the regulatory and supervisory regimes of the countries in which the Commerzbank Group operates determine, to some degree, its ability to expand into new markets, the services and products that it is able to offer in those markets, the costs of providing such services and products and how Commerzbank structures its specific operations.

The Commerzbank Group's principal supervisor in the Federal Republic of Germany is the BaFin. In addition, many of Commerzbank's operations outside the Federal Republic of Germany are regulated by local supervisors. Within the EU or other contracting states of the EEA, Commerzbank's branches generally conduct regulated business under the "European Passport". The European Passport is a single banking license that permits Commerzbank to spread its activities throughout the EU, either via branches or by offering products and services in other member states. Under the European Passport, Commerzbank's EU and EEA branches are subject to supervision primarily by BaFin. When Commerzbank opens a branch in another member state, Commerzbank is required to notify BaFin and the German Central Bank (*Deutsche Bundesbank*), and BaFin will, upon receipt of the complete documents, inform the competent authorities of the host country. The host country regulator is entitled to impose certain restrictions on Commerzbank in the public interest. When Commerzbank forms a subsidiary in another member state of the EU or the EEA, it must obtain a separate authorization from the relevant local bank regulator. In the United States of America, Commerzbank's New York Branch is supervised mainly by the New York Banking Department and the Board of Governors of the Federal Reserve System.

The following sections provide a description of the regulatory framework applicable to Commerzbank in the Federal Republic of Germany, which Commerzbank views as the most significant jurisdiction in which it does business.

Principal Laws and Regulators

Commerzbank is authorized to conduct general banking business and to provide financial services under and, subject to the requirements set forth in, the German Banking Act (*Kreditwesengesetz*).

Commerzbank, as well as those of its German subsidiaries that engage in the banking or financial services business and those that have banking or financial service related operations, are subject to comprehensive supervision by the German Central Bank and BaFin. The European Central Bank regulates Commerzbank in relation to minimum reserves on deposits and issued bonds.

The German Banking Act

The German Banking Act contains the basic set of rules applicable to German banks, including the requirement for a banking license, and regulates the business activities of German banks. The German Banking Act defines a "credit institution" (*Kreditinstitut*) as an enterprise that engages in one or more of the activities defined in the Act as "banking business". The German Banking Act also applies to "financial services institutions" (*Finanzdienstleistungsinstitute*). Credit institutions and financial services institutions are subject to the licensing requirements and other provisions of the German Banking Act.

The German Banking Act and the rules and regulations adopted thereunder implement certain EU directives relating to banks which, in turn, implement recommendations of the Basel Committee at BIS. These European directives address issues such as accounting standards, regulatory capital, capital adequacy, consolidated supervision, the monitoring and control of large exposures, the establishment of branches within the EU and the creation of a single EU-wide banking market with no internal barriers to cross-border banking services.

Supervision by BaFin

BaFin is a federal public law institution with legal capacity supervised by the German Federal Minister of Finance. It has the power to adopt administrative acts (*Verwaltungsakte*), regulations (*Verordnungen*) and guidelines (*Verlautbarungen und Rundschreiben*) that implement or interpret German banking laws and other laws affecting German banks.

BaFin supervises the operations of German banks to ensure that they are in compliance with the German Banking Act and other applicable German laws and regulations. It places particular emphasis on compliance with capital adequacy and liquidity requirements, large exposure limits and restrictions on certain activities imposed by the German Banking Act and related regulations.

Regulation by the German Central Bank

BaFin carries out its supervisory role in close cooperation with the German Central Bank. Nevertheless, these two institutions have distinct functions. BaFin has the authority to issue administrative orders; before it issues general regulations, it is required to consult with the German Central Bank. In addition, BaFin must obtain the German Central Bank's consent before it issues any general regulations that would affect the German Central Bank's operations, such as the Principles on Own Funds and Liquidity of Institutions (*Grundsätze über die Eigenmittel und Liquidität der Institute*), which consist of two regulations (*Grundsätze I und II* or "Principles I and II") on capital adequacy and liquidity requirements. The German Central Bank is responsible for the collection and analysis of statistics and reports from German banks and the execution of audits for the evaluation of solvability and risk management of German banks. The German Central Bank has nine regional offices (*Hauptverwaltungen*). These regional offices analyze the statistics and reports of all German banks that have their corporate seat in the federal states they are responsible for.

Securities Regulation by BaFin

Under the German Securities Trading Act (*Wertpapierhandelsgesetz*), BaFin regulates and supervises securities trading in the Federal Republic of Germany. The German Securities Trading Act prohibits, among other things, insider trading with respect to securities admitted to trading or included in the over-the-counter market at a German exchange or the exchange in another country that is a member state of the EU or another contracting state of the Agreement on the EEA.

To enable BaFin to carry out its supervisory functions, credit institutions are subject to comprehensive reporting requirements with respect to securities and derivatives transactions. The reporting requirements apply to transactions for the credit institution's own account as well as for the account of its customers. The German Securities Trading Act also contains rules of business conduct. These rules apply to all businesses that provide securities services. Security services include, in particular, the purchase and sale of securities or derivatives for others and the intermediation of transactions in securities or derivatives. BaFin has broad powers to investigate businesses providing securities services to monitor their compliance with the rules of conduct and the reporting requirements. In addition, the German Securities Trading Act requires an independent auditor to perform an annual audit of the securities services provider's compliance with its obligations under the German Securities Trading Act.

The European Central Bank

The European Central Bank sets the minimum reserve requirements for institutions that engage in the customer deposit and lending business. These minimum reserves must equal a certain percentage of the institutions' liabilities resulting from certain deposits, plus the issuance of bonds.

Capital Adequacy Requirements

German capital adequacy principles are based on the principle of risk adjustment. German capital adequacy principles, as set forth in Principle I, mainly address capital adequacy requirements for both counterparty risks (*Adressenausfallrisiken*) and market risks (*Marktrisiken*). German banks are required to cover counterparty and market risks with Tier I capital (*Kernkapital* or "core capital") and Tier II capital (*Ergänzungskapital* or "supplementary capital") (together, *haftendes Eigenkapital* or "regulatory banking capital"). They may also cover market risk with Tier III capital (*Drittrangmittel*) and (to the extent not required to cover counterparty risk) with regulatory banking capital. The calculation of regulatory banking capital and Tier III capital is set forth below.

Principle I requires each German bank to maintain a solvency ratio (*Eigenkapitalquote*) of regulatory banking capital to risk-weighted assets (*gewichtete Risikoaktiva*) of at least 8%. The calculation of risk-weighted assets is explained below. The solvency ratio rules implement the European Banking directive, which in turn, is based on the recommendations of the Basel Committee. See "– The Basel II Capital Accord" as to proposed changes to the current recommendation of the Basel Committee.

Regulatory Banking Capital

Under the German Banking Act and in the case of the relevant bank being a stock corporation such as Commerzbank, regulatory banking capital (*Eigenkapital*), the numerator of the solvency ratio, consists of:

Tier I (core) capital:

- Paid-in share capital.
- Capital reserves and surplus reserves.
- *Special fund for general banking risks.* A bank may record this fund on the liability side of its balance sheet to secure general risks inherent in the banking business. A bank must use its reasonable commercial judgment in making this determination.
- *Silent partnership interests (stille Beteiligungen).* Silent partnership interests are participations in the business of a bank which fulfill the criteria of equity instruments within the meaning of the German Banking Act. Under the German Banking Act, the qualification of silent partnership interests as regulatory banking capital is subject to certain conditions, including a minimum term of five years, limitations of the cumulative payment of interest, participation in the bank's losses and subordination to the rights of all creditors in the event of insolvency or liquidation of the bank. In the case of banks which are active on an international basis, such as Commerzbank, additional requirements apply; notably the instruments must not be callable by the investor, must have a maturity of at least 10 years and interest payments must not be cumulative.

Treasury shares held by the bank, losses, certain intangible assets and, subject to certain conditions, loans to shareholders and silent partners are subtracted from the Tier I capital calculation.

Tier II capital (limited to the amount of Tier I capital) includes:

- *Participation rights (Genussrechte).* These rights are subject to certain conditions, including a minimum term of five years, participation in the bank's losses and subordination to the rights of all unsubordinated creditors in the event of insolvency or liquidation of the bank.
- *Preference shares with cumulative dividend rights (Vorzugsaktien).*
- *Longer-term subordinated debt* (limited to 50 % of the amount of Tier I capital). This debt is subject to certain criteria, including a minimum term of five years and subordination to the rights of all unsubordinated creditors in the event of insolvency or liquidation of the bank.
- *Reserves pursuant to Section 6b of the German Income Tax Law (Einkommensteuergesetz).* A bank may include 45 % of these reserves in regulatory banking capital. However, any reserves included in regulatory banking capital must have been created from the proceeds of the sale of real property, property rights equivalent to real property or buildings.
- *Reserves for general banking risks.* A bank may record certain receivables on its balance sheet at a lower value than would be permitted for industrial and other non-banking entities. Such receivables include loans and securities that are neither considered investment securities under the German Commercial Code (*Handelsgesetzbuch*) nor part of the trading portfolio. The bank may record these receivables at a lower value if the use of a lower value is advisable, in its reasonable commercial judgment, to safeguard against the special risks inherent in the banking business. Reserves for general banking risks may not exceed 4 % of the book value of the receivables and securities recorded.
- *Certain unrealised reserves.* These may include up to 45 % of the difference between the book value and the lending value (*Beleihungswert*) of land and buildings, and up to 35 % of the difference between the book value of unrealised reserves (including provisioning reserves) and the sum of the market value of securities listed on a stock exchange, the value of non-listed securities issued by corporate members of the cooperative banks or savings banks association and the published redemption price of shares issued by certain investment funds. A bank may include these unrealised reserves in Tier II capital only if its Tier I capital amounts to at least 4.4 % of its risk-weighted assets. Unrealised reserves may be included in Tier II capital only up to a maximum amount of 1.4 % of risk-weighted assets.

Capital components that meet the above criteria and which a bank has provided to another bank, financial services institution or financial enterprise which is not consolidated with the bank for regulatory purposes, are subtracted from the bank's regulatory banking capital if the bank holds more than 10 % of the capital of such other bank, financial services institution or financial enterprise. In addition, to the extent the aggregate book value of investments and components of own funds constituting, in each case, up to 10 % of the capital of another bank, financial services institution or financial enterprise exceeds 10 % of the regulatory banking capital of the bank which has granted the capital components, such exceeding aggregate amount will also be deducted from the bank's regulatory banking capital.

Risk-weighted Assets

For a bank's investment book, the calculation of risk-weighted assets, the denominator of the solvency ratio, is set forth in Principle I. Assets are assigned to one of six basic categories of relative credit risk based on the debtor and the type of collateral, if any, securing the respective assets. Each category has a risk-classification multiplier (0 %, 10 %, 20 %, 50 %, 70 % and 100 %). The value of each asset as determined pursuant to Principle I is then multiplied by the risk-classification multiplier for the asset's category. The resulting figure is the risk-weighted value of the asset.

Traditional off-balance sheet items attributable to a bank's investment book, such as financial guarantees and letters of credit are subject to a two-tier adjustment. First, the value of each item is determined. The value of each item is multiplied by one of four risk-classification multipliers (0 %, 20 %, 50 % and 100 %) depending on the type of instrument. In the second step, the off-balance sheet item is assigned to one of the six credit risk categories set forth above for balance sheet items. Selection of an appropriate risk multiplier is based on the type of counterparty or debtor and the type of collateral, if any, securing the asset. The adjusted value of the off-balance sheet item is then multiplied by the risk multiplier to arrive at the risk-weighted value of the off-balance sheet item.

Tier III Capital and Market Risk

Principle I also sets forth the principles governing capital adequacy requirements for market risk. The market risk positions of a bank include the following:

- foreign exchange positions;
- commodities positions;
- certain trading book positions, including those involving counterparty risk of the trading book, interest rate risk and share price risk; and
- options positions.

The net positions must be covered by own funds (*Eigenmittel*) that are not required to cover counterparty risk. Own funds consist of regulatory banking capital (Tier I plus Tier II capital) and Tier III capital. The calculation of net positions must be made in accordance with specific rules set forth in Principle I or, at the request of a bank, in whole or in part in accordance with the bank's internal risk rating models approved by BaFin. As a trading book institution (*Handelsbuchinstitut*), Commerzbank operates an internal risk rating model which has been approved by the BaFin and pursuant to which most of the bank's market risk positions are calculated.

At the close of each business day, a bank's total amount counted for market risk positions must not exceed the sum of:

- the difference between the bank's regulatory banking capital and 8 % of its aggregate amount of riskweighted risk assets; and
- the bank's Tier III capital.

Tier III capital consists of the following items:

- *Net profits.* Net profits are defined as the proportionate profit of a bank which would result from closing all trading book positions at the end of a given day minus all foreseeable expenses and distributions and minus losses resulting from the investment book which would likely arise upon a liquidation of the bank.
- *Short-term subordinated debt.* This debt must meet certain criteria, including a minimum term of two years, subordination to the rights of all unsubordinated creditors in the event of insolvency or liquidation of the bank and suspension of the payment of interest and principal if such payment would result in a breach of the own funds requirements applicable to the bank.

Net profits and short-term subordinated debt qualify as Tier III capital only up to an amount which, together with the Tier II capital not required to cover risks arising from the investment book (as described below), does not exceed 250 % of the core capital required to cover risks arising from the investment book.

The German Banking Act defines the investment book as all positions and transactions, which are not part of the trading book. The trading book is defined as consisting primarily of the following:

- financial instruments (such as securities and derivatives) that a bank holds in its portfolio for resale or that a bank acquires to exploit existing or expected spreads between the purchase and sale price or price and interest rate movements;
- positions and transactions for the purpose of hedging market risks arising from the trading book and related refinancing transactions;
- transactions subject to the designation of the counterparty (*Aufgabegeschäfte*);
- payment claims in the form of fees, commissions, interest, dividends and margins directly linked to trading book positions; and
- repurchase, lending and similar transactions related to trading book positions.

The Basel II Capital Accord

The capital adequacy requirements applicable to Commerzbank are based upon the 1988 capital accord of the Basel Committee. The Basel Committee is a committee of representatives of central banks and bank supervisors/regulators from major industrialized countries that develops core principles that each country's supervisors can use to determine the supervisory policies they apply. In January 2001, the Basel Committee published proposals for an overhaul of the existing international capital adequacy standards. The two principal goals of the proposals were: (i) to align capital requirements more closely with the underlying risks; and (ii) to introduce a capital charge for operational risk (comprising, among other things, risks related to certain external factors, as well as to technical errors and errors of employees). Following extensive negotiations the proposals have been adopted by the Basel Committee in June 2004 and are expected to become effective as of year-end 2006 or with regard to the most advanced approaches for risk evaluation as of year-end 2007.

The Basel II Framework comprises three pillars. The first pillar represents a significant amendment of the minimum requirements under the 1988 Accord. It requires higher levels of capital for those borrowers which present higher levels of credit risk, and vice versa. Moreover, an explicit capital charge for a bank's exposure to the risk of losses caused by failures in systems, processes or staff or by external disasters is established. Capital charges are aligned more closely to a bank's own measures of its exposures to credit and operational risk. The second pillar provides for a supervisory review of bank's internal assessments of their overall risks to ensure that the management is exercising sound judgement and has set aside adequate capital for its risks. The third pillar shall enhance the degree of transparency in banks' public reporting.

In October 2005, the European Commission has issued its revised proposals for directives of the European Parliament and of the Council re-casting the Banking Directive (2000/12/EC) and the Capital Adequacy Directive (93/6/EEC) which shall implement the Basel II Framework in a coherent manner throughout the EU. Following implementation of the aforementioned proposals, Commerzbank may need to maintain higher levels of capital for bank regulatory purposes, which could increase its financing costs.

Regulation of financial conglomerates

Financial groups which offer services and products in various financial sectors (credit institutions, insurance firms and investment firms) are subject to supplementary supervision once certain thresholds have been exceeded. Until the end of 2004, a group-wide supervision for credit institutions, insurance firms and investment firms belonging to such a conglomerate existed in Germany only within the respective sector (bank or insurance sector). In order to ensure a supplementary supervision of financial groups engaging in cross-sector financial activities, the directive 2002/87/EC of the European Parliament and of the Council of 16 December 2002 on the supplementary supervision of credit institutions, insurance and investment firms in a financial conglomerate has been released which was implemented into German law by the German Financial Conglomerates Directive Implementation Act (*Finanzkonglomeraterichtlinie-Umsetzungsgesetz*) of 21 December 2004. The aforementioned Act took effect as of 1 January 2005. The supplementary supervision applies to conglomerates which engage in substantial cross-sector activities. The supervision on the level of the conglomerate comprises requirements regarding solvability, risk concentration, transactions within the group, internal risk management and the reliability and professional suitability of the management. Due to its structure the Commerzbank Group at present does not qualify as a financial conglomerate under the aforementioned Act.

Consolidated Regulation and Supervision

The German Banking Act's provisions on consolidated supervision require that each group of institutions (*Institutsgruppe*) taken as a whole meets the own funds requirements. Under the German Banking Act, a group of institutions consists of a credit institution or financial services institution, having its corporate seat in the Federal Republic of Germany as the parent company, and all other credit institutions, financial services institutions, financial enterprises and ancillary bank service enterprises which are subsidiaries or on which the parent company can otherwise exert a controlling influence. Special rules apply to so-called qualified minority participations in another credit institution, financial services institution, financial enterprise or ancillary bank service enterprise. Moreover, banks are authorized to consolidate entities which would not be subject to consolidation upon application of the rules described above, on a voluntary basis.

The consolidation of the Commerzbank Group according to the guidelines of the Basel Committee (BIS) comprises only subsidiaries which are institutions, financial enterprises or ancillary bank service enterprises.

Liquidity Requirements

The German Banking Act requires German banks and certain financial services institutions to invest their funds so as to maintain adequate liquidity at all times. Principle II prescribes these specific liquidity requirements applicable to banks and to certain financial services institutions. The liquidity requirements set forth in Principle II are based on a comparison of the remaining terms of certain assets and liabilities. Principle II requires maintenance of a ratio (*Liquiditätskennzahl* or "one-month liquidity ratio") of liquid assets to liquidity reductions falling due during the month following the date on which the ratio is determined of at least one. German banks and certain financial services institutions are required to report the one-month liquidity ratio and estimated liquidity ratios for the next eleven months to BaFin and the German Central Bank on a monthly basis. The liquidity requirements set forth in Principle II do not apply on a consolidated basis.

Limitations on Large Exposures

The German Banking Act and the Large Exposure Regulation (*Grosskredit- und Millionenkreditverordnung*) limit a bank's concentration of credit risks on an unconsolidated and a consolidated basis through restrictions on large exposures (*Grosskredite*).

Commerzbank is subject to the large exposure rules applicable to trading book institutions. These rules contain separate restrictions for large exposures related to the investment book (investment book large exposures) and aggregate large exposures (aggregate book large exposures) of a bank or group of institutions.

Investment book large exposures are exposures incurred in the investment book and related to a single client (and persons affiliated with it) that equal or exceed 10 % of a bank's or group's regulatory banking capital.

Individual investment book large exposures must not exceed 25 % of the bank's or group's regulatory banking capital (20 % in the case of exposures to affiliates of the bank that are not consolidated for regulatory purposes).

Aggregate book large exposures are created when the sum of investment book large exposures and the exposures incurred in the trading book related to a client (and persons affiliated with it) (trading book large exposures) equals or exceeds 10 % of the bank's or group's own funds. The 25 % limit (20 % in the case of unconsolidated affiliates), calculated by reference to a bank's or group's own funds, also applies to aggregate book large exposures. Exposures incurred in the trading book include:

- the net amount of long and short positions in financial instruments involving interest rate risk (interest net positions);
- the net amount of long and short positions in financial instruments involving equity price risk (equity net positions); and
- the counterparty risk arising from positions in the trading book.

In addition to the above limits, the total investment book large exposures must not exceed eight times the bank's or group's regulatory banking capital, and the aggregate book large exposures must not exceed in the aggregate eight times the bank's or group's own funds.

A bank or group of institutions may exceed these ceilings only with the prior approval of BaFin. In such a case, the bank or group is required to support the amount of the large exposure that exceeds the ceiling with regulatory banking capital (in the case of ceilings calculated with respect to regulatory banking capital) or with own funds (in the case of ceilings calculated with respect to own funds) on a one-to-one basis.

Furthermore, total trading book exposures to a single client (and persons affiliated with it) must not exceed five times the bank's or group's own funds, to the extent such own funds are not required to meet the capital adequacy requirements with respect to the investment book. Total trading book exposures to a single client (and persons affiliated with it) in excess of the aforementioned limit are not permitted.

Limitations on Qualified Participations

The German Banking Act places limitations on the investments of deposit-taking credit institutions in enterprises outside the financial and insurance industry, where such investment (called a **"qualified participation"**):

- directly or indirectly amounts to 10 % or more of the capital or voting rights of an enterprise; or
- would give the owner significant influence over the management of the enterprise.

Participations that meet the above requirements are not counted as qualified participations if the bank does not intend for the participation to establish a permanent relationship with the enterprise in which the participation is held. For purposes of calculating qualified participations, all indirect participations held by a bank through one or more subsidiaries are fully attributed to the Bank.

The nominal value of a bank's qualified participation in an enterprise must not exceed 15 % of the bank's regulatory banking capital. Furthermore, the aggregate nominal value of all qualified participations of a bank must not exceed 60 % of the bank's regulatory banking capital. A bank may exceed those ceilings only with BaFin's approval. The bank is required to support the amount of the qualified participation or participations that exceed a ceiling with regulatory banking capital on a one-to-one basis.

The limitations on qualified participations also apply on a consolidated basis.

Financial Statements and Audits

German GAAP for banks primarily reflect the requirements of the German Commercial Code (*Handelsgesetzbuch*) and the Regulation on Accounting by Credit Institutions (*Verordnung über die Rechnungslegung der Kreditinstitute*). The Regulation on Accounting by Credit Institutions requires a uniform format for the presentation of financial statements for all banks. Under German law, Commerzbank is required to be audited annually by a certified public accountant (*Wirtschaftsprüfer*). BaFin must be informed of and may reject the accountant's appointment.

The German Banking Act requires that a bank's accountant inform BaFin of any facts that come to the accountant's attention that would lead it to refuse to certify or to limit its certification of the bank's annual financial statements or which would adversely affect the financial position of the bank. The accountant is also required to notify BaFin in the event of a material breach by management of the bank's articles of association or of any other applicable law.

The accountant is required to prepare a detailed and comprehensive annual audit report (*Prüfungsbericht*) for submission to the bank's administrative board, BaFin and the German Central Bank.

Reporting Requirements

BaFin and the German Central Bank require German banks to file comprehensive information in order to monitor compliance with the German Banking Act and other applicable legal requirements and to obtain information on the financial condition of banks. Compliance with the capital adequacy requirements is determined on the basis of the periodic reporting.

Internal Auditing

BaFin requires every German bank to have an effective internal auditing department. The internal auditing department must be adequate in size and quality and must establish adequate procedures for monitoring and controlling the bank's activities.

Banks are also required to have a written plan of organization that sets forth the responsibilities of the employees and operating procedures. The bank's internal audit department is required to monitor compliance with the plan.

Investigations and Official Audits

BaFin conducts audits of banks on a random basis, as well as for cause. It may require banks to furnish information and documents in order to ensure that the bank is complying with the German Banking Act and its regulations. BaFin may conduct investigations without having to state a reason for its investigation.

BaFin may also conduct investigations at a foreign entity that is part of a bank's group for regulatory purposes in order to verify data on consolidation, large exposure limitations and related reports. Investigations of foreign entities are limited to the extent that the law of the jurisdiction where the entity is located restricts such investigations.

BaFin may attend meetings of a bank's administrative board and shareholders' meetings. It also has the authority to require that such meetings be convened.

Enforcement Powers

BaFin has a wide range of enforcement powers in the event it discovers any irregularities. It may remove the bank's managers from office or prohibit them from exercising their current managerial capacities. If a bank's own funds are inadequate or if a bank does not meet the liquidity requirements and the bank fails to remedy the deficiency within a given period, then BaFin may prohibit or restrict the bank from distributing profits or extending credit. This prohibition also applies to the parent bank as the superior entity of a group of institutions in the event that the own funds of the group are inadequate on a consolidated basis. If a bank fails to meet the liquidity requirements, BaFin may also prohibit the bank from making further investments in illiquid assets.

If a bank is in danger of defaulting on its obligations to creditors, BaFin may take emergency measures to avert default. These emergency measures may include:

- issuing instructions relating to the management of the bank;
- prohibiting the acceptance of deposits and the extension of credit;
- prohibiting or restricting the bank's managers from carrying on their functions; and
- appointing supervisors.

If these measures are inadequate, BaFin may revoke the bank's license and, if appropriate, order the closure of the bank.

To avoid the insolvency of a bank, BaFin may prohibit payments and disposals of assets, close the bank's customer services, and prohibit the bank from accepting any payments other than payments of debts owed to the bank. Only BaFin may file an application for the initiation of insolvency proceedings against a bank.

Violations of the German Banking Act may result in criminal and administrative penalties.

TAXATION

THE FOLLOWING STATEMENTS ABOUT U.S. FEDERAL TAX ISSUES ARE MADE TO SUPPORT MARKETING OF THE TRUST PREFERRED SECURITIES. NO TAXPAYER CAN RELY ON THEM TO AVOID U.S. TAX PENALTIES. EACH PROSPECTIVE PURCHASER SHOULD SEEK ADVICE FROM AN INDEPENDENT TAX ADVISOR ABOUT THE TAX CONSEQUENCES UNDER ITS OWN PARTICULAR CIRCUMSTANCES OF INVESTING IN TRUST PREFERRED SECURITIES UNDER THE LAWS OF GERMANY, THE UNITED STATES AND ITS CONSTITUENT JURISDICTIONS AND ANY OTHER JURISDICTION WHERE THE PURCHASER MAY BE SUBJECT TO TAXATION.

Certain U.S. Federal Income Tax Considerations

The following is a summary based on present law of certain U.S. federal income tax considerations for a prospective purchaser of the Trust Preferred Securities. This summary addresses only the tax considerations for a prospective purchaser that acquires Trust Preferred Securities on their original issue at their original offering price (a **"Trust Preferred Securityholder"**) and that is not a U.S. Person (a **"Non-U.S. Holder"**). For this purpose, a U.S. Person is (i) a citizen or resident of the United States of America, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States of America or its political subdivisions, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source or (iv) a trust subject to the control of a U.S. person and the primary supervision of a U.S. court.

This summary does not address all tax considerations for a beneficial owner of the Trust Preferred Securities and does not address the tax consequences to a Non-U.S. Holder in special circumstances. For example, this summary does not address a Non-U.S. Holder subject to U.S. federal income tax on a net income basis. This summary is based upon the Code, income tax regulations, including temporary and proposed regulations, promulgated under the Code by the United States Treasury Department, as such regulations may be amended from time to time (including corresponding provisions of succeeding regulations) (**"Treasury Regulations"**), IRS rulings and pronouncements and judicial decisions as of the date hereof, all of which are subject to change (possibly with retroactive effect).

Prospective investors should note that no rulings have been or are expected to be sought from the IRS with respect to the tax treatment of the Trust Preferred Securities and no assurance can be given that the IRS will not take contrary positions. Moreover, no assurance can be given that the tax consequences described herein will not be challenged by the IRS or, if challenged, that such a challenge would not be successful.

Tax Treatment of the Trust and the Company

Assuming full compliance with the terms of the Trust Agreement and the LLC Agreement (and certain other transaction documents described herein), neither the Trust nor the Company will be classified for U.S. federal income tax purposes as a corporation or be subject to U.S. federal income tax.

In purchasing the Trust Preferred Securities, each Trust Preferred Securityholder agrees with the Bank, the Company and the Trustee that the Bank, the Company, the Trustee and the Trust Preferred Securityholders for all U.S. federal income tax purposes will treat the Trust as a grantor trust and the Trust Preferred Securityholders as holders of an undivided interest in the Trust assets, including the Company Class B Preferred Securities, and not as holders of an interest in the Bank or in any other person. The Bank will treat the Company as a partnership for all U.S. federal income tax purposes. The following assumes that such treatments are correct.

Income and Withholding Tax

The Company intends to operate so that it will not be treated as engaged in the conduct of a trade or business within the United States of America. The Company will hold only obligations the interest from which is not from U.S. sources. Accordingly, a Non-U.S. Holder will not be subject to withholding of U.S. federal income tax on payments in respect of the Trust Preferred Securities and a Non-U.S. Holder also will not be subject to U.S. federal income tax on its allocable share of the Company's income unless such income is effectively connected with the conduct by the Non-U.S. Holder of a trade or business within the United States of America.

A Non-U.S. Holder will not be subject to U.S. withholding tax on gain realized on the sale or exchange of the Trust Preferred Securities. A Non-U.S. Holder also will not be subject to U.S. federal income tax on such gain, unless (i) such gain is effectively connected with the conduct by the Non-U.S. Holder of a trade or business within the United States of America or (ii) in the case of gain realized by an individual Non-U.S. Holder, the Non-U.S. Holder is present in the United States of America for 183 days or more in the taxable year of the sale and certain other conditions are met.

Backup Withholding

Backup withholding may apply to payments to, and proceeds of disposition by a non-corporate holder. However, in general, no backup withholding will be required for payments to Non-U.S. Holders that provide proper certification of foreign status. Even without such certification, backup withholding will not apply to payments made outside the United States of America to a Non-U.S. bank account. Amounts withheld under the backup withholding rules will be allowed as a refund or credit against the holder's U.S. federal income tax liability, provided certain required information is furnished to the IRS.

German Taxation

The following is a discussion of certain German tax considerations that may be relevant to a holder of Trust Preferred Securities that is a resident of Germany or for which income in respect of the Trust Preferred Securities is regarded as income from German sources, *e.g.,* because such Trust Preferred Securities form part of the business property of a permanent establishment or fixed base maintained in Germany (a **"German Holder"**). The information contained in this summary is not to be construed as tax advice. It is based on an interpretation of the German tax laws as of the date hereof and is subject to change. Any such change may be applied retroactively and may adversely affect the tax consequences described herein. This summary does not purport to deal with all aspects of taxation that may be relevant to investors in the light of their individual circumstances. Prospective investors are advised to consult their own tax advisors with respect to the tax consequences of purchasing, holding, redeeming or disposing of Trust Preferred Securities.

Income Taxation

Trust Capital Payments, including Trust Capital Payments having accrued up to the disposition of a Trust Preferred Security and being credited separately, received by a German Holder with respect to the Trust Preferred Securities will be subject to German personal or corporate income tax (plus a "Solidarity surcharge" thereon, which is currently levied at 5.5 %), and, in the case of a German Holder who is an individual, may be subject to church tax. Upon the sale or redemption of the Trust Preferred Securities, a German Holder will also be required to include in its taxable income the difference between the amount realized on such sale or redemption and the cost of acquisition (or adjusted tax base) of the Trust Preferred Securities. Income derived from the Trust Preferred Securities will also be subject to German municipal trade tax on income (*Gewerbeertragsteuer*) if the Trust Preferred Securities form part of the property of a German business establishment for trade tax purposes or are held by a German corporate investor.

A German Holder who is an individual and does not hold the Trust Preferred Securities as a business asset will be entitled to a standard deduction (*Werbungskosten-Pauschbetrag*) of € 51 in computing his or her investment income (including income derived from the Trust Preferred Securities) as well as an exemption (*Sparer-Freibetrag*) of € 1,370 with respect to such investment income (€ 102 and € 2,740 respectively, for married couples). Such holders of Trust Preferred Securities can take advantage of the savers' tax exemption for the Trust Capital Payments they receive, unless the Trust Preferred Securities are attributable to their German business assets, if the holder of Trust Preferred Securities files a certificate of exemption (*Freistellungsauftrag*) with the German Disbursing Agent. In this case, the German Disbursing Agent will not withhold tax up to the amount shown in the certificate of exemption (see the maximum amounts above) taking into account other income from capital investments. As well, the

German Disbursing Agent will not withhold any tax, if the holder of Trust Preferred Securities submitted a certificate of non-assessment (*Nichtveranlagungsbescheinigung*) issued by the local tax office to the German Disbursing Agent.

German Withholding Tax

If the Trust Preferred Securities are kept in a custodial account maintained by a German Holder with a German bank or a German financial services institution, each as defined in the German Banking Act (*Gesetz über das Kreditwesen*) (including a German branch of a foreign bank or a foreign financial services institution, but excluding a foreign branch of a German bank or German financial services institution) (a **"German Disbursing Agent"**), the German Disbursing Agent will generally be required to withhold tax (*Zinsabschlagsteuer*) at a rate of 30 % (plus solidarity surcharge thereon at a rate of 5.5 %, resulting in an aggregate withholding rate of 31.65 %) of the gross amount paid as income with respect to the Trust Preferred Securities. Upon the sale or redemption of the Trust Preferred Securities, a German Disbursing Agent will generally be required to withhold tax at an aggregate rate of 31.65 % on:

(i) the excess of the sale or redemption proceeds of the Trust Preferred Securities over the holder's acquisition cost, if the Trust Preferred Securities have been acquired through or purchased from and have since been held in custody with such German Disbursing Agent, or

(ii) an amount equal to 30 % of the sale or redemption proceeds of the Trust Preferred Securities, if the Trust Preferred Securities have not been so held with such German Disbursing Agent.

Tax withheld by the German Disbursing Agent will be credited against the German Holder's final liability for personal or corporate income tax or refunded if in excess of such final tax liability.

Non-Residents

Interest, including accrued Interest, paid to a holder of Trust Preferred Securities not resident in Germany will not be taxable in Germany, and no tax will be withheld (even if the Trust Preferred Securities are kept with a German Disbursing Agent) so long as the Trust Preferred Securities are not held as a business asset of a German permanent establishment of the holder of the Trust Preferred Securities and the interest income of such Trust Preferred Securities does not otherwise constitute German source income (such as income from the letting and leasing of certain German situs property). Otherwise, the holder of Trust Preferred Securities not resident in Germany will be subject to a tax regime similar to that described above.

Gift and Inheritance Taxation

The gratuitous transfer of the Trust Preferred Securities by a holder as a gift or by reason of death is subject to German gift or inheritance tax, based on the market value of the Trust Preferred Securities at the time of the transfer, if the holder of the Trust Preferred Securities or the recipient is a resident, or deemed to be a resident, of Germany. German gift or inheritance tax is also levied if the Trust Preferred Securities form part of the property of a permanent establishment or a fixed base maintained by the holder of the Trust Preferred Securities in Germany. Double taxation treaties may provide for exceptions to the domestic inheritance and gift tax regulations.

Other German Taxes

There are no German transfer, stamp or other similar taxes which would apply to the sale or transfer of the Trust Preferred Securities.

Irish Taxation

The following is a general outline of certain Irish tax considerations relating to the purchasing, owning and disposing of the Trust Preferred Securities based on current law and practice in Ireland. It does not purport to be a complete analysis of all Irish tax considerations relating to the Trust Preferred Securities. It relates to the positions of persons who are the absolute beneficial owners of the securities and may not apply to certain classes of persons such as dealers, persons who hold such securities in connection with a trade and certain tax exempt bodies. This general summary is based upon Irish taxation laws currently in force, regulations promulgated thereunder, specific proposals to amend any of the foregoing publicly announced prior to the date hereto and the currently published administrative practices of the Irish Revenue Commissioners, all as of the date hereof. Taxation laws are subject to change, from time to time, and no representation is or can be made as to whether such laws will change or what impact, if any, such changes will have on the statements contained in this summary. It is assumed for the purposes of this summary that any proposed amendments will be enacted in the form proposed. No assurance can be given that proposed amendments will be enacted as proposed or that legislation or judicial changes or changes in administrative practice will not modify or change the statements expressed herein.

This summary is of a general nature only. It does not constitute tax or legal advice and does not discuss all aspects of Irish taxation that may be relevant to any particular holder of Trust Preferred Securities.

HOLDERS OF TRUST PREFERRED SECURITIES ARE ADVISED TO CONSULT THEIR OWN TAX ADVISERS WITH RESPECT TO THE APPLICATION OF IRISH TAXATION LAWS TO THEIR PARTICULAR CIRCUMSTANCES IN RELATION TO THE PURCHASE, OWNERSHIP OR DISPOSITION OF TRUST PREFERRED SECURITIES.

Irish Resident Persons

Material Interest in an Offshore Fund

If the Trust Preferred Securities were considered to be a material interest in an offshore fund, tax on any Trust Capital Payments received annually or at more frequent intervals will be at 20 % (the standard rate) and tax on the gain on redemption of the securities would be at a rate of 23 % (the standard rate plus 3 %) provided appropriate details regarding the acquisition of the interest were included in the resident persons' tax return. It is assumed that the Trust Preferred Securities will not be regarded as a material interest in an offshore fund because at the time of their acquisition it cannot be reasonably expected that their value is capable of being realised within 7 years.

Income Tax

An Irish resident or ordinary resident person (individual and corporate) is taxable in Ireland on their worldwide income. An Irish resident individual is someone who is present in Ireland for 183 days in a calendar year or 280 days over two years. Ordinary residence denotes a pattern of residence. An individual becomes ordinarily resident in Ireland where they have been Irish resident for the previous three years. Different rules apply to determine the tax residence of companies. Any Trust Capital Payments received by them on the Trust Preferred Securities will be taxable at the marginal rate in the case of individuals (20 % or 42 % depending on their circumstances) or 25 % in the case of corporates.

Encashment Tax

A paying agent in Ireland who obtains Trust Capital Payments from the Trust Preferred Securities on behalf of an investor may be required to withhold Irish tax at the standard rate (20 %).

Withholding Tax

There is no requirement to withhold tax other than that earlier outlined (Encashment Tax) in respect of Trust Capital Payments made on the Trust Preferred Securities.

Capital Gains Tax

On redemption of the Trust Preferred Securities, to the extent not already brought within the charge to Irish income tax, an Irish resident person is subject to capital gains tax on any gain over the original amount subscribed at a rate of 20 %, subject to certain exemptions and reliefs.

Capital Acquisitions Tax (CAT)

A gift or bequest of the Trust Preferred Securities may give rise to a liability to Irish gift or inheritance tax in the hands of the disponee or successor if either the disponer or the successor is resident or ordinary resident in Ireland. CAT is a tax imposed primarily on the beneficiary. It is payable at a rate of 20 % on the taxable value of the gift or inheritance subject to tax free thresholds. Gifts and inheritances between spouses are exempt from CAT.

Stamp Duty

No stamp duty will be payable on issue of the Trust Preferred Securities. No Irish stamp duty will be chargeable on a conveyance or transfer of the Trust Preferred Securities provided that the conveyance or transfer is not executed in Ireland and does not relate to any Irish land or to anything to be done in Ireland.

Non-Irish Resident Persons

Income Tax

Persons who are neither resident nor ordinarily resident in Ireland are liable to Irish income tax only on Irish source income unless specifically exempted. Trust Capital Payments received from the Trust Preferred Securities will not be regarded as Irish source income and therefore not liable to Irish income tax.

Encashment Tax

An agent in Ireland who obtains Trust Capital Payments from the Trust Preferred Securities on behalf of an investor may be required to withhold tax at the standard rate (20 %) unless the agent is supplied with a non-resident declaration in a form approved by the Irish Revenue.

Withholding Tax

There is no requirement to withhold tax other than that earlier outlined (Encashment Tax) in respect of Trust Capital Payments made on the Trust Preferred Securities.

Capital Gains Tax

A person neither resident nor ordinarily resident in Ireland will not be subject to Irish capital gains tax on disposal of the Trust Preferred Securities.

Capital Acquisitions Tax (CAT)

A gift or bequest of the Trust Preferred Securities should not give rise to a liability to Irish gift or inheritance tax in the hands of the disponee or successor unless either the disponer or the successor is resident or ordinary resident in Ireland. CAT is a tax imposed primarily on the beneficiary. It is payable at a rate of 20 % on the taxable value of the gift or inheritance subject to tax free thresholds. Gifts and inheritances between spouses are exempt from CAT.

A non-domiciled person will not be treated as resident or ordinarily resident in Ireland except where that person has been resident in Ireland for the five consecutive years of assessment immediately preceding the year of assessment in which the date of the gift or inheritance falls.

Stamp Duty

No stamp duty will be payable on issue of the Trust Preferred Securities. No Irish stamp duty will be chargeable on a conveyance or transfer of the Trust Preferred Securities provided that the conveyance or transfer is not executed in Ireland and does not relate to any Irish land or to anything to be done in Ireland.

EU Savings Tax Directive

On 3 June 2003 the ECOFIN Council of the European Union (**"Council"**) agreed on the final wording of the directive on the taxation of savings income (**"EU Directive"**). The EU Directive obliges all EU Member States with the exception of Austria, Luxembourg and Belgium to introduce a system for the automatic exchange of information on cross-border interest payments made within the European Union to natural persons in another member state.

Austria, Luxembourg and Belgium will be allowed to levy a withholding tax on such payments in lieu of exchanging information. The rate of the withholding tax is initially 15 % and will rise successively to 35 % until 2011. 75 % of the proceeds derived from this withholding tax on interest payments will be passed on by Austria, Belgium and Luxembourg to the countries of residence of these natural persons. The agreement of 3 June 2003 does not necessarily commit Austria, Luxembourg and Belgium to move to an automatic information-exchange system after 2011, but makes this move dependent upon the Council's agreeing unanimously that the USA has committed itself to an exchange of information and on the EU's unanimously reaching agreement on satisfactory information-exchange arrangements with Switzerland, Monaco, Liechtenstein, Andorra, San Marino and the associated territories of the EU-member states.

The Directive is to be applied for the first time as of 1 July 2005. By legislative regulations dated 26 January 2004 the Federal Government enacted the provisions for implementing the directive into German law which also applies from 1 July 2005 on.

SUBSCRIPTION AND SALE

Subject to the terms and conditions set forth in the subscription agreement to be entered into among the Bank, the Company, the Trust and the Lead Managers (the **"Subscription Agreement"**), the Trust will agree to sell to the Lead Managers and the Lead Managers will agree to purchase the Trust Preferred Securities at a price of 100 % (equivalent to € 50,000 per Trust Preferred Security).

The Trust Preferred Securities will be delivered to investors, in book-entry form, against payment on the second business day following the Issue Date. Payment and delivery will be effected through Clearstream Frankfurt.

Pursuant to the Subscription Agreement, the Bank will (i) pay the Lead Managers a combined management, underwriting and selling commission and (ii) reimburse the Lead Managers for certain expenses of the Offering. Each of the Company, the Trust and the Bank has agreed to indemnify the Lead Managers against certain liabilities.

The Lead Managers or their affiliates have provided from time to time, and expect to provide in the future, investment services to the Commerzbank Group, for which the Lead Managers or their affiliates have received or will receive customary fees and commissions.

Other than disclosed in this Prospectus, there are no interests of natural and legal persons involved in the issue, including conflicting ones, that are material to the issue.

Selling Restrictions

United States of America

Each of the Lead Managers has represented and agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Trust Preferred Securities within the United States of America or to, or for the account or benefit of, U.S. persons (i) as part of its distribution at any time or (ii) otherwise until 40 days after the later of the closing date and the completion of the distribution of the Trust Preferred Securities, and it will send to each dealer to which it sells Trust Preferred Securities during the 40-day distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Trust Preferred Securities within the United States of America or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of the Trust Preferred Securities within the United States of America by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

The Trust Preferred Securities may not be purchased by or transferred to any employee benefit, plan subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended, any plan or arrangement subject to Section 4975 of the Code, or any entity whose underlying assets include the assets of any such employee benefit plans, plan or arrangements.

United Kingdom

Each of the Lead Managers has represented, warranted and agreed that:

(i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000, as amended from time to time (**"FSMA"**)) received by it in connection with the issues or sale of any Trust Preferred Securities in circumstances in which section 21(1) of the FSMA does not apply to the Trust of the Company; and

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Trust Preferred Securities in, from or otherwise involving the United Kingdom.

European Economic Area

In relation to each Member State of the European Economic Area(*) which has implemented the Prospectus Directive (each, a **"Relevant Member State"**), each Lead Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date) it has not made and will not make an offer of Trust Preferred Securities to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Trust Preferred Securities which has been approved by the competent authority in that Relevant Member State in accordance with the Prospectus Directive or, where appropriate, published in another Relevant Member State and notified to the competent authority in that Relevant Member State in accordance with Article 18 of the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Trust Preferred Securities to the public in that Relevant Member State at any time:

(a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than € 43,000,000 and (3) an annual turnover of more than € 50,000,000, as shown in its last annual or consolidated financial statements; or

(c) in any other circumstances which do not require the publication by the Trust of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Trust Preferred Securities to the public" in relation to any Trust Preferred Securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Trust Preferred Securities to be offered so as to enable an investor to decide to purchase or subscribe the Trust Preferred Securities, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression **"Prospectus Directive"** means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Ireland

Each Lead Manager has represented and agreed that it has complied with, and will comply with, all applicable provisions and/or codes of practice made pursuant to the terms of the Investment Intermediaries Act, 1995 of Ireland (as amended) and, where applicable, Section 117 of the Central Bank Act, 1989 (as amended) with respect to anything done by it in relation to the Trust Preferred Securities if operating in or otherwise involving Ireland.

General

In addition to the specific restrictions set out above, each Lead Manager agrees that it will observe all applicable provisions of law in each jurisdiction in or from which it may offer Trust Preferred Securities or distribute any offering material.

(*) The EU plus Iceland, Norway and Liechtenstein.

GENERAL INFORMATION

Subject of this Prospectus

The subject of this Prospectus are the 20,000 noncumulative Trust Preferred Securities, liquidation preference amount € 50,000 per Trust Preferred Security, which represent beneficial interests in the assets of Commerzbank Capital Funding Trust I, a statutory trust created under the laws of the State Delaware, United States of America.

Clearing

The Trust Preferred Securities will be initially evidenced by a temporary global certificate, interests in which will be exchangeable for interests in a permanent global certificate not earlier than 40 days after the Issue Date upon certification of non-U. S. beneficial ownership by or on behalf of the holders of such interests. The global certificates evidencing the Trust Preferred Securities will be deposited with and registered in the name of Clearstream Frankfurt for credit to the accountholders of Clearstream Frankfurt, including Euroclear and Clearstream Luxembourg. Beneficial interests in the Trust Preferred Securities will be shown only on, and transfers thereof will be effected only through, book-entry records maintained by Clearstream Frankfurt.

Clearing Codes

The Trust Preferred Securities have been accepted for clearance through the facilities of Euroclear, Clearstream Luxembourg and Clearstream Frankfurt under the following clearance codes:

ISIN:	DE000A0GPYR7
Common Code:	024862780
German Security Code (*WKN*):	A0GPYR

Issue Date

The Trust Preferred Securities will be issued on 30 March 2006. The rights attached to the Trust Preferred Securities take effect as of such Issue Date.

Yield to Maturity

There is no explicit yield to maturity. The Trust Preferred Securities do not carry a fixed date for redemption and the Trust and the Company are not obliged, and under certain circumstances are not permitted, to make payments on the Trust Preferred Securities and Company Class B Preferred Securities at the full stated rate.

Listing Documents for Inspection

Application has been made to IFSRA, as competent authority under Directive 2003/71/EC, for this Prospectus to be approved. Application has been made to the Irish Stock Exchange for the Trust Preferred Securities to be admitted to the Official List of the Irish Stock Exchange and traded on its regulated market. The Trust Preferred Securities are expected to be traded from 30 March 2006 on. At the date of this Prospectus it is intended to subsequently make an application to list the Trust Preferred Securities on the official market (*amtlicher Markt*) of the Frankfurt Stock Exchange. So long as the Trust Preferred Securities are listed on the Official List of the Irish Stock Exchange and the official market (*amtlicher Markt*) of the Frankfurt Stock Exchange, the Trust will maintain a paying agent in each of Dublin, Ireland and Frankfurt am Main, Federal Republic of Germany.

At any time during the term of the Trust Preferred Securities the most recently published consolidated and non-consolidated audited annual financial statements of the Bank, the most recently published unaudited interim financial statements of the Group, and, once available, the most recently available annual financial statements of the Trust and the Company, in physical and electronic form, will also be available for inspection and obtainable free of charge at the offices of the Principal Paying Agent in Frankfurt and the Irish Paying Agent.

Neither the Trust nor the Company prepares interim financial statements.

In addition, the following documents in physical form will be available for inspection for the life of the Prospectus and obtainable, free of charge, at the offices of the Trust and the Irish Paying Agent:

(a) the Articles of Association (*Satzung*) of the Bank;

(b) the Limited Liability Company Agreement and Certificate of Formation of the Company;

(c) the Trust Agreement and Certificate of Trust of the Trust;

(d) the consents and authorisations referred to under "Authorisations" below; and

(e) the Support Undertaking.

Copies of these documents as well as annual financial statements and interim financial statements are also available at the head office of the Bank, Kaiserplatz, 60261 Frankfurt am Main, Federal Republic of Germany.

Notices

All notices to the holders of the Trust Preferred Securities will be given by the Trust (i) for so long as any of the Trust Preferred Securities is listed on the Irish Stock Exchange and the Irish Stock Exchange so requires, to the Company Announcement Office of the Irish Stock Exchange through the Irish Paying Agent and (ii) to Clearstream Frankfurt, Clearstream Luxembourg and Euroclear and (iii) for so long as the Trust Preferred Securities are listed on the Frankfurt Stock Exchange and the rules of such stock exchange so require, by publication in at least one daily newspaper having general circulation in Germany (which is expected to be the *Börsen-Zeitung*). In accordance with its published rules and regulations, Clearstream Frankfurt will notify the holders of securities accounts to which any Trust Preferred Securities are credited of any such notices received by it.

Post Issuance Reporting

The Trust does not intend to provide post issuance transaction information regarding the Trust Preferred Securities and the performance of the underlying collateral.

Authorisations

The issue of the Trust Preferred Securities by the Trust will be duly authorised by the Trust Agreement.

Legal status

The Trust is a statutory trust formed under the Delaware Statutory Trust Act, as amended. The Trust will be governed by the Trust Agreement to be executed by the Company, as sponsor, The Bank of New York, as Property Trustee under the Trust Agreement and The Bank of New York (Delaware), as Delaware Trustee under the Trust Agreement, the Bank and the Regular Trustees. The Trust is established for an unlimited duration.

The Bank operates under German law. The Bank is registered in the commercial register of the lower regional court (*Amtsgericht*) of Frankfurt am Main under number HRB 32000 and has been established for an unlimited duration.

ANNEX A – SUPPORT UNDERTAKING

This Support Undertaking (the ***Agreement***), dated as of 30 March 2006, is entered into between Commerzbank Aktiengesellschaft, a German stock corporation, (the ***Bank***) and Commerzbank Capital Funding LLC I, a Delaware limited liability company (the ***Company***).

Preamble

WHEREAS, the Bank owns the Common Security (as defined below) of the Company;

WHEREAS, pursuant to the LLC Agreement (as defined below), the Company will issue a Class A Preferred Security to the Bank and all of the Class B Preferred Securities to the Trust (each as defined below);

WHEREAS, pursuant to the Trust Agreement (as defined below), the Trust will issue the Trust Preferred Securities (as defined below) upon the same terms as, and representing corresponding amounts of, the Class B Preferred Securities;

WHEREAS, the Company intends to use the proceeds from the issuance of the Class B Preferred Securities to purchase subordinated notes of the Bank;

WHEREAS, the Company may from time to time declare Capital Payments (as defined below) on the Class B Preferred Securities pursuant to and in accordance with the LLC Agreement; and

WHEREAS, the Bank wishes, prior to the issuance of the Class B Preferred Securities, to undertake for the benefit of the Company and the holders of Class B Preferred Securities that (i) the Bank shall maintain direct or indirect ownership of the Class A Preferred Security and the Common Security, (ii) the Company shall at all times be in a position to meet its obligations, if and when such obligations are due and payable, including its obligation to make Capital Payments (including Additional Amounts (as defined below) thereon), to pay the Redemption Price (as defined below), and (iii) in liquidation or dissolution, the Company will have sufficient funds to pay the aggregate Liquidation Preference Amount (as defined below).

NOW, THEREFORE, the parties agree as follows:

Section 1
Certain Definitions

Additional Amounts has the meaning specified in Section 7.04(c) of the LLC Agreement.

Agreement has the meaning specified in the introduction hereof.

Bank has the meaning specified in the introduction hereof.

Capital Payments means any capital payments or other distributions at any time after the date hereof declared by the Board of Directors of the Company (or deemed declared in accordance with the LLC Agreement), but not yet paid, on the Class B Preferred Securities.

Class A Preferred Security means the class of preferred limited liability company interests in the Company designated as Class A.

Class B Payment Period has the meaning set forth in the LLC Agreement.

Class B Preferred Securities mean the class of preferred limited liability company interests in the Company designated as Class B, with a liquidation preference amount of € 50,000 per security.

Common Security means the security of the Company representing the common limited liability company interest, without par value, of the Company.

Company has the meaning specified in the introduction hereof.

Independent Enforcement Director means one independent member of the board of directors of the Company which may be appointed on behalf of holders of the Company Class B Preferred Securities in accordance with the terms of the LLC Agreement.

Junior Securities has the meaning set forth in the LLC Agreement.

Liquidation Preference Amount means the stated liquidation preference amount of the Class B Preferred Securities and any other amounts due and payable under the LLC Agreement upon the voluntary or involuntary liquidation, dissolution, winding up or termination of the Company to the holders of the Class B Preferred Securities.

LLC Agreement means the amended and restated limited liability company agreement of the Company dated as of 30 March 2006 between the Bank and the Trust, and as the same may be further amended from time to time in accordance with its terms.

Parity Securities has the meaning set forth in the LLC Agreement.

Person means any individual, corporation, association, partnership (general or limited), joint venture, trust, estate, limited liability company, or other legal entity or organization.

Redemption Price shall be the price at which the Class B Preferred Securities are redeemable at the option of the Company pursuant to Section 7.04(d)(i) or (ii), as the case may be, of the LLC Agreement.

Trust means Commerzbank Capital Funding Trust I, a Delaware statutory trust established pursuant to a Certificate of Trust dated as of 23 February 2006, as amended and restated as of 30 March 2006 and as the same may be further amended from time to time in accordance with its terms.

Trust Agreement means the amended and restated trust agreement of the Trust dated as of 30 March 2006, and as the same may be further amended from time to time in accordance with its terms.

Trust Preferred Securities means the noncumulative trust preferred securities issued by the Trust.

Section 2
Support Undertaking

(a) The Bank undertakes to ensure that the Company shall at all times be in a position to meet its obligations if and when such obligations are due and payable, including its obligations to pay Capital Payments (including Additional Amounts thereon) and the Redemption Price.

(b) The Bank undertakes to ensure that in the event of any liquidation of the Company, the Company shall have sufficient funds to pay the aggregate Liquidation Preference Amount (including accrued and unpaid Capital Payments for the then current Class B Payment Period to, but excluding, the date of liquidation), Additional Amounts (if any) and the Redemption Price.

(c) The obligations of the Bank under this Section 2 shall be subordinated to all senior and subordinated debt obligations of the Bank (including profit participation rights (*Genussscheine*)), and shall rank pari passu (i) with the most senior ranking preference shares of the Bank, if any, or other instruments of the Bank qualifying as Tier I regulatory capital of the Bank and (ii) with preference shares or other instruments qualifying as consolidated Tier I regulatory capital of the Bank or any other instrument of any Bank Affiliate subject to any guarantee or support agreement of the Bank ranking pari passu with the obligations of the Bank under this Agreement (including, but not limited to, the obligations under the 16,000 noncumulative trust preferred securities issued by Commerzbank Capital Funding Trust II) and will rank senior to any other preference shares, if any, and the common shares of the Bank.

(d) This Agreement shall not constitute a guarantee or undertaking of any kind that the Company will at any time have sufficient assets, or be authorized pursuant to the LLC Agreement, to declare a Capital Payment or any other distribution.

Section 3
Third Party Beneficiaries and Enforcement of Rights

(a) The parties hereto agree that this Agreement is entered into as a third party beneficiary contract within the meaning of Section 328(2) of the German Civil Code (*echter Vertrag zugunsten Dritter gem. § 328 Abs. 2 BGB*) for the benefit of the Company and all current and future holders of the Class B Preferred Securities and that the Company and any holder of any such Class B Preferred Securities may severally enforce the obligations of the Bank under Section 2.

(b) The Parties hereto acknowledge that, as provided in the LLC Agreement, the holders of the Class B Preferred Securities shall have, under the circumstances prescribed therefor in the LLC Agreement, the right to appoint one Independent Enforcement Director who will have the sole authority, right and power to enforce the rights and settle any claim of the Company under this Agreement.

Section 4
No Exercise of Rights

The Bank shall not exercise any right of set-off, counterclaim or subrogation that it may have against the Company as long as any Class B Preferred Securities are outstanding.

Section 5
Burden of Proof

Any failure of the Company to pay Capital Payments, the Redemption Price or the aggregate Liquidation Preference Amount (or any part thereof), plus, in either case, Additional Amounts, if any, as and when such amounts are due, shall constitute *prima facie* evidence of a breach by the Bank of its obligations hereunder. The Bank shall have the burden of proof that the occurrence of such breach results neither from its negligent nor its intentional misconduct.

Section 6
No Senior Support to Other Subsidiaries

The Bank undertakes that it shall not give any guarantee or similar undertaking with respect to, or enter into any other agreement relating to the support or payment of any amounts in respect of any other Parity Securities or Junior Securities that would in any regard rank senior in right of payment to the Bank's obligations under this Agreement, unless the parties hereto modify this Agreement such that the Bank's obligations under this Agreement rank at least *pari passu* with, and contain substantially equivalent rights of priority as to payment as such guarantee or support agreement relating to Parity Securities.

Section 7
Continued Ownership of the Class A Preferred Security and the Common Security

The Bank undertakes to maintain direct or indirect ownership of the Class A Preferred Security and the Common Security as long as any Class B Preferred Securities remain outstanding.

Section 8
No Dissolution of the Company

Under the terms of the LLC Agreement and to the fullest extent permitted by law, the Bank shall not permit the Company to be dissolved until all obligations under this Agreement have been paid in full pursuant to its terms.

Section 9
Modification and Termination

So long as Class B Preferred Securities remain outstanding, this Agreement may not be modified or terminated without the consent of 100 % of the holders of the Class B Preferred Securities as provided in the LLC Agreement, except for such modifications that are not adverse to the interests of the holders of the Class B Preferred Securities.

Section 10
No Assignment

So long as any Class B Preferred Securities remain outstanding, the Bank shall not assign or transfer its rights or obligations under this Agreement to any Person without the consent of the holders of such Class B Preferred Securities.

Section 11
Successors

This Agreement shall be binding upon successors to the parties.

Section 12
Severability

Should any provision of this Agreement be found invalid, illegal or unenforceable for any reason, it is to be deemed replaced by the valid, legal and enforceable provision most closely approximating the intent of the parties, as expressed in such provision, and the validity, legality and enforceability of the remainder of this Agreement shall in no way be affected or impaired thereby.

Section 13
Governing Law and Jurisdiction

This Agreement shall be governed by, and construed in accordance with, the laws of the Federal Republic of Germany and the parties irrevocably submit to the non-exclusive jurisdiction of the district court (*Landgericht*) Frankfurt am Main.

COMMERZBANK AKTIENGESELLSCHAFT

By: ____________________________

Name: [•]

Title: [•]

By: ____________________________

Name: [•]

Title: [•]

COMMERZBANK CAPITAL FUNDING LLC I

By: ______________________________

Name: [•]

Title: [•]

By: ______________________________

Name: [•]

Title: [•]

GLOSSARY

Additional Amounts means any additional amounts payable by the Company pursuant to the terms of Company Class B Preferred Securities and by the Trust pursuant to the terms of the Trust Preferred Securities as a result of deduction or withholding on Capital Payments or on repayment upon redemption thereof.

Additional Debt Securities means subordinated notes due 12 April 2036 issued by the Bank (acting directly or through a branch) or a Bank Subsidiary in excess of and on the same terms as the Initial Debt Securities in accordance with the terms of the LLC Agreement.

Additional Interest Amounts means any additional amounts of interest payable by the Bank or another obligor pursuant to the terms of the Debt Securities as a result of a deduction or withholding on payments thereunder as may be necessary in order that the net amounts received by the Company, after such deduction or withholding, will equal the amounts that would have been received had no such withholding or deduction been required.

Adjusted Comparable Yield means the yield three Business Days prior to the relevant Redemption Date on the euro benchmark security selected by the Calculation Agent, after consultation with the Bank, as having a maturity comparable to the remaining term of the Company Class B Preferred Securities to the Initial Redemption Date, that would be utilized, at the time of selection and in accordance with customary banking practice, in pricing new issues of corporate debt securities of comparable maturity.

Administrative Action means any judicial decision, official administrative pronouncement, published or private ruling, regulatory procedure, notice or announcement (including any notice or announcement of intent to adopt such procedures or regulations) by any legislative body, court, governmental authority or regulatory body.

BaFin means the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*).

Bank means Commerzbank Aktiengesellschaft, a stock corporation incorporated under the laws of Germany.

Bank Affiliate means any entity that directly or indirectly controls, is controlled by, or is under common control with the Bank.

Bank Distributable Profits for any fiscal year is the balance sheet profit (*Bilanzgewinn*) as of the end of such fiscal year, as shown in the Bank's audited unconsolidated balance sheet approved by the Bank's supervisory board as of the end of such fiscal year. Such balance sheet profit includes the annual surplus or loss (*Jahresüberschuss/Jahresfehlbetrag*), plus any profit carried forward from previous years, minus any loss carried forward from previous years, plus transfers from capital reserves and earnings reserves, minus allocations to earnings reserves, all as determined in accordance with the provisions of the German Stock Corporation Act (*Aktiengesetz*) and accounting principles generally accepted in the Federal Republic of Germany as described in the German Commercial Code (*Handelsgesetzbuch*) and other applicable German law then in effect.

Bank Subsidiary means any entity that is consolidated with the Bank for German bank regulatory purposes and of which more than fifty percent (50 %) of voting rights and of outstanding capital stock or other equity interest is, at the time, beneficially owned or controlled directly or indirectly by the Bank.

Board of Directors means the board of directors of the Company.

Business Day means any day (other than a Saturday or a Sunday) (i) which is a TARGET Business Day and (ii) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in London.

Calculation Agent means Commerzbank Aktiengesellschaft or any successor, acting as calculation agent in relation to the Company Class B Preferred Securities and the Debt Securities.

Capital Payments means, with respect to the Trust Preferred Securities, the Trust Capital Payments, and, with regard to the Company Class B Preferred Securities, the Class B Capital Payments.

Class B Capital Payments means periodic distributions to holders of the Company Class B Preferred Securities declared (or deemed declared) and paid in accordance with the LLC Agreement.

Clearstream Frankfurt means Clearstream Banking AG, Neue Börsenstraße 1, 60487 Frankfurt am Main, Germany.

Clearstream Luxembourg means Clearstream Banking, société anonyme, Luxembourg.

Code means the U.S. Internal Revenue Code of 1986, as amended from time to time.

Commerzbank means the Bank.

Commerzbank Group means the Bank together with its consolidated subsidiaries.

Company means Commerzbank Capital Funding LLC I, a Delaware limited liability company.

Company Class A Preferred Security means the noncumulative Class A preferred security of the Company.

Company Class B Preferred Securities means the noncumulative Class B preferred securities of the Company.

Company Common Security means the voting common security of the Company.

Company Operating Profits means, for any Payment Period, the excess of the amounts payable (whether or not paid) on the (i) Debt Securities or (ii) after the Maturity Date, obligations and other investments that the Company may then hold in accordance with the LLC Agreement over any operating expenses of the Company not paid or reimbursed by or on behalf of the Bank or Bank Affiliate during such Payment Period, plus any reserves.

Company Securities means, collectively, the Company Common Security, the Company Class A Preferred Security and the Company Class B Preferred Securities.

Company Special Redemption Event means (i) a Regulatory Event, (ii) a Tax Event or (iii) an Investment Company Act Event with respect to the Company.

Company Successor Securities means other securities having substantially the same terms as the Company Class B Preferred Securities.

Debt Redemption Date means the date of redemption of the Initial Debt Securities.

Debt Securities means the Initial Debt Securities, the Additional Debt Securities and the Substitute Debt Securities.

Delaware Trustee means The Bank of New York (Delaware) or any successor as Delaware trustee of the Trust in accordance with the Trust Agreement.

Determination Date means in respect of each Payment Period falling in the Floating Rate Period, the second TARGET Business Day prior to the commencement of the relevant Payment Period.

Early Redemption Calculation Date means the third Business Day prior to the date on which the Company Class B Preferred Securities are redeemed prior to the Initial Redemption Date in accordance with the LLC Agreement.

Early Redemption Price means a redemption price per Company Class B Preferred Securities equal to the higher of (a) the liquidation preference amount thereof or (b) the Make-Whole Amount, in each case plus any accrued and unpaid Capital Payments for the then current Payment Period falling in the Fixed Rate Period to but excluding the Redemption Date, and Additional Amounts, if any.

Euro and **€** means the single currency introduced in the Member States of the European Community at the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Union, as amended.

Euroclear means Euroclear Bank S. A./N. V., Brussels, Kingdom of Belgium.

Eurohypo means Eurohypo Aktiengesellschaft.

Eurohypo Group means Eurohypo together with its consolidated subsidiaries.

Fixed Payment Date means, in relation to the Trust Preferred Securities, the Company Class B Preferred Securities and the Initial Debt Securities, 12 April in each year falling in the Fixed Rate Period, commencing on 12 April 2007, and the Initial Redemption Date.

Fixed Rate means a rate of 5.012 % per annum.

Fixed Rate Period means, in relation to the Trust Preferred Securities, the Company Class B Preferred Securities and the Initial Debt Securities, the period from and including the Issue Date to but excluding the Initial Redemption Date.

Floating Payment Date means, in relation to the Trust Preferred Securities, the Company Class B Preferred Securities and the Initial Debt Securities, 12 January, 12 April, 12 July and 12 October in each year falling in the Floating Rate Period (commencing on 12 July 2016) and the Redemption Date or the Debt Redemption Date, as the case may be, unless such date would otherwise fall on a day which is not a Business Day, in which event payment shall be made on the first following day which is a Business Day, unless it would thereby fall into the next calendar month, in which event payment shall be made on the immediately preceding Business Day.

Floating Rate means the Reference Rate for the accrual of Capital Payments (or, in the case of the Initial Debt Securities, interest payments) plus 2.15 % per annum.

Floating Rate Period means, in relation to the Trust Preferred Securities, the Company Class B Preferred Securities and the Initial Debt Securities, any period from and including the Initial Redemption Date to but excluding the Redemption Date or the Debt Redemption Date, as the case may be.

FSMA means the Financial Services and Markets Act 2000 (United Kingdom), as amended.

German Banking Act means the German Banking Act (*Gesetz über das Kreditwesen*), as amended from time to time.

German Disbursing Agent means a German bank or a German financial services institution, each as defined in the German Banking Act (including a German branch of a foreign bank or a foreign financial services institution but excluding a foreign branch of a German bank or a German financial services institution), at which the Trust Preferred Securities are kept in a custodial account maintained by a German holder.

German GAAP means German Generally Accepted Accounting Principles.

German Holder means a holder of Trust Preferred Securities that is a resident of Germany or for which income in respect of the Trust Preferred Securities is regarded as income from German sources, e. g. because such Trust Preferred Securities form part of the business property of a permanent establishment or fixed base maintained in Germany.

Global Certificates means the Temporary Global Certificate and the Permanent Global Certificate.

Group means the Commerzbank Group.

IAS means the International Accounting Standards.

IFRS means the International Financial Reporting Standards.

IFSRA means the Irish Financial Services Regulatory Authority.

Independent Enforcement Director means one independent member of the Board of Directors which may be appointed on behalf of holders of the Company Class B Preferred Securities in accordance with the terms of the LLC Agreement.

Initial Debt Securities means the € 1,000,000,000 subordinated notes due 12 April 2036 issued by the Bank.

Initial Redemption Date means 12 April 2016.

Investment Company Act means the U. S. Investment Company Act of 1940, as amended from time to time.

Investment Company Act Event means that the Bank shall have requested and received an opinion of a nationally recognized U. S. law firm experienced in such matters to the effect that there is more than an insubstantial risk that the Company or the Trust is or will be considered an "investment company" within the meaning of the Investment Company Act as a result of any judicial decision, any pronouncement or interpretation (irrespective of the manner made known), the adoption or amendment of any law, rule or regulation, or any notice or announcement (including any notice or announcement of intent to adopt such law, rule or regulation) by any U. S. legislative body, court, governmental agency, or regulatory authority, in each case after the date of the issuance of the Company Class B Preferred Securities and the Trust Preferred Securities.

Irish Listing Agent means NCB Stockbrokers Limited or any successor, acting as listing agent in Ireland in relation to the Trust Preferred Securities.

Irish Paying Agent means Commerzbank Europe (Ireland) or any successor, acting as paying agent in Ireland in relation to the Trust Preferred Securities.

Irish Stock Exchange means the Irish stock exchange in Dublin, Ireland.

IRS means the U. S. Internal Revenue Service.

Issue Date means the date of initial issuance of the Trust Preferred Securities and the Company Class B Preferred Securities, which is expected to be 30 March 2006.

Junior Securities means (i) common stock of the Bank, (ii) each class of preference shares or other instruments of the Bank ranking junior to Parity Securities of the Bank, if any, and any other instrument of the Bank ranking *pari passu* or junior to any of these, and (iii) preference shares or any other instrument of any Bank Affiliate subject to any guarantee or support agreement of the Bank ranking junior to the obligations of the Bank under the Support Undertaking.

Large Exposure Regulation means the *Großkredit- und Millionenkreditverordnung.*

Lead Managers means each of Commerzbank Aktiengesellschaft, Deutsche Bank AG, London Branch, Dresdner Bank AG London Branch and Morgan Stanley & Co. International Limited.

LLC Act means the Delaware Limited Liability Company Act, as amended.

LLC Agreement means the amended and restated limited liability company agreement of Commerzbank Capital Funding LLC I, dated as of 30 March 2006.

Make-Whole Amount means the make-whole-amount which will be determined by the Calculation Agent as equaling the Present Value on the relevant Redemption Date of (i) the liquidation preference amount per Company Class B Preferred Security and (ii) the remaining scheduled Class B Capital Payments up to but excluding the Initial Redemption Date.

Maturity Date means 12 April 2036, the scheduled maturity of the Initial Debt Securities.

Non-U. S. Holder means a person that is not a U. S. person for U.S. federal income tax purposes.

Offering means the offering by Commerzbank Capital Funding Trust I of 20,000 noncumulative Trust Preferred Securities.

Parity Securities means (i) each class of the most senior ranking preference shares of the Bank, if any, or other instruments of the Bank qualifying as the most senior form of Tier I regulatory capital of the Bank and (ii) preference shares or other instruments qualifying as consolidated Tier I regulatory capital of the Bank or any other instrument of any Bank Affiliate subject to any guarantee or support agreement of the Bank ranking *pari passu* with the obligations of the Bank under the Support Undertaking (including, but not limited to, the obligations under the 16,000 noncumulative trust preferred securities issued by Commerzbank Capital Funding Trust II).

Paying Agents means the Principal Paying Agent, the Irish Paying Agent and such other paying agents in relation to the Trust Preferred Securities as may be appointed from time to time.

Payment Date means any Fixed Payment Date and any Floating Payment Date.

Payment Period means (i) with regard to the Fixed Rate Period each period from and including the Issue Date to but excluding the first Fixed Payment Date and thereafter as from and including any Fixed Payment Date to but excluding the next following Fixed Payment Date and (ii) with regard to the Floating Rate Period each period from and including the Initial Redemption Date to but excluding the first Floating Payment Date and thereafter as from and including any Floating Payment Date to but excluding the next following Floating Payment Date.

Permanent Global Certificate means the single global certificate representing the Trust Preferred Securities for which the Temporary Global Certificate will be exchanged for after the Restricted Period has ended.

Permitted Investments means debt obligations of the Bank or of one or more Bank Subsidiaries (which Bank Subsidiaries meet the definition of a "company controlled by its parent company" as defined in Rule 3a-5 under the Investment Company Act) unconditionally guaranteed by the Bank (which may in either case act through a non-German branch) on a subordinated basis or in European government securities with a maturity of six months or less; provided, in each case, that such investment does not result in a Company Special Redemption Event.

Present Value means the amount determined by the Calculation Agent by discounting the liquidation preference amount per Company Class B Preferred Security and the remaining scheduled Class B Capital Payments to 12 April 2016 (exclusive) on an annual basis, assuming a 365-day year or a 366-day year, as the case may be, and the actual number of days elapsed in such year and using the Adjusted Comparable Yield plus 0.50 %.

Principal Amount means € 1,000,000,000, the principal amount of the Initial Debt Securities.

Principal Paying Agent means Commerzbank Aktiengesellschaft or any successor, acting as principal paying agent in relation to the Trust Preferred Securities.

Property Account means a segregated non-interest bearing trust account in the name of and under the exclusive control of the Property Trustee for the benefit of the holders of the Trust Preferred Securities to hold all payments in respect of the Company Class B Preferred Securities.

Property Trustee means The Bank of New York or any successor, acting as the property trustee of the Trust in accordance with the Trust Agreement.

Prospectus means this prospectus.

Redemption Date means the date of redemption of the Company Class B Preferred Securities.

Redemption Notice means the notice of any redemption of the Company Class B Preferred Securities given by the Board of Directors on behalf of the Company and in accordance with the LLC Agreement.

Redemption Price means the redemption price per Company Class B Preferred Security equal to the liquidation preference amount thereof, plus accrued and unpaid Class B Capital Payments for the then current Payment Period to, but excluding, the Redemption Date, plus Additional Amounts, if any.

Reference Banks means five reference banks selected by the Calculation Agent in conjunction with the Trust.

Reference Rate means the rate per annum, determined by the Calculation Agent to correspond to the three months EURIBOR rate for deposits in euro published on the Screen Page at or about 11:00 a.m. (Central European time) on the relevant Determination Date.

If the foregoing rate does not appear on the Screen Page or the Screen Page is not available on the relevant Determination Date, then the Reference Rate for the respective Payment Period shall be the arithmetic mean (rounded, if necessary, to the nearest one thousandth of a percentage point, 0.0005 being rounded upwards) determined by the Calculation Agent of the rates which the Reference Banks, quote to prime banks on the relevant Determination Date for three months deposits in euro. Should two or more of the Reference Banks provide the relevant quotation, the arithmetic mean shall be calculated as described above on the basis of the quotations supplied. If less than two Reference Banks provide a quotation, then the Reference Rate for the respective Payment Period shall be determined by the Calculation Agent in its reasonable discretion.

Regular Trustee means each of the three of the Trustees who are expected to be individuals who are employees or officers of the Bank or one of its affiliates.

Regulation S means Regulation S under the Securities Act, as amended from time to time.

Regulatory Event means that (i) the Bank is notified by a relevant regulatory authority that, as a result of the occurrence of any amendment to, or change (including any change that has been adopted but has not yet become effective) in, the applicable banking laws of Germany (or any rules, regulations or interpretations thereunder, including rulings of the relevant banking authorities) or the guidelines of the Basel Committee for Banking Supervision after the date hereof, the Bank is not, or shall not be, allowed to treat the Company Class B Preferred Securities or the Trust Preferred Securities (or securities substantially similar to the Company Class B Preferred Securities or the Trust Preferred Securities) as core capital or Tier I regulatory capital for capital adequacy purposes on a consolidated basis, or (ii) the BaFin notifies the Bank or otherwise announces that neither the Company Class B Preferred Securities nor the Trust Preferred Securities (or securities substantially similar to the Company Class B Preferred Securities or the Trust Preferred Securities) may any longer be treated as Tier I regulatory capital for capital adequacy purposes on a consolidated basis.

Relevant Jurisdiction means the United States of America, Germany and the jurisdiction of residence of any obligor of Debt Securities (or any jurisdiction from which payments are made).

Restricted Period means the period of 40 consecutive days beginning on and including the first day after the later of (i) the Issue Date and (ii) the completion of the distribution of the Trust Preferred Securities.

Screen Page means Telerate Page 248 (or such other page or service as may replace it for the purposes of such rate).

Securities Act means the U. S. Securities Act of 1933, as amended from time to time.

Servicer means Commerzbank Aktiengesellschaft, New York Branch, 2 World Financial Center, New York, New York 10281, USA or any successor being appointed as the servicer under the Services Agreement.

Services Agreement means the services agreement dated as of 30 March 2006 among the Company, the Trust and the Servicer, as amended from time to time.

Stated Rate means the Fixed Rate with respect to Payment Periods falling in the Fixed Rate Period and the Floating Rate with respect to Payment Periods falling in the Floating Rate Period.

Subscription Agreement means the subscription agreement dated 28 March 2006 among the Bank, the Company, the Trust, and each of the Lead Managers.

Substitute Debt Securities means subordinated debt securities issued by the Bank (acting directly or through a branch) or a Bank Subsidiary with terms identical to those of the Initial Debt Securities.

Support Undertaking means the support undertaking dated 30 March 2006 between the Bank and the Company for the benefit of the holders of the Company Class B Preferred Securities, as amended from time to time.

TARGET Business Day means a day on which the Trans-European Automated Real-time Gross settlement Express Transfer (TARGET) system is operating credit or transfer instructions in respect of payments in euro.

Tax Event means the receipt by the Bank of an opinion of a nationally recognized law firm or other tax adviser in a Relevant Jurisdiction, experienced in such matters, to the effect that, as a result of (i) any amendment to, or clarification of, or change (including any announced prospective change) in, the laws or treaties (or any regulations or interpretations thereunder) of the Relevant Jurisdiction or any political subdivision or taxing authority thereof or therein affecting taxation, (ii) any Administrative Action or (iii) any amendment to, clarification of, or change in the official position or the interpretation of such Administrative Action or any interpretation or pronouncement that provides for a position with respect to such Administrative Action that differs from the theretofore generally accepted position in each case, by any legislative body, court, governmental authority or regulatory body, irrespective of the manner in which such amendment, clarification or change is made known, which amendment, clarification or change is effective, or which pronouncement or decision is announced, on or after the date of issuance of the Company Securities and the Trust Securities, there is more than an insubstantial risk that (A) the Trust or the Company is or will be subject to more than a *de minimis* amount of taxes, duties or other governmental charges, (B) the Trust, the Company or an obligor on the Debt Securities would be obligated to pay Additional Amounts or Additional Interest Amounts or (C) the Bank or any other obligor of the Debt Securities (x) may not, for purposes of determining its taxable income for the purposes of determining German corporate income tax in any year, deduct in full interest payments on the Debt Securities or (y) would, other than in cases where the Capital Payments may not be declared by the Company, be subject to tax on income of the Company under the rules of the German Foreign Taxation Act (*Außensteuergesetz*); provided, however, that none of the foregoing shall constitute a Tax Event if it may be avoided by the Bank (or the relevant obligor of the Debt Securities), the Trust or the Company taking reasonable measures under the circumstances.

Temporary Global Certificate means the single global certificate representing the Trust Preferred Securities which will be exchangeable for the Permanent Global Certificate after the Restricted Period has ended.

Transfer Agent means Commerzbank Aktiengesellschaft or any successor, acting as transfer agent in relation to the Trust Preferred Securities.

Treasury Regulations means income tax regulations, including temporary and proposed regulations, promulgated under the Code by the United States Treasury Department, as such regulations may be amended from time to time (including corresponding provisions of succeeding regulations).

Trust means Commerzbank Capital Funding Trust I, a statutory trust created under the laws of Delaware.

Trust Act means the Delaware Statutory Trust Act, as amended.

Trust Agreement means the amended and restated trust agreement of Commerzbank Capital Funding Trust I dated and effective as of 30 March 2006.

Trust Capital Payments means periodic distributions to the holders of the Trust Preferred Securities paid in accordance with the Trust Agreement.

Trust Common Security means the noncumulative common security issued by the Trust in accordance with the terms of the Trust Agreement.

Trustee means the five trustees of the Trust in accordance with the Trust Agreement, three of which will be Regular Trustees, one of which will be the Delaware Trustee and one of which will be the Property Trustee.

Trust Enforcement Event means an enforcement event under the Trust Agreement, which is the occurrence, at any time, of (i) the non-payment of Trust Capital Payments (plus any Additional Amounts thereon, if any) on the Trust Preferred Securities or the Company Class B Preferred Securities at the Stated Rate in full, for the first Payment Period or, thereafter, two consecutive Payment Periods or (ii) a failure by the Bank to perform any of its obligations under the Support Undertaking.

Trust Preferred Securities means the noncumulative preferred securities issued by the Trust in accordance with the terms of the Trust Agreement.

Trust Securities means the Trust Common Security and the Trust Preferred Securities.

Trust Special Redemption Event means (i) a Tax Event solely with respect to the Trust, but not with respect to the Company or (ii) an Investment Company Act Event solely with respect to the Trust, but not with respect to the Company.

Trust Successor Securities means securities having substantially the same terms as the Trust Preferred Securities, and ranking the same as the Trust Preferred Securities with respect to Trust Capital Payments, distributions and rights upon liquidation, redemption or otherwise and which substitute the Trust Preferred Securities.

U.S. Person has the meaning given to such term in Regulation S.

Withholding Taxes means any present or future taxes, duties or governmental charges of any nature whatsoever imposed, levied or collected by or on behalf of any Relevant Jurisdiction or by or on behalf of any political subdivision or authority therein or thereof having the power to tax.

[This page intentionally left blank.]

financial information

Page references within this section refer to annual / interim financial statements as published.

[This page intentionally left blank.]

Financial statements of the Commerzbank Group 2005 (audited)

survey of the commerzbank group

World economy maintains strong growth

Despite occasional fears of recession due to the sharp rise in the price of oil, 2005 in retrospect was another very good year for the world economy. Expanding by about 4½%, it grew for the third year in succession more rapidly than the long-term average. Once again, the United States and the countries of South-East Asia proved to be the driving force. Undoubtedly, the positive surprise was Japan, whose economy has apparently overcome its more than ten-year phase of stagnation. In view of the distinct tightening of monetary policy over the past one and a half years, momentum in the USA at least will probably slacken perceptibly this year. All the same, the world economic setting can be expected to remain positive in 2006 as well.

Once again, Western Europe was the major economic area with the lowest growth rates. However, here too, there were increasing signs in the second half of the year that the economy was picking up. The same holds true for Germany, where economic activity continues to be largely dependent on buoyant foreign demand, though. While companies are stepping up their investment activity and are also prepared to borrow again for this purpose, private consumption has failed to recover so far. Consequently, real GDP growth was again unsatisfactory, reaching only 0.9%. As the world economic setting seems likely to stay positive, the economic upturn will probably continue this year, especially since the labour market is showing the first signs of becoming more stable.

In the financial markets, the main feature was the strong upswing in equity markets. Resurgent optimism about the economic outlook and sharp rises in corporate profits caused the German DAX stock index to advance by 27% in the course of the year. On balance, there were no major changes in the bond markets. Despite the tendency for central banks worldwide to steer a less expansionary monetary course, there was again no distinct increase in the yields of long-dated government bonds. In the eurozone, they even declined somewhat once again.

2005 – a good year for the Commerzbank Group

At the Commerzbank Group, we achieved one of our best operating profits to date at €1.7bn. We are posting an after-tax return on equity of 12.4% and a cost/income ratio of 67.1%; we have thus more than achieved our goals for 2005. One of the most important strategic moves last year was undoubtedly the decision to take over Eurohypo AG. In November, we reached agreement with Deutsche Bank and Allianz/Dresdner Bank to acquire their interests in Eurohypo in two steps. We bought 17.1% on December 15, 2005, transferring the entire investment to Commerzbank Inlandsbanken Holding AG. A further 49.1% will follow as of March 31, 2006. The average purchase price was €19.60 per share. This means that in future we will hold more than 98% of the equity of Eurohypo AG and become Germany's second-largest bank.

Consolidated balance-sheet total reaches €445bn

In the course of 2005, the Commerzbank Group's balance-sheet total expanded by 4.7% to €444.9bn. After contracting in previous years, our risk-weighted assets also increased again, by 7.2% to €149.7bn. While our interbank lending remained virtually unchanged at €86.2bn, claims on customers were 2.3% higher at €153.7bn. This rise partly reflects the stronger US dollar, but also the modest recovery of credit demand due to the emergent economic recovery.

Our investments and securities portfolio expanded by 19.5% to €86.2bn, mainly on account of additions to our portfolio of bonds and the acquisition of Eurohypo shares in December. At the same time, we disposed of our investments in MAN, Unibanco, Heidelberger Druck and Banca Intesa in the course of the year.

Change in structure of deposits

While our interbank borrowing grew by 12.5% to €129.9bn, our liabilities to customers declined by 2.1% to €102.8bn. Sight deposits were 12.9% higher, whereas savings and time deposits contracted by 26.4% and 4.8%, respectively. Securitized liabilities rose by 11.1% to €96.9bn, largely due to the activity of Hypothekenbank in Essen and the Parent Bank.

Encouragingly strong rise in revenues

All told, the revenues of the Commerzbank Group rose by 15.9% to €6.4bn. Net interest income increased by 5.3% to €3.2bn, thanks to Eurohypo, Essenhyp and BRE Bank in particular.

We were able to reduce provision for possible loan losses by a third to €566m, the lowest level in six years. This proves that we are on the right course in our risk management. Our portfolio of non-performing loans was €590m lower in a year-end comparison, which meant that we had further reduced the risks. The cover ratio for such loans is a comfortable 120%.

Above all, our net commission income benefited from the encouragingly brisk stock-exchange business, climbing 7.3% to €2.4bn. In addition to commissions from securities transactions and asset management, we also registered a good result for syndicated business. Our trading profit was 31.2% stronger at €707m. Apart from the positive market environment, our new orientation in investment banking with its focus on customer-driven business was a key factor here. The net result on the investments and securities portfolio almost doubled year-on-year to reach €647m. On our equity holdings, we realized proceeds of €431m, mainly through the disposal of interests in Banca Intesa, MAN, Unibanco and Heidelberger Druck. The contribution from securities was €216m.

Structure of provision for possible loan losses

Commerzbank Group, in € m	2005	2004	2003	2002	2001
Germany	629	836	791	956	609
Abroad	–63	0	293	365	318
Total net provisioning	566	836	1,084	1,321	927

Slight increase in operating expenses

Despite our strict cost management, operating expenses – rising by 3.8% to €4.7bn – were up slightly for the first time in four years. Whereas other expenses continued to decline, personnel expenses were higher due to special charges. Among other things, we set aside roughly €50m for a new form of bonus payment; starting this year, we are introducing a profit-participation scheme for employees, the payout being determined by the return on equity which is achieved. A special effect was also registered in depreciation, since we had to make a write-down of €118m on Asian real estate acquired together with the purchase of the British firm Jupiter.

Consolidated surplus more than tripled

The above-mentioned income and expenses taken together gave rise to an operating profit of €1.72bn, which was almost 70% higher than a year earlier. In order to make improvements to credit-processing procedures and at foreign outlets, we booked restructuring expenses of €37m. Subsequently, the pre-tax profit amounted to €1.68bn, compared with €796m a year previously, when we had to shoulder higher restructuring expenses for revamping investment banking and – under the accounting rules valid at that time – for regular amortization of goodwill.

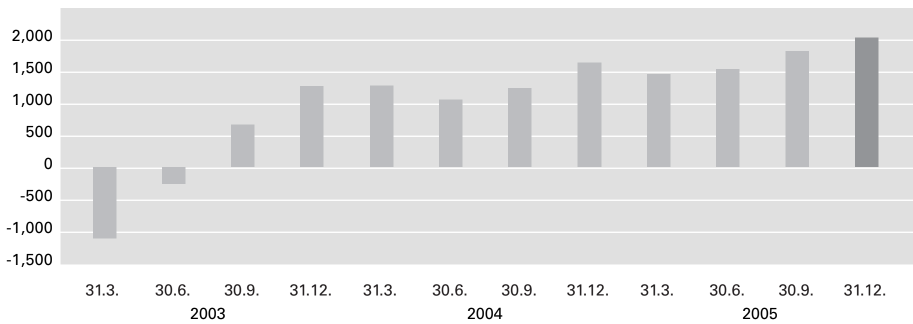
After taxes of €409m and the profits of €106m attributable to minority interests are deducted, a consolidated surplus of €1,165m remains, as against €362m a year earlier. We intend to allocate €837m of this amount to retained earnings. We will propose to the Annual General Meeting that the distributable profit of €328m be used to make a dividend payment which has been doubled to 50 cents per Commerzbank share.

Equity increased before Eurohypo transaction

The Bank's equity rose by 23.8% to €13.7bn in the course of the year. This was mainly due to the November capital increase, effected in connection with the acquisition of Eurohypo. The new shares were allocated to institutional investors at a price of €23.50 per share, providing us with about €1.36bn of new equity. Our subscribed capital rose to €1.7bn and the capital reserve increased by practically 27% to €5.7bn. The issue of shares to our staff generated €9m.

Revaluation reserve continues to rise

in € m



After the allocation from the net profit for the year, our retained earnings stand at €4.2bn. Despite the disposal of equity holdings, the revaluation reserve was 24.7% higher at €2.0bn. As we have raised our interest in comdirect bank to almost 80%, minority interests contracted by 25.4% to €947m.

At year-end, the core capital ratio stood at 8.1%, compared with 7.5% a year previously. Due to the €733m decrease in subordinated funds, our own funds ratio was reduced slightly from 12.6% to 12.5%. Parallel to acquiring the remaining 49.1% of Eurohypo on March 31, 2006, we are issuing hybrid capital for the first time in the history of Commerzbank. This will ensure that our core capital ratio remains within the target range after Eurohypo has been fully consolidated.

Changes in segment reporting

As of January 1, 2005, we adjusted our segment reporting to reflect the new organization of the Commerzbank Group. The new structure is presented in detail on page 128 of this report.

At the same time, we made additional changes in the interest of greater transparency. Parts of the Others and Consolidation segment are now assigned to operational business lines. This applies mainly to the funding costs of the equity investments controlled by the respective segments and to costs not previously allocated. In addition, we no longer show a Group Treasury segment, but instead assign the results of treasury in Germany to the relevant business lines. Last but not least, we no longer measure the equity allocated to the various segments in accordance with the German Banking Act (KWG), but rather in accordance with BIS. In order to guarantee comparability, the year-ago figures have been revised accordingly.

Stable result in Private and Business Customers segment

Last year, we increased revenue in this segment by €21m, thanks primarily to net commission income from brisk securities trading on behalf of our customers. On the other hand, investments in our growth initiatives for private banking, business customers and at comdirect bank led to higher operating expenses. In addition, the lion's share of the newly introduced profit-sharing scheme for staff is borne by this segment. The operating profit of €282m – compared with €323m a year earlier – is in line with our expectations, therefore, and reflects much improved sales performance.

With a virtually unchanged amount of equity tied up, the operating return on equity fell from 17.1% to 14.9%. The cost/income ratio rose marginally from 75.6% to 77.9%.

Assets under management reach €98.3bn

With €4.1bn more assets under management, we raised net commission income by €46m in Asset Management. All told, revenue was €17m stronger. There was a sizeable increase of €74m in operating expenses, mainly due to the revaluation of staff profit-participation models at our UK subsidiary Jupiter, as required by new accounting rules. The operating profit reached €120m, compared with €177m a year previously. However, the pre-tax profit of €120m was somewhat higher than in 2004, when the no longer admissible regular amortization of goodwill had imposed an extra burden, pushing the pre-tax profit down to €118m.

The operating return on equity deteriorated from 31.7% to 22.3% and the cost/income ratio from 68.9% to 79.5%.

Mittelstand segment successful

Both the Parent Bank in Germany and our outlets in Central and Eastern Europe – and primarily BRE Bank – as well as CommerzLeasing und Immobilien were mainly responsible for the positive development of this segment. Revenue for *Mittelstand* overall was €308m higher. Net commission income in particular expanded strongly. Provisioning, which was reduced by a sizeable €161m, also made a major contribution to the improvement in earnings. Operating expenses were virtually unchanged. We achieved an operating profit that was a good three times higher, rising from €131m to €408m. The income statement of this segment includes €22m in restructuring expenses set aside for improving credit-processing procedures, which reduces the pre-tax profit.

Despite the larger average amount of equity tied up, the operating return on equity jumped from 4.9% to 13.5%, and the cost/income ratio improved from 59.3% to 56.2%.

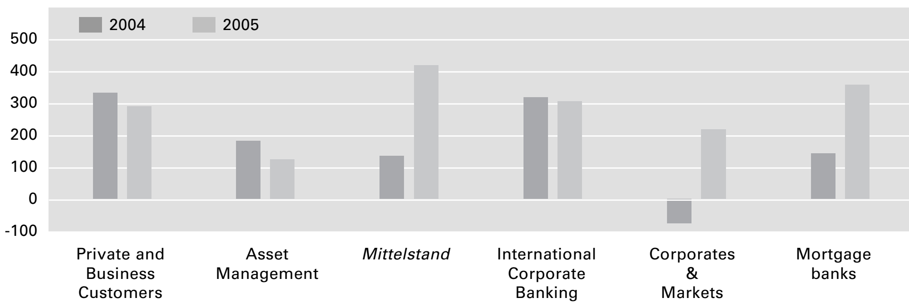
Efficiency-boosting programme for International Corporate Banking

International Corporate Banking benefited above all from the reversal of provisions in 2005; we show a positive balance of €69m under provision for possible loan losses. Net interest income was lower on account of a weaker treasury result, while net commission income was more or less unchanged. With operating expenses slightly higher, we achieved an operating profit of €299m, as against €311m a year earlier. In this segment, we have recognized restructuring expenses of €11m in connection with our project to boost efficiency at outlets in Western Europe.

The operating return on equity receded from 23.3% to 21.5% – with a slightly larger average amount of equity tied up. The cost/income ratio rose from 43.6% to 53.1%.

Operating profit, by segment

in € m



Repositioning of Corporates & Markets paying off

Revenue in this segment increased by €138m, driven by the excellent trading profit and improved net interest income after provisioning. At the same time, we managed to cut our operating expenses considerably, by €149m, by concentrating our business activities. This led to a positive swing in our operating profit, which moved from minus €75m to an encouragingly high €212m. We needed €132m to cover restructuring expenses last year. For 2006, we have earmarked only a small amount of €4m.

With a much reduced average amount of equity tied up, the operating return on equity rose from –3.7% to 11.7%. The cost/income ratio fell from 105.1% to 78.7%.

Mortgage Banks – a solid pillar in our earnings performance

Our mortgage banks produced excellent performance in 2005. Their net interest income more than doubled, not least due to the boom in new business. Overall, revenue increased by €214m, while operating expenses remained at their low year-earlier level. The operating profit reached €350m, compared with €139m in 2004.

With an unchanged average amount of equity tied up, the operating return on equity climbed substantially from 13.9% to 34.8%, while the cost/income ratio dropped further from last year's already excellent level of 19.1% to 11.1%.

Mortgage banks

	2005
Equity tied-up (€ m)	1,007
Operating return on equity	34.8%
Cost/income ratio in operating business	11.1%

Commerzbank Group back on a successful course

The 2005 returns on equity for the Commerzbank Group as a whole show that we have made good progress on the way to achieving sustained earnings performance. By 2010 at the latest, we intend to have an after-tax return on equity of 15%, and the cost/income ratio should settle at around 60%. For 2006, we have set ourselves the target of a return on equity of over 10% and a further decline in our cost/income ratio.

Development in individual quarters

2005 financial year

€ m	**Total**	4th quarter	3rd quarter	2nd quarter	1st quarter
Net interest income	3,172	833	771	847	721
Provision for possible loan losses	–566	–40	–151	–177	–198
Net interest income after provisioning	2,606	793	620	670	523
Net commission income	2,415	645	599	593	578
Net result on hedge accounting	–22	–	–5	–5	–12
Trading profit	707	217	217	11	262
Net result on investments and securities portfolio	647	190	79	84	294
Other result	26	–9	6	26	3
Operating expenses	4,662	1,370	1,097	1,088	1,107
Operating profit	**1,717**	**466**	**419**	**291**	**541**
Regular amortization of goodwill	–	–	–	–	–
Restructuring expenses	37	37	–	–	–
Pre-tax profit	**1,680**	**429**	**419**	**291**	**541**
Taxes on income	409	84	126	83	116
After-tax profit	**1,271**	**345**	**293**	**208**	**425**
Profit/loss attributable to minority interests	–106	–12	–31	–33	–30
Consolidated surplus	**1,165**	**333**	**262**	**175**	**395**

2004 financial year

€ m	**Total**	4th quarter	3rd quarter	2nd quarter	1st quarter
Net interest income	3,013	747	719	806	741
Provision for possible loan losses	–836	–185	–199	–214	–238
Net interest income after provisioning	2,177	562	520	592	503
Net commission income	2,250	570	526	557	597
Net result on hedge accounting	6	–1	14	–11	4
Trading profit	539	103	–9	131	314
Net result on investments and securities portfolio	339	82	23	180	54
Other result	193	9	35	82	67
Operating expenses	4,493	1,159	1,086	1,136	1,112
Operating profit	**1,011**	**166**	**23**	**395**	**427**
Regular amortization of goodwill	83	22	20	21	20
Restructuring expenses	132	–	132	–	–
Pre-tax profit	**796**	**144**	**–129**	**374**	**407**
Taxes on income	353	47	71	107	128
After-tax profit	**443**	**97**	**–200**	**267**	**279**
Profit/loss attributable to minority interests	–81	–5	–16	–27	–33
Consolidated surplus	**362**	**92**	**–216**	**240**	**246**

corporate governance at commerzbank

On February 26, 2002, an independent commission set up by the German government published the German Corporate Governance Code for the first time. It describes key statutory provisions for the management and supervision of German listed companies and embodies internationally and nationally recognized standards for good and responsible governance. The Code makes the German system of corporate governance transparent and intelligible. It strengthens the confidence of investors, customers, employees and the general public in the management and supervision of German listed companies.

Responsible corporate governance has always been a high priority at Commerzbank. That is why we – the Supervisory Board and the Board of Managing Directors – expressly support the Code as well as the goals and objectives which it pursues. Even at the time of publication of the German Corporate Governance Code, Commerzbank's articles of association and the rules of procedure for the Board of Managing Directors and Supervisory Board complied with its requirements for the most part. Wherever this was not yet the case, we have adjusted them to the regulations of the German Corporate Governance Code. The relevant changes to the articles of association were resolved by the Annual General Meeting of May 30, 2003. The articles of association and the rules of procedure are available on the internet.

Commerzbank's corporate governance officer is Günter Hugger, head of Legal Services. He is the person to contact for all corporate governance issues and has the function of advising the Board of Managing Directors and the Supervisory Board on the implementation of the German Corporate Governance Code and of reporting on its implementation by the Bank.

Recommendations of the German Corporate Governance Code

The Bank declares every year whether the recommendations of the Commission regarding conduct have been and will be complied with or explains which recommendations have not been and will not be applied. This declaration of compliance by the Board of Managing Directors and the Supervisory Board is published on Commerzbank's internet site. There, the no longer current declarations of compliance, made since 2002, may also be found.

Commerzbank complies with virtually all of the recommendations of the German Corporate Governance Code in its version of June 21, 2005; it deviates from them in only two points:

Pursuant to section 4.2.2, the full Supervisory Board should discuss and regularly review the structure of the system of compensation for the Board of Managing Directors. The Supervisory Board has entrusted matters related to the compensation of the Board of Managing Directors to its Presiding Committee, which independently resolves upon and deals with them. This procedure has proved successful. The Presiding Committee discusses the structure of the system of compensation, regularly reviews it and determines the amount of compensation for members of the Board of Managing Directors. It reports to the full Supervisory Board on its deliberations and decisions.

Pursuant to section 5.3.2 of the Code, the Audit Committee shall deal not only with accounting issues and the audit of the annual financial statements, but also with issues related to the Bank's risk management. Commerzbank has entrusted risk-management issues to the Risk Committee of the Supervisory Board, which for years has dealt with the Bank's credit, market and operational risk, rather than to its Audit Committee. It is ensured that the Audit Committee is extensively informed about risk-management issues by the chairman of the Audit Committee also being a member of the Risk Committee of the Supervisory Board.

Suggestions of the German Corporate Governance Code

Commerzbank also complies with virtually all of the suggestions of the German Corporate Governance Code, deviating from them in only six points:

In derogation of section 2.3.3, the proxy can only be reached up to the day of the Annual General Meeting. However, shareholders present or represented at the Annual General Meeting are able to give their proxy instructions there as well.

In section 2.3.4, it is suggested that the Annual General Meeting be broadcast in its entirety via internet. We broadcast the speeches of the Chairman of the Supervisory Board and the Chairman of the Board of Managing Directors, but not the general debate. For one thing, a complete broadcast seems inappropriate given the length of annual general meetings; for another, the personal rights of the individual speaker have to be considered.

Section 3.6 of the German Corporate Governance Code suggests that separate meetings should be held regularly for the representatives of the shareholders and the employees. We arrange such preparatory meetings only if the need arises.

Section 5.3.2 suggests that the chairman of the Audit Committee should not be a former member of the Board of Managing Directors. We have not adopted this suggestion as the expertise of the person in question takes priority for us.

The suggestion contained in section 5.4.6 that the members of the Supervisory Board should be elected at different dates and for different periods of office is not compatible with the German system of co-determination. Employee representatives, namely, have to be elected together for five years. The suggestion could only be applied, therefore, in the case of shareholder representatives and would consequently lead to unequal treatment.

Last but not least, it is suggested in section 5.4.7 of the Code that the variable compensation of Supervisory Board members should also be related to the long-term performance of an enterprise. At Commerzbank, the variable compensation of Supervisory Board members is related to the dividend payment. We consider this to be a transparent and readily understandable system. What is more, the most recent judgement of the Federal Court of Justice (*Bundesgerichtshof*) makes it doubtful whether long-term compensation structures are permissible.

ComWerte project

Responsible corporate governance also entails the development and observance of internal rules of conduct and principles. A "corporate constitution" is to serve this purpose, which is being prepared since mid-2005. This is an extensive project, bearing the name "ComWerte". It describes the principles upon which the corporate culture is based and Commerzbank's values, and links these up with guidelines and statutory provisions. In this way, a responsible corporate culture is to be clearly and sustainably implemented and responsible conduct on the part of employees encouraged. It will be introduced in the course of the current year.

Board of Managing Directors

The Board of Managing Directors is responsible for the independent management of the Company. In this function, it has to act in the Company's best interests and is committed to achieving a sustained increase in the value of the Company and to respecting the interests of customers and employees. It develops the Company's strategy, coordinates it with the Supervisory Board and ensures its implementation. In addition, it guarantees efficient risk management and risk control. The Board of Managing Directors conducts Commerzbank's business activities in accordance with the law, the articles of association, its rules of procedure and the relevant employment contracts. It cooperates on a basis of trust with Commerzbank's other bodies and with employee representatives.

The composition of the Board of Managing Directors and the responsibilities of its individual members are presented on pages 202-203 of this annual report.

In the 2005 financial year as well, members of the Board of Managing Directors were involved in no conflicts of interest as defined in section 4.3 of the German Corporate Governance Code.

Principles of the compensation system for members of the Board of Managing Directors

The compensation of the members of the Board of Managing Directors is made up of a fixed remuneration and a variable bonus, based on Commerzbank's business success and the attainment of previously defined targets. In addition, there is appropriate remuneration in kind. Emoluments for board functions at subsidiaries are counted against remuneration. On page 176 of this annual report, the compensation of the members of the Board of Managing Directors can be found in individualized form, broken down according to the various components.

Since 2001, the members of the Board of Managing Directors, like other executives and selected staff of the Group, have been able to participate in so-called long-term performance plans (LTPs). These annually offered plans permit a remuneration geared to the performance of the share price or a sectoral index, which in some cases is paid in cash, and are therefore referred to as virtual stock option plans. They entail a payment commitment if the price performance of the Commerzbank share exceeds that of the Dow Jones Euro Stoxx Banks and/or the absolute performance of the Commerzbank share is at least 25%. In order to participate in the LTPs, those eligible have to invest in Commerzbank shares. Members of the Board of Managing Directors may participate with up to 2,500 shares, the spokesman of the Board of Managing Directors with up to 5,000 shares. Below Board level, employees may subscribe to between 100 and 1,200 shares for the plan, depending on the function group of the employee. The exact structure of these LTPs is explained on pages 118 and 119 of this annual report; details of the current value of these options may be found on pages 181 and 182.

Supervisory Board
The Supervisory Board advises and supervises the Board of Managing Directors in its management of the Company. It conducts its business activities in accordance with the legal provisions, the articles of association and its rules of procedure; it cooperates closely and on a basis of trust with the Board of Managing Directors.

The composition of the Supervisory Board and its committees is presented on pages 199 and 200 of this annual report. Information on the work of this body, its structure and its control function is provided by the report of the Supervisory Board on pages 195-198.

Every two years, the Supervisory Board examines the efficiency of its activities by means of a detailed questionnaire. Such an examination took place at the start of 2004. At the start of 2005, an abridged examination was carried out and by the end of last year another detailed survey. It focused once again on the topics:

- Information flow from the Board of Managing Directors to the Supervisory Board
- Meetings (number, topics and main emphases)
- Composition of the Supervisory Board (efficiency, independence)
- Committees (number, distribution of duties)

The results of the efficiency check provide the basis for further improving the work of the Supervisory Board. Evaluation of the findings revealed that supervision continues to be professional at Commerzbank. In principle, the number of meetings per year is considered adequate and the distribution of duties between the Supervisory Board and its committees sensible. In the Supervisory Board's opinion, no further committees are necessary. The wish was frequently expressed that the full Supervisory Board should receive more detailed information on the work of the committees. The composition of the Supervisory Board in terms of competence, experience, specialist knowledge, etc. is basically thought to be appropriate. The question whether the Supervisory Board is sufficiently independent also basically received an affirmative answer. Frequently, the wish was expressed to be informed earlier. However, it was conceded that in many cases statutory provisions (so-called ad hoc publication) prevent this wish from being realized. Generally great interest exists in receiving detailed reports and discussing the Bank's strategic course.

During the Risk Committee's discussion of the acquisition of Eurohypo AG, Mr. Müller-Gebel informed the other members of the committee that he was also a member of the supervisory board of Eurohypo AG and as a precautionary measure he abstained when the resolution was subsequently adopted. Further conflicts of interest as defined in section 5.5 of the German Corporate Governance Code did not occur during the year under review.

Compensation of the Supervisory Board
The members of our Supervisory Board will receive remuneration of €1,394 thousand for the 2005 financial year (previous year: €1,054 thousand), provided that the AGM of Commerzbank Aktiengesellschaft resolves that a dividend of

€0.50 be paid per no par-value share. The remuneration of the members of the Supervisory Board is regulated by Art. 15 of the articles of association and is divided as follows between the individual members:

2005 **Supervisory Board members**	**Basic remuneration**[1] **in €1,000**	**Committee remuneration** **in €1,000**	**Total** **in €1,000**
Dr. h.c. Martin Kohlhaussen	108	72	180
Uwe Tschäge	72	18	90
Hans-Hermann Altenschmidt	36	18	54
Dott. Sergio Balbinot	36	18	54
Herbert Bludau-Hoffmann	36	–	36
Astrid Evers	36	–	36
Uwe Foullong	36	–	36
Daniel Hampel	36	–	36
Dr.-Ing. Otto Happel	36	18	54
Dr. jur. Heiner Hasford	36	18	54
Sonja Kasischke	36	–	36
Wolfgang Kirsch	36	18	54
Werner Malkhoff	36	18	54
Klaus Müller-Gebel	36	54	90
Dr. Sabine Reiner	36	–	36
Dr. Erhard Schipporeit	36	–	36
Dr.-Ing. Ekkehard D. Schulz	36	–	36
Prof. Dr. Jürgen F. Strube	36	18	54
Dr. Klaus Sturany	36	–	36
Dr.-Ing. E.h. Heinrich Weiss	36	18	54
Total	**828**	**288**	**1,116**[2]

1) This basic remuneration consists of a fixed portion (roughly 55.6%) and a variable portion dependent on the dividend payment (roughly 44.4%); 2) in addition to this amount, attendance fees of €277 thousand were paid.

Purchase and disposal of the Company's shares

Pursuant to Art. 15a of the German Securities Trading Act (*Wertpapierhandelsgesetz* – WpHG), transactions by executives of listed companies and their families have to be disclosed and published. Accordingly, purchases and disposals of shares and also of financial instruments related to Commerzbank of €5,000 and upwards must be reported immediately and for the duration of one month. Through the resolution adopted by the Board of Managing Directors on November 16, 2004, the circle of people required to notify and publish such information was enlarged on account of the German legislation to improve investor protection so as to include Regional Board Members and Group Managers who regularly have access to insider information and are authorized to make business decisions. The resolution adopted by the Board of Managing Directors on August 16, 2005, limited this duty to notify to the Board of Managing Directors and Supervisory Board again; in this, the Bank followed the recommendations of BaFin's guide for issuers.

In 2005, Commerzbank published the following transactions on its internet site under the heading "Directors' Dealings":

Date	Name	Function	Purchase/ Disposal	No. of shares	Price per unit in euros
16.02.05	Klaus-Peter Müller	Board of Managing Directors	P	2,047	16.77
				2,953	16.78
16.02.05	Dr. Eric Strutz	Board of Managing Directors	P	2,000	16.79
16.02.05	Martin Blessing	Board of Managing Directors	P	3,000	16.82
16.02.05	Dr. Achim Kassow	Board of Managing Directors	P	2,000	16.84
18.02.05	Dr. Renate Krümmer	Group Manager	P	2,250	16.86
21.02.05	Roman Schmidt	Group Manager	P	3,000	16.95
12.04.05	Sonja Kasischke	Member of Supervisory Board	D	300	17.88
03.05.05	Martin Blessing	Board of Managing Directors	P	3,000	16.34
03.05.05	Dr. Achim Kassow	Board of Managing Directors	P	2,000	16.28
04.05.05	Dr. Sebastian Klein	Group Manager	P	1,200	16.34
09.05.05	Klaus-Peter Müller	Board of Managing Directors	P	5,000	16.41
16.05.05	Frank Annuscheit	CIO	P	745	16.05
18.05.05	Martin Zielke	Group Manager	P	1,155	16.47
19.05.05	Ulrich Leistner	Regional Board Member	P	1,200	16.61
23.05.05	Andreas de Maizière	Board of Managing Directors	P	1,500	16.52
23.05.05	Martin Blessing	Board of Managing Directors	P	7,500	16.41
25.05.05	Nicholas Teller	Board of Managing Directors	P	2,500	16.35
30.05.05	Werner Weimann	Regional Board Member	P	1,000	17.25
30.05.05	Andreas Kleffel	Regional Board Member	P	64	17.68
06.06.05	Peter Bürger	Group Manager	P	660	17.85
07.06.05	Michael Seelhof	Group Manager	P	144	17.60
08.06.05	Michael Seelhof	Group Manager	P	150	17.72
08.06.05	Dr. Peter Hennig	Group Manager	P	455	17.73
22.06.05	Frank Annuscheit	CIO	P	210	18.57
05.08.05	Roman Schmidt	Group Manager	D	3,000	19.71
					19.72
					19.73
09.09.05	Hans-Hermann Altenschmidt	Member of Supervisory Board	D	530	22.50
21.10.05	Daniel Hampel	Member of Supervisory Board	P	250	20.80
17.11.05	Dr. Achim Kassow	Board of Managing Directors	P	2,500	23.66

All told, the Board of Managing Directors and the Supervisory Board owned no more than 1% of the issued shares and option rights of Commerzbank AG on December 31, 2005. Employees hold almost 2% of Commerzbank's capital; this is due above all to the regular share issues to staff over the past 30 years.

Accounting

For accounting purposes, the Commerzbank Group applies the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS); the individual financial statements of Commerzbank AG are prepared according to HGB rules. The consolidated financial statements and the financial statements of the Parent Bank are prepared by the Board of Managing Directors and approved by the Supervisory Board. The audit is performed by the auditors elected by the Annual General Meeting. The annual financial statements also include a detailed risk report, providing information on the Company's responsible handling of the various types of risk. It appears on pages 56-93.

Shareholder relations and communication

Once a year, the Annual General Meeting of shareholders takes place. Above all, it resolves upon the appropriation of the distributable profit, approves the actions of the Board of Managing Directors and the Supervisory Board as well as amendments to the articles of association and, if necessary, authorizes the Board of Managing Directors to undertake capital-raising measures. Each share entitles the holder to one vote.

The Bank's shareholders may submit recommendations or other statements by letter or e-mail or may present them in person. The Bank's head-office quality management unit is responsible for dealing with written communication. At the Annual General Meeting, the Board of Managing Directors or the Supervisory Board comment or reply directly. At the same time, shareholders may influence the course of the Annual General Meeting by means of counter-motions or motions to extend the agenda. Shareholders may also apply for an extraordinary General Meeting to be convened.

Commerzbank informs the public – and consequently shareholders as well – four times a year about the Bank's financial position and earnings performance; further corporate news items that are relevant for the share price are published in the form of so-called ad hoc releases. By means of press conferences and analysts' meetings, the Board of Managing Directors reports on the annual financial statements and the quarterly results. For reporting purposes, Commerzbank increasingly uses the possibilities offered by the internet; at www.commerzbank.com, those interested can find a wealth of information on the Commerzbank Group.

We feel committed to communicating in an open and transparent manner with our shareholders and all other stakeholders. We intend to realize this claim in the future as well.

Frankfurt am Main, February 14, 2006

Commerzbank Aktiengesellschaft

The Board of Managing Directors	The Supervisory Board

retail banking and asset management

The Retail Banking and Asset Management division consists of the segments Private and Business Customers and Asset Management. Through our nationwide branch network, we offer retail customers a broad range of products. In the meantime, we serve our sophisticated private-banking clients at 37 locations in Germany and at selected outlets abroad. In Asset Management, we have a presence in Germany and in selected international locations.

Private and Business Customers segment

Private and Business Customers

	2005
Equity tied-up (€ m)	1,891
Operating return on equity	14.9%
Cost/income ratio in operating business	77.9%

The Private and Business Customers segment is made up of the Private and Business Customers and Private Banking departments as well as comdirect bank AG. In view of the various special charges which had to be borne, we are very satisfied with the operating profit of €282m. The operating return on equity was 14.9% and the cost/income ratio 77.9%.

Private and Business Customers department

Our activities involving private and business customers have made good progress. The basis for this success was strong sales performance; we had 35% more contacts with customers, using them to conclude 20% more deals than in the previous year. Our success on the distribution front was fuelled by broad product sales and efficiency-raising measures under the *grow to win* programme for excellence and growth.

Leading position in providing securities advice

In order to achieve a better match between Commerzbank's securities expertise and customers' needs, new technical solutions were introduced in 2005 to support advisers and customers in their investment decisions. As a result, we are setting standards in German banking. Central to our project – Wertpapier 100+ – is the idea that an investment strategy for specific customers must duly take into consideration their investment mentality and actively relate their individual financial and asset situation to current capital-market information. Subsequently, constant comparisons have to be made between the two. We achieve this by means of our "Infobroker" securities information system, which is directly linked up with the Bank's customer information system. In addition, every market-induced structural change becomes evident by comparing the customer's custody account with model custody accounts, so that the custody account can be adjusted at short notice at a meeting with the customer.

For a broader range of investment products, Commerzbank has developed its pioneering role in the distribution of third-party funds. This has been confirmed by the German standards control association TÜV Süd, which once again awarded Commerzbank the "tested fund selection" certificate – the only bank to receive such confirmation. At Commerzbank, funds are subjected to a firmly defined, transparent and objective selection process. Only funds with the best results are given a buy recommendation. They can be either in-house funds or third-party products.

The decision to follow the recommendations of the selection process pays off for customers: in 2005, the "best of" recommendations performed far better than comparable funds. On average, they outperformed the index by almost 9%. All told, we managed to expand the volume of securities under custody by as much as €3.5bn to €38bn; revenue was 22% higher.

Market position in home loans expanded further

For the first time in three years, our portfolio of home loans expanded. New business was 48% stronger than in 2004. We achieved this through a combination of our high-quality advice and attractive market conditions. In order to help customers take better advantage of the favourable interest-rate situation, we launched an innovative product – BaufiFlex – which responds flexibly to market conditions. The public's attention was caught by a year-long market offensive, positioning Commerzbank as a leading provider of home loans.

The specialist on the spot derives support for the individual advice he or she provides from a programme developed exclusively for this purpose. It offers solutions extending far beyond a simple financing and is optimally tailored to personal needs. These include various possibilities for obtaining public funds, special redemption rights, and flexible availability of the loan.

The integration of Eurohypo into the Commerzbank Group has considerably strengthened our position in the home loan area.

New business model for bancassurance and provision

Banks are playing an ever more important role as providers of special services in private provision for old age. We have responded to this challenge with an efficient and individual strategy for making such provision.

We have great competence in this field thanks to our cooperation with our insurance partner, the AMB Generali group. With the excellent insurance products of Volksfürsorge and our traditional banking and investment products, the optimal solution can be found for every kind of provision need. In order to handle the growing demand for services related to provision even better, Commerzbank has overhauled its business model for advising customers in the bancassurance and provision areas. Every account manager at every branch is now able to give customers direct and individual advice on this topic. They are supported in their efforts by the new ComVor software, a streamlined product palette and an extensive coaching programme. For complex issues, they can turn to the specialists of our Commerz Partner subsidiary. After the new business model had been introduced, the number of deals concluded tripled.

Strong growth in basic products

Consumer loans benefited in particular from the more intensive sales efforts. Year-on-year, the volume of new business expanded by 22% to €643m. The successful introduction of FlexiCard, a reasonably-priced financial reserve, available at all times, was a major driving force. The number of new accounts was similar to the previous year's; sales of cards rose by 30%.

More consulting for business customers

Professional people, the self-employed and businessmen expect their bank to provide them with convincing solutions for their business and private financial affairs. In response to these needs, Commerzbank has considerably enhanced its model for business customers.

The product range that is entirely geared to the needs of this group is a combination of convincing solutions in business-related financial issues and all-inclusive individual advice for private financial matters. In this way, we managed to gain more than 20,000 new business customers last year. Thanks to the all-inclusive support provided, we also boosted new business in investment loans by a solid 40%.

Currently, Commerzbank is looking after over 440,000 business customers at more than 600 locations in Germany. Customers benefit, therefore, from the expertise and efficiency of a major international bank combined with regional market knowledge and an on-the-spot presence.

SchmidtBank successfully integrated

The technical migration in early March 2005 put the final touches to the successful takeover of SchmidtBank. All the accounts and custody accounts as well as the investment products and loans of former SchmidtBank customers were transferred to Commerzbank's systems – all in all, over eight million data records. Only ten months after the takeover, therefore, Commerzbank had completely integrated the branch business of the long-established regional bank into its own network, thereby notably increasing its market presence in Bavaria, Thuringia and Saxony. We now have 791 outlets throughout Germany. We have attracted altogether just under 350,000 new retail customers with our products and services.

88 branches of the future

We are continuing to strengthen our branch network with the "branch of the future" project. Branches of this type are customer-oriented and focus on consulting and distribution. We achieve this, for one thing, through the standardization, streamlining and centralization of administrative functions; for another, through modern and efficient self-service terminals. Here we also make it possible to effect other cash transactions such as in-payments of banknotes and coins 24 hours a day. We will continue to introduce more automation, in terms of both functionalities and locations.

Up to now, small branches in particular have benefited from the new format. It enables us to have an on-the-spot presence and to respond to the customer's wish for a local source of services and continuity in the advice provided. As there is a growing need for advice and products are becoming ever more complex, our customers' response is positive. In future, we will incorporate elements of the new branch type at medium-sized and large branch offices.

2006: consolidation and growth
In 2006 as well, our efforts will focus on establishing new business models – both for looking after business customers and for private provision. We will continue to invest in preparing our sales network to meet the challenges of the future and will continue to develop and enhance our *grow to win* programme for excellence and growth. Last but not least, by integrating Eurohypo we intend to improve our product range further and strengthen our position with private and business customers.

Private Banking department
In Private Banking, we more than attained the ambitious goals set for last year. Assets under management expanded by 12% in 2005 to over €22bn and consequently well above the market average. As a result, we have further strengthened our position as one of the top three in Germany in looking after private clients.

Just under 600 staff worldwide provide support for roughly 22,000 clients in all wealth-related issues. Our all-inclusive service ranges from individual portfolio management and active securities management via financial investment and real-estate management to the management of foundations, estates and private wealth. With its 37 locations – including those opened in Saarbrücken, Regensburg and Bayreuth in 2005 – Commerzbank offers the greatest density of private-banking outlets in Germany.

Internationally, four centres of competence in Zurich, Geneva, Luxembourg and Singapore complement the services provided for wealthy private clients on the spot in important financial centres and offshore markets. Our clients are also able to benefit directly from the investment opportunities in the international financial markets thanks to Commerzbank's worldwide network.

Innovation leader for investment ideas...
Through the close links with Commerzbank's Asset Management, our private-banking relationship managers can directly tap the expertise of over 100 analysts and capital-market experts. This approach pays off: our portfolio management regularly claimed top positions in the relevant league tables in 2005. Apart from such traditional forms of investment as equities and bonds, investment funds and certificates, a major focus last year was on promoting alternative investments such as hedge funds, guarantee products and asset-backed securities. Here, we are guided by our clients' underlying goals: to preserve value after inflation and tax.

The asset structure of our clients can also be improved by granting credits or by other investment instruments – such as equity participations or real estate. Our main other advisory activities relate to helping clients to organize their estates and to the management of foundations. Thanks to this extensive range of services, we can offer all our clients specially tailored investment solutions.

...and quality leader for advice and support
Apart from the very close contact and the trust that exists between client and relationship manager, it is the holistic view of the client's wealth situation and his individual goals that is decisive. Consequently, the models for providing advice and support need to be ideal fits. Last year, therefore, the

Unternehmerbankiers (entrepreneur's bankers) advisory concept was launched for very wealthy private individuals with an entrepreneurial background. These experts possess extensive experience in national and international corporate and private investment banking. In addition, they are able at any time to draw upon expertise from inside the Group and, if necessary, from outside it as well.

By strategically combining the efficiency and creativity of a major international bank with the exclusive and personal style of a local private bank, Commerzbank Private Banking will substantially expand its market position in the future as well. For this purpose, we plan further locations in Germany and more activities abroad. A second strategic focus in 2006 is on raising the new volume in portfolio management, which is one of the main factors contributing to success in Private Banking.

comdirect bank

In the past financial year, we acquired T-Online International AG's 21.32% interest in comdirect bank AG. Commerzbank now holds 79.9% of the company's share capital. We took this step because we are convinced that direct banking still possesses substantial scope for expansion in Germany.

comdirect bank easily exceeded its targets in the 2005 financial year. Although the comvalue programme for growth entailed additional investments, our subsidiary managed again to improve upon its record result in the previous year. At the AGM on May 4, 2006, its management board and supervisory board will propose an unchanged dividend of €0.24 per share.

The product and market offensive launched in connection with comvalue in 2005 led to strong growth in all three fields of competence: brokerage, banking and financial advisory. At year-end, comdirect bank was looking after over 656,000 customers, almost 6% more than a year earlier. The number of current accounts, where acquisition efforts had been particularly intensive, rose by 75% to 155,958, while the number of securities saving plans virtually doubled. Thanks to inflows of funds and price gains, the total assets under custody increased by 30% to €12.9bn; funds and deposits reached their highest level to date. comdirect private finance, comdirect bank's advisory subsidiary, was looking after altogether 8,240 customers in 13 locations at year-end, thereby clearly exceeding its set target for 2005 of 5,000 new customers.

Stage set for further expansion

With the expansion of banking and financial advisory, and also through the closer meshing of the products offered, comdirect represents the bank format of the future. On this basis, it is seeking above-average growth for those of its revenue components that are largely independent of the stock exchange. The comvalue programme for growth, which is scheduled to run for three years, is being continued according to plan.

In addition to growing organically, comdirect bank made a successful acquisition last year. In October, it reached agreement with American Express Bank to take over a portfolio with roughly 44,000 customers on January 1, 2006, at a price of about €13m. Thanks to this transaction, comdirect bank enters the 2006 financial year with around 700,000 customers.

Asset Management segment

At end-2005, our Asset Management had altogether €98bn of assets under management, for the most part concentrated at our companies in Frankfurt, London and Paris. Within an overall multi-boutique approach, these serve as centres of competence for individual markets. With effect from November 1, 2005, we adapted the organizational structure of Asset Management even more strongly to the strategic challenges of the individual markets: German Asset Management, comprising the COMINVEST group, COMSELECT and private portfolio management; International Asset Management, comprising the major participations Jupiter International and Caisse Centrale de Réescompte, and also Asset Management Real Estate with the Commerz Grundbesitz group.

In Asset Management, we achieved an operating profit of €120m in 2005, compared with €177m a year earlier. The decline is mainly due to the reassessment of staff profit-sharing models at Jupiter; otherwise, earnings performance was stable. The operating return on equity was 22.3% and the cost/income ratio 79.5%.

Asset Management

	2005
Equity tied-up (€ m)	537
Operating return on equity	22.3%
Cost/income ratio in operating business	79.5%

German Asset Management department

The COMINVEST group concentrates on actively managed securities-based funds for private and institutional customers mainly in Germany, and together with the ebase subsidiary, on servicing and managing custody accounts. Through a stronger sales orientation and by adjusting funds' cost structure to the market level, COMINVEST made a notable contribution to the overall result of Asset Management.

Retail customers

After several difficult years, the investment industry in Germany registered marked expansion in 2005. There was strong demand for bond-based funds in particular; total return concepts met with especially great interest on the part of investors looking for security.

An uneven picture emerged for the third-party, direct and Group distribution channels. On account of our systematically pursued open architecture approach, we had to accept notable outflows for our own fund products. Nonetheless, our customers found innovative product conceptions convincing. Apart from tax-optimized retail funds, modern products with dynamic capital protection are increasingly regarded as a core competence of the ADIG brand. Stable performance was registered by the direct and third-party segments.

COMINVEST's marketing activities were concentrated on the ADIG Fondak fund. Against this background, its volume more than doubled from €0.9bn to €1.9bn last year. With performance of 33%, it once again did justice to its reputation for being the best German equity-based fund. Numerous awards provide objective confirmation for the quality of this retail fund.

Institutional clients

In institutional business, we raised the assets under management to €29.5bn in 2005. As in the previous year, shifts occurred between the various classes of mandate. Redistribution was mainly prompted by tighter legal accounting requirements as well as the possibilities opened up by investment legislation.

We were actively involved in this development, responding to the changes in clients' needs by introducing seven institutional classes for retail funds. Whereas there was a slight decline in the volume of assets managed in the 273 special or non-publicly-offered funds and the 21 mandates by free portfolio managers for institutional investors, we were able to expand the assets under management in other forms of investment substantially in some cases.

For 2006, we are again aiming for profitable growth. This is to be realized not only through new business but above all by marketing value-added services requiring intensive advisory and by selectively adding to our product range geared to the needs of institutional investors. In this connection, we are quite consciously using third-party products under a multi-manager approach. Cooperation with SEI is one of several successful examples here.

Professional custody service

European Bank for Fund Services GmbH (ebase) is a securities trading bank, offering a platform for servicing and managing custody accounts. It has successfully positioned itself as one of the market leaders among fund platforms.

In 2005, too, we introduced new products and gained new customers. Their number rose sharply to over 940,000 and that of the custody accounts managed to 1.7m. The assets under control expanded from €7.4bn at end-2004 to €11.5bn at the end of last year.

International Asset Management department

Jupiter International achieves impressive growth

Thanks to rising equity prices and the good performance of its funds, our UK subsidiary, the Jupiter Group, substantially improved its operating result once again. With their stock-picking approach, the experts at Jupiter managed to beat both the benchmark and peer groups. Their fine performance earned Jupiter's portfolio managers eighteen awards. These included such prominent prizes as the Global Group of the Year 2005 award from *Investment Week*, which Jupiter received for the second time in succession.

Above all in retail fund management, Jupiter was able to raise its assets under management to a disproportionately strong extent. The inflows were spread between a large number of funds, including the flagships Jupiter Income Trust, Jupiter Emerging European Opportunities and Jupiter Financial Opportunities funds. At the same time, some products were repositioned and enhanced.

CCR strong in value-oriented equity funds

Our French subsidiary, Caisse Centrale de Réescompte (CCR), also raised its assets under management considerably, by practically a fifth. This encouraging expansion was largely based on CCR's core competence, money-market funds and equity funds managed according to the value approach. For these products, the company boasts outstanding long-term performance and has also won important prizes, such as France's most famous Corbeille Award for the most successful capital investment company in 2005.

Real Estate department

Under the umbrella of Commerz Grundbesitzgesellschaft mbH, the two operational companies Commerz Grundbesitz-Investmentgesellschaft (CGI) and Commerz Grundbesitz-Spezialfondsgesellschaft (CGS) manage Commerzbank's open-ended property funds. CGI concentrates on retail funds and CGS on special funds for institutional investors.

CGI's flagship product is hausInvest europa, launched in 1972. With a market share of 12%, the fund continues to be one of the market leaders among German open-ended property funds. As 80% of its real estate is held abroad, its investors have a below-average exposure to market developments in Germany, compared with the rest of the industry. All the same, the fund experienced sizeable net outflows due to market developments. Liquidity was ensured at all times, though.

CGI was able to acquire further attractive real estate for hausInvest global, which invests worldwide. It is the first German investor to commit itself to Canada and Turkey, two markets of the future. Only two years after sales were launched, hausInvest global has already registered inflows of over €1.3bn, making it one of the most successful new funds in the past few decades. The fund invests entirely outside Germany.

At end-2005, we launched another real-estate special fund, ShoppingCenterD. All told, the company now manages six funds for institutional investors. Currently, the CGS funds portfolio consists of over 50 properties in nine European countries, representing assets worth roughly €1.3bn.

Group companies and equity participations in the Retail Banking and Asset Management division

Private and Business Customers department

comdirect bank AG Quickborn 79.9%[2]	**Commerz Service Gesellschaft für Kundenbetreuung mbH** Quickborn 100.0%	**COMMERZ PARTNER Beratungsgesellschaft für Vorsorge- und Finanzprodukte mbH** Frankfurt am Main 50.0%
Commerzbank International S.A. Luxembourg 100.0%[2]	**Commerzbank International Trust (Singapore) Ltd.** Singapore 100.0%[1]	**Commerzbank (Switzerland) Ltd** Zurich 100.0%[2]

Asset Management department

Commerz Grundbesitzgesellschaft mbH Wiesbaden 100.0%	**COMINVEST Asset Management GmbH** Frankfurt am Main 100.0%[2]	**European Bank for Fund Services GmbH (ebase)** Haar near Munich 100.0%[2]	**Caisse Centrale de Réescompte, S.A.** Paris 99.4%[2]
Capital Investment Trust Corporation Taipei 24.0%[1]	**COMINVEST Asset Management Ltd.** Dublin 100.0%[2]	**COMINVEST Asset Management S.A.** Luxembourg 100.0%[2]	**Commerz Advisory Management Co. Ltd.** Taipei 100.0%[2]
Commerzbank Asset Management Asia Ltd. Singapore 100.0%[2]	**Commerzbank Europe (Ireland)** Dublin 61.0%[1]	**Commerz International Capital Management (Japan) Ltd.** Tokyo 100.0%[2]	**Jupiter International Group plc** London 100.0%[2]

1) The Parent Bank holds some of the interest indirectly; 2) the Parent Bank holds the interest indirectly.

corporate and investment banking

In its three segments *Mittelstand*, Corporates & Markets and International Corporate Banking, the Corporate and Investment Banking division looks after our business relations with small, medium-sized and large corporate customers worldwide, also assuming responsibility for our customer-based market activities. In the *Mittelstand* segment, just over 50,000 small to medium-sized enterprises are taken care of at our roughly 150 larger branches as well as around 650 larger corporates at five specialized larger corporates centres. The Corporates & Markets department is subdivided into Markets, Sales, Corporate Finance and Corporate Relationship Management, which maintains intensive contact with our multinational clients. International Corporate Banking is responsible for coordinating the contacts of our outlets abroad with their corporate clients and other financial institutions.

Mittelstand on a successful course

Mittelstand

	2005
Equity tied-up (€ m)	3,028
Operating return on equity	13.5%
Cost/income ratio in operating business	56.2%

Commerzbank is the only major bank in Germany to have an operational segment of its own devoted to small to medium-sized enterprises (SMEs or *Mittelstand*). This is intended to make both clients and the public aware of the outstanding strategic importance for the Bank of the target group of companies with annual turnover of €2.5m and higher. The unit is also designed to document internally and externally our self-set goal of being the best bank for SMEs in qualitative terms. This segment includes not only German corporate business but also the Central and Eastern European region, the activities of our Polish subsidiary BRE Bank, as well as the business operations of our Düsseldorf subsidiary CommerzLeasing und Immobilien.

The *Mittelstand* section enjoyed a very successful first year. All units made solid contributions towards a stronger result, so that the RoE target was easily exceeded. The 13.5% operating return on equity was almost three times its year-earlier level. Key factors here were the marked increase in revenues and the renewed decline in provisioning, due not only to falling insolvency figures but above all to our conservative risk management. The encouraging result shows that, even in the face of tough competition, profitable SME business is possible in Germany.

More consulting – less administration

With our "Move to the top" programme, launched in 2003, we want to concentrate our efforts above all on improving the support we offer SMEs and larger corporates. In particular, optimized procedures are to ensure a high level of reliability in credit processing as well as more time for consulting. Pursuing our goal of "More consulting – less administration", therefore, we have been able to avoid staff reductions and other cost-cutting measures in sales up to now – despite difficult economic conditions – and instead we are "investing" more time in our clients and in further improving the level of staff qualifications.

At the same time, we have systematically adapted our range of products and services to the needs of our *Mittelstand* clients. This includes, for instance, an internet-based rating application, which we will offer to existing and potential customers in the first half of 2006. As a result, we will become one of the first banks to offer an indicative rating of annual financial statements based on the rating scale of the Initiative Finanzstandort Deutschland and our own rating scheme. This makes the subject of rating much more transparent for our customers and gives them greater security in dealing with it.

Nearly 10,000 new *Mittelstand* clients in two years

The overall conditions for *Mittelstand* business remained difficult in 2005. New lending continued to suffer as a result of companies' weak investment activity. As market liquidity remained high, pressure on interest margins persisted. Only in the final quarter were there more signs that investment was gradually picking up and with it credit demand.

Even so, our ongoing initiative to gain new customers is a great success. With practically 5,000 new customers last year, we easily exceeded our overall target of 9,000, set for end-2006. Despite achieving our goal a year earlier than planned, we will not relax our efforts to attract more *Mittelstand* firms to Commerzbank.

Prominent among our successfully launched products geared to *Mittelstand* needs and dimensions are borrower's note loans or *Schuldscheindarlehen*. Whereas the traditional borrower's note loan was restricted to major companies and came in lot sizes of €20m and more, our new portfolio-based and unsecured variant can be used for financings of between €0.5m and €5m. With this instrument, we are seeking to provide existing and new clients alike with direct, attractive access to the capital market.

With our "Mezzanine for the *Mittelstand*" programme, we made €350m of subordinated capital available to roughly 50 firms last year. At the same time, we added the product CB MezzCAP to the range of mezzanine finance. This involves bundling the profit-sharing rights held by a group of corporate clients to form a portfolio, which is then placed in the capital market in securitized form by a special-purpose entity. Demand for CB MezzCAP was also very brisk, showing us that we are on the right course with our equity surrogates; we intend to proceed further in this direction.

Trade finance an anchor product

Traditional heavyweights in our product range are payments and cash-management applications, in which we are one of Europe's leading transaction banks. Drawing upon our international sales network, we provide customers in over 50 countries with an electronic platform. Last year, we developed new internet applications for L/C, collection and guarantee transactions, creating an interface between our clients active in external trade and their contractual partners and banks in the target countries.

As part of our multi-channel strategy, we offer extensive and standardized internet services. With a new internet site, we are now merging the functions of the previously separate portals companydirect and companyworld, both of which are being maintained in their existing scope, while further functions have been added. The portal is available to our clients in nine languages and in fourteen countries. More than 31,000 clients are now registered at www.commerzbank.de/firmenkunden.

The market launch of our corporate credit card was a great success. More than 5,000 individual contracts for the Commerzbank Corporate World Master Card underline the attractiveness of this card.

Hedging interest-rate and currency risk

In line with our strategy of reducing existing large commercial solutions to a size suitable for *Mittelstand* firms, we have lowered the threshold amounts for the major interest-rate and currency hedging instruments considerably. Our clients can now make safe calculations starting from amounts of only €100,000 for interest-rate derivatives and €200,000 for currency derivatives. In this way, we have responded to our customers' desire to hedge smaller risks as well.

New manager-of-managers funds

On the investment side, we have extended our range of manager-of-managers funds. In the form of individual portfolio structuring, our two multi-manager funds permit any combination of equities and bonds, catering to both different risk appetites and different expectations with regard to returns. Here, too, the minimum investment of €100,000 is geared to *Mittelstand* companies.

Public sector ever more important

Municipalities with their variety of functions are rapidly gaining in importance as a customer group. We provide sales support through target-group specialists at head office and experienced communal relationship managers at our main branches. Potential clients are both the public-sector bodies themselves and separate enterprises such as local utilities and waste-disposal units. We also provide support for public-sector clients in connection with public-private projects.

New activities in Central and Eastern Europe

We have stepped up our SME activities in Central and Eastern Europe as well. Since the start of last year, for instance, our Hungarian subsidiary has been creating its own branch network in order to provide targeted support for small and medium-sized firms. The results after a year are really encouraging, raising our hopes for the future. We see this as a pilot project for a systematic expansion of our corporate activities in the region.

We are also made confident by the success of our Polish subsidiary, BRE Bank, through which we serve many German *Mittelstand* firms active in Poland. By disposing of non-core activities, our subsidiary has continued to recast itself successfully as a universal bank with strong retail operations, which is in the black after only five years in the market.

"Best bank" for larger corporates as well

In order to meet the special requirements of larger companies better, we set up larger corporates centres in Hamburg, Düsseldorf, Frankfurt, Stuttgart and Munich in 2004. This concentration of resources guarantees that the relevant customer group receives intensive support from our *Mittelstand* unit. Our declared goal is to be the best bank for larger companies as well.

Institutional clients – such as insurance companies, utilities and foundations – are another interesting group. As a rule, they have a very individual demand profile, frequently determined by regulatory provisions. We try to cover these special demands as well by means of specialized relationship managers.

CommerzLeasing und ImmobilienGruppe outpaces the market

Our leasing and real-estate subsidiary, CommerzLeasing und ImmobilienGruppe, stayed on an expansion course in 2005 as well, achieving a new record of €3.2bn in its new business. While capital spending in the economy as a whole advanced only marginally last year, the leasing market expanded by almost 9%. Growing by practically 15%, the CLI group again easily exceeded the industry average. Most of the business was generated in Germany, not least by the joint leasing initiative with Corporate Banking. In what was a very successful year for this group, its pre-tax profit topped the €60m mark for the first time. The portfolio of contracts expanded to roughly €27bn. All of CLI's business lines contributed to the good overall result:

- In Structured Investments, business activity focused on further developing financing structures for both commercial and public-sector investments. The most prominent transaction was the acquisition from the state of Hesse in November of real estate for about €1bn. It is a good example of the growing significance of public-private partnerships. The CLI group also made other sizeable investments in research premises, new administrative buildings as well as production and logistics facilities for major German and international companies.

- For CFB-Fonds, the launch of One Riverside Drive in Windsor/Canada and Lloyd's Building in London marked its first real-estate funds for projects in Canada and the UK. In shipping, CFB has been pursuing the tonnage tax fund approach for several years. In 2005, three container ships were placed. At the same time, CLI has become the first initiator in Germany to launch four so-called LNG ship-based funds with an overall volume of €800m. Last but not least, in a joint project with Shell Solar in Bavaria, it realized the largest solar power station complex connected to the power grid, representing an aggregate investment of about €40m, in the form of a private placement. All told, funds worth roughly €1.5bn were placed with investors in 2005, tying up equity of €454m. Accordingly, investors' capital held in 156 funds increased to €4.1bn, representing altogether more than 100,000 individual investments. Up to now, 96% of all funds have made the forecast distribution or exceeded it, giving the CLI group a first-rate record.

- New business in Moveable Goods Leasing expanded by 13%, a key factor behind this strong growth being the leasing initiative. For *Mittelstand* firms in particular, leasing is frequently a flexible and attractive alternative to the traditional bank loan. The range of products and services covers all the major areas of capital goods for commercial clients, especially machinery and vehicles as well as IT and intangible economic goods.

The CLI group is confident that it will be able to strengthen its position further as one of the leading and most profitable leasing and fund companies in the German market.

International Corporate Banking even more effective in future

International Corporate Banking

	2005
Equity tied-up (€ m)	1,388
Operating return on equity	21.5%
Cost/income ratio in operating business	53.1%

Complementing our *Mittelstand* activities in Germany, our International Corporate Banking concentrates on the regions Western Europe, North America and Asia, where we offer German SMEs primarily credit, payments and external-trade finance. Local clients, mostly internationally active, are mainly interested in structured special finance as well as complex interest-rate and currency hedging instruments.

In Western Europe, we have been active for decades in the main countries and financial centres and have a broad local and international customer base there. Recently, our branches in Milan and Madrid have made good progress. In order to operate more efficiently in other centres as well, we are currently improving the structures of our operations and distribution. The locations Amsterdam – which in February 2006 was transformed from a subsidiary into a branch –, Brussels and Paris in particular have already launched measures to cut costs in non-distribution areas. This will also mean that credit processing and other back-office functions in the Benelux countries will be concentrated more strongly on Luxembourg in future.

Excellent performance in North American business

Our four North American operational units in New York, Atlanta, Chicago and Los Angeles continue to give us great pleasure. Their results were more than half as high again as in 2004, which was in itself a good year, thanks to both active credit management and continuing tight control over costs. We believe that further potential synergies can be tapped by combining the activities of our – now considerably slimmed down – investment-banking subsidiary Commerzbank Capital Markets Corporation with those of the New York branch.

In view of the strong momentum of expansion, we also see good opportunities in Asia. We realized substantial growth in trade finance and structured financings. We are satisfied, therefore, with the results achieved by our operational units in Tokyo, Singapore, Shanghai and Hong Kong. Nevertheless, we are currently investigating various scenarios there as well so that we can offer our clients even better service and further improve the profitability of these units.

Financial Institutions department: our gateway to the world

Within the International Corporate Banking segment, Financial Institutions is responsible for all client relationships with German and foreign banks as well as central banks and governments. In another very successful year, we managed to raise the good year-earlier result by a quarter. The pre-tax return on equity was an excellent 105%.

This performance rested on a global approach to providing services, with central relationship management and a worldwide distribution network of 28 representative offices and delegated personnel, complementing our operational outlets abroad. For 2006, new representative offices are planned in Vietnam and Africa.

Professional service in global trade finance

Our position as a leading foreign-trade bank is primarily based on a closely-knit network of relationships with over 6,000 banks throughout the world. For our customers involved in external trade or companies investing in foreign markets, these local connections form a bridge to their foreign partners. Our range of products primarily includes

- high-quality advice on delivery transactions and investment plans,
- cover for claims under letters of credit or guarantees,
- foreign guarantees, reflecting local regulations,
- hedging for exotic currencies as well, and also
- external trade financing, from forfaiting to structured products.

We easily maintained our large market share of 16% in handling the financial side of German exports and imports. In particular, we are well positioned in emerging markets, which are important for many of our customers.

For our active role in Eastern European markets, we were again awarded first prize in the Trade Facilitation Programme of the European Bank for Reconstruction and Development (EBRD). We also won a commendation for being responsible from 1999 to 2005 for the largest number of transactions involving beneficiaries in Africa under the TFP programme. In order to extend the Trade Facilitation Programme to new target markets, we also took part in the respective programmes of the Asian Development Bank and the International Finance Corporation in 2005.

A leader in precious metals…

Commerzbank is also one of the leading banks worldwide in precious metals. Our activities cover both dealing in gold, silver, platinum and palladium and the refining of these precious metals. Through the close meshing with our world distribution network, we intend to tap new sources of revenue in emerging markets in particular. We offer our clients the entire range of products for physical and non-physical precious metals alike. This includes individual investment solutions for precious metals, but also borrowing and the hedging of complex risk structures.

...and as a European transaction bank
In 2005, we strengthened our position as a leading European transaction bank and as an institution offering a broad spectrum of payments services in euros and other currencies. Commerzbank is well-prepared to meet the challenges of the ever more rapidly changing market. We have made intensive preparations for the emerging single European payment area so that we will be in a position to offer competitive services in the future as well.

Priority for compliance
Given the global character of Financial Institutions' duties, it bears special responsibility for aspects relevant to compliance. In order to identify and prevent money laundering and the financing of terrorism, for example, a money laundering prevention office has been set up that is linked up with the Bank's distribution units. Drawing upon our knowledge of the cultural, economic and legal conditions, we practise not only an extended customer due diligence but also a special assessment and identification of the risks.

Growing importance of ProCredit banks
The ProCredit banks in Serbia-Montenegro, Kosovo, Bosnia-Hercegovina, Albania, Bulgaria, Romania and Georgia form a special focal point in the promotion of small and medium-sized businesses in South-Eastern Europe. Commerzbank is involved in these ProCredit banks as part of a unique public-private partnership including international development banks and ProCredit Holding. Above all in Serbia and Bulgaria, ProCredit banks have become important financial institutions.

Corporates & Markets: repositioning bears fruit

Corporates & Markets

	2005
Equity tied-up (€ m)	1,818
Operating return on equity	11.7%
Cost/income ratio in operating business	78.7%

Last year, Corporates & Markets initially underwent extensive strategic repositioning. After incurring a loss in the third quarter of 2004, unprofitable businesses were cast off and the Bank announced plans to cut roughly 900 front- and back-office jobs. Since then, much has changed. The process of merging our multinational corporate activities with the London branch and investment banking under a new roof is largely completed and the unit is now producing good and steady earnings performance.

The strong year-on-year swing of €287m in the operating profit confirms that we took the right decision. This really encouraging result was achieved despite a 30% smaller workforce, risk reduced by half and 10% less capital tied up, showing that our clear concentration on customer service and on our core markets in Germany and throughout the rest of Europe is bearing fruit. We are confident that we can make further progress pursuing this approach and achieve even better results – without returning to the higher volatility of previous years.

Markets: strong demand for innovative products
All four sections of this business line were successful in 2005. This was especially true of equity derivatives. Enhanced by the Bank's proficient distribution channels, innovative products were repeatedly brought to market, making us one of the top issuers of equity derivatives products in Europe.

Our high levels of client service and our strong product range also led to brisk trading in interest-rate products. Thanks to the successful integration of corporate-banking activities and investment banking, we were above all able to boost sales of hedging products to *Mittelstand* companies.

For credit, 2005 was a mixed year, but despite this difficult environment we revamped this section and the first signs of recovery have emerged. Increasingly, we will now focus on the active management of parts of our loan book and on making better use of the Bank's emerging markets' expertise.

The overhaul of our investment-banking activities had an especially strong impact on our foreign-exchange operations, which we have concentrated on Frankfurt again, enabling us not only to cut costs considerably, but also to offer enhanced service quality for our clients. The new organization introduced in options business will help maintain this positive trend.

Alternative Investments proved to be a solid platform over the year. Corporates & Markets also benefited from a round of cost-cutting in Securities Finance. The good performance in this area was due primarily to repo loan trading, bond repos and a number of deals in the structured securitization lending business. In 2006, the Bank plans to develop a stronger institutional franchise.

Higher investment in distribution pays off

The streamlined and clearly focused sales effort as well as further investment in the branch distribution channels paid off last year. Consequently, the distribution of multi-asset products to retail and flow clients registered outstanding performance, and we were voted "Best in Germany" for structured products by *Structured Products Magazine*. According to the magazine, "Commerzbank has lived up to its title as a specialist in exotics by capitalising on the German market's appetite for early redemption notes with the issue of some blockbuster products this year. Its effort to increase market share through the structured fund space – a markedly more challenging product space for German issuers – has helped it stand out from the competition. Commerzbank illustrated how quantity is not a substitute for quality." At the same time, we have cemented our position as one of the leading players in the German market for listed certificates and warrants. In 2005, Commerzbank was the largest German issuer on the European Warrants Exchange (EUWAX).

Distribution of investment-banking products to corporate clients has benefited from Corporates & Markets assuming responsibility for looking after several of the largest corporate groups. By systematically promoting the distribution of commercial and investment-banking products, the segment has established itself as a competent and reliable partner for this group of clients.

Due to our efforts to create the necessary framework for stronger growth, there was less progress in distribution to institutional clients than in other areas. However, Corporates & Markets was able to increase its visibility further in Bank Notes business with institutional clients.

Many transactions in Corporate Finance

Corporate Finance proved to be one of the cornerstones of our investment banking in 2005 as well. Within this group, the Leveraged Finance team stood out once again. With ten mandated lead arranger roles, we secured our top position in the German market for leveraged corporate acquisitions. We also completed a record number of transactions across Europe. Our clients included, for example, KKR, Carlyle, Advent, Permira, Triton, Alpinvest and Nordwind.

In 2005, the market for syndicated loans was dominated by high-volume transactions for multinational corporate borrowers, who took advantage of the low funding costs and high liquidity in the market. Many small and medium-sized companies and institutions from Western and Eastern Europe followed this trend. We arranged and syndicated credit facilities for such companies as Volkswagen, France Télécom and Degussa.

Despite significantly lower issuance of corporate bonds, we were the bookrunner again for a variety of issuers. The familiar names included ThyssenKrupp, Sixt, Rheinmetall, Bertelsmann and DaimlerChrysler. In this area, too, it is our declared strategy to concentrate exclusively on clients' requirements rather than buying into league tables.

We have significantly increased our standing in covered bonds and public-sector bonds. We were a bookrunner for issues for the states of Lower Saxony and North Rhine-Westphalia, as well as for Hypothekenbank in Essen, Eurohypo, Berlin-Hannoversche Hypothekenbank and Württembergische Hypothekenbank.

In line with Commerzbank's commitment to German *Mittelstand* companies, our securitization team joined forces with experts from the *Mittelstand* unit to launch some innovative financing instruments for this target group. One prominent example is our new *Schuldschein* initiative, giving investors an attractive opportunity to become involved in securitized credits for *Mittelstand* firms.

Spurred by the favourable state of the stock market, the number of IPOs has risen sharply in Germany. One of the most successful was Conergy AG, for which we were joint bookrunner. This transaction earned us the *Financial News* European Small/Mid Cap Deal of the Year Award. We were also involved last year in the IPOs of the Polish Grupa Lotos as lead manager for the international offering and as co-lead manager for MTU and also as co-manager for Praktiker.

Among the rights issues for which we served as bookrunner that for Heidelberger Zement attracted much attention. Another important transaction was SAP AG's tender offer for SAP Systems Integration. Corporates & Markets also successfully contributed to several of Commerzbank's own transactions, such as the capital-raising in November to partially finance the acquisition of Eurohypo and the placements of holdings in Banca Intesa, Heidelberger Druckmaschinen and MAN.

Last but not least, the M&A group was involved in altogether eight transactions. We were active as a financial adviser, for example, in Hassia Mineralquellen's acquisition of Brau und Brunnen Mineralquellen.

Corporate Relationship Management making good progress

With the reorganization of investment banking, multinational companies are now looked after by Corporates & Markets. This not only guarantees more intensive relationship management for this sophisticated group of clients, but also gives us great potential for selling complex financing solutions. We also have better opportunities for active cross-selling. We plan further expansion in this area and will make the necessary investment for this.

Group companies and equity participations in the Corporate and Investment Banking division

Mittelstand

CommerzLeasing und Immobilien AG	Düsseldorf	100.0%[1)]
BRE Bank SA	Warsaw	71.5%[2)]
Commerzbank (Eurasija) SAO	Moscow	100.0%
Commerzbank Zrt.	Budapest	100.0%

International Corporate Banking

Commerzbank (South East Asia) Ltd.	Singapore	100.0%
Commerz (East Asia) Ltd.	Hong Kong	100.0%
P.T. Bank Finconesia	Jakarta	51.0%

Corporates & Markets

CBG Commerz Beteiligungs-gesellschaft Holding mbH	Bad Homburg v.d.H.	100.0%
Commerzbank Capital Markets Corporation	New York	100.0%

1) The Parent Bank holds some of the interest indirectly.
2) The Parent Bank holds the interest indirectly.

staff and welfare report

On an expansion course
By making far-reaching decisions and introducing selective changes we ushered in the transition from the consolidation of costs to the sustained strengthening of the Bank's earnings performance in the 2005 financial year. With the adjustments to our staff numbers completed in 2004, the Group's workforce expanded again slightly in the year under review, from 32,820 to 33,056.

Staff survey – an authentic picture after challenging years
The necessary consolidation of costs presented Commerzbank's staff with great challenges and also imposed personal burdens on them. This phase of the adjustments to personnel and performance was successfully completed in 2004. For us, it was then important to gain an immediate impression of the mood of our employees. In May and June of last year, therefore, a detailed survey of Commerzbank staff was carried out with the support of a prominent market research institution. The objective was to obtain a more differentiated picture of the Bank's strengths and weaknesses and to use this as a basis for introducing concrete measures for change and improvement. The extraordinarily high participation of more than 16,000 employees in the questionnaire – translating into a participation rate of around 72% – shows the great interest of our staff in the fate of "their" Commerzbank.

The findings of the survey reveal both strengths and weaknesses. Generally, the well-functioning cooperation in people's own area of work and the support given by superiors are judged positively. On the other hand, deficits are seen as far as the transparency of the Bank's strategy, market and customer orientation, and also the possibilities for further qualification and development within the Bank are concerned.

Based on the extensive findings of the staff survey, we developed numerous measures and initiatives that are relevant throughout the Bank in three key fields of action – "market and customer orientation", "communication of strategic orientation" and "personnel development and management". To supplement these, local suggestions for improvement were worked out in all branches and departments in the various regions in order to overcome the weak spots which had been identified. Implementation of these measures began in the final quarter of last year and will stretch until well into 2006. In view of the many positive experiences gained through the staff survey, we intend to repeat it in future at regular three-year intervals in order to test the success of the measures in bringing about improvements.

New conception for practical training of younger staff
One central function of personnel management for achieving lasting success in a fiercely competitive situation is to ensure that younger staff systematically and consistently gain qualifications. For this purpose, we have improved our development programmes once again, strengthening the practical element. Our staff will now undergo further training alongside their normal job. In other words,

Data on Commerzbank's personnel*)

	2005	2004	Change in %
Total staff Group[1)]	**33,056**	**32,820**	**0.7**
Permanent staff Group[2)]	**30,177**	**29,887**	**1.0**
Total staff Parent Bank[1)]	**24,649**	**24,860**	**–0.8**
including: based abroad	1,934	2,102	–8.0
including: trainees	1,332	1,282	3.9
Permanent staff Parent Bank	**22,399**	**22,681**	**–1.2**
Length of service	14.4	14.7	
Average age	40.4	40	
Staff turnover ratio Parent Bank in Germany	3.1%	5.3%	
Percentage of sick	3.3%	3.3%	
Percentage of part-time staff	20.8%	20.5%	
Total pensioners and surviving dependents	12,022	11,855	1.4

*) Actual number employed; 1) including local staff in representative offices and cleaning and kitchen personnel, excluding staff on maternity leave and long-term sick; 2) employees, excluding trainees, junior executive staff, temporary staff, volunteers, cleaning and kitchen personnel, staff on maternity leave and long-term sick.

during their training they will initially perform their existing function. Through a so-called skill-management system, employees' present skills will be compared with the job and skill profiles defined for the position to which they aspire. This leads to an individual qualification and development plan. Subsequently, they proceed through this plan, step by step, parallel to the function they continue to perform. In this way, we will be able to train our personnel far more individually in future and even more in line with actual needs. And Commerzbank can also considerably broaden its range of internal training opportunities for younger staff.

Another sharp rise in the number of trainees

Our stronger commitment to the career development of younger staff can be seen in the Bank's vocational training. While we concluded roughly 400 new training contracts in 2003 and took on 518 new trainees in 2004, we raised the number again in 2005 to almost 600. All told, over 1,300 young people were training for their future careers at Commerzbank AG by the end of the year under review. To an even greater degree, therefore, we are assuming our social responsibility for the younger generation, to which we have been committed for many years now. At the same time, we are establishing a sound stock of qualified young people to secure the Bank's future.

Management a success factor in a customer-based approach

With competition consistently keen in the banking market, products alone do not determine a bank's success with customers, as frequently innovative products are soon copied by others. Rather, a bank's staff are crucial for its success. The central functions of management are to achieve an optimal combination of their

| special awards 2005 |

Top-100 Employers Award 2005
Commerzbank was voted one of Germany's top employers in 2005 by the trendence Institut für Personalmarketing GmbH and *Wirtschaftswoche* magazine.

"Erfolgsfaktor Familie 2005" competition for companies
Together with the "Frauen in der Wirtschaft" forum, Commerzbank won a special prize in the competition for companies initiated by the German government in conjunction with Germany's leading business associations and trade unions to promote a better combination of family and career.

Advertisement of the year – 2004/2005 trainee campaign
Readers of *Unikum Abi*, a magazine with a circulation of over 300,000 and 2.2 million readers, and one of the most important periodicals for young people still at school or finishing school, voted the Commerzbank motif ***| jungs, ich geh zur bank |*** ad of 2004.

skills and a systematic focus on customers' needs. More than ever today, management is a key factor in a company's long-term success. That is why we are continuing to invest intensively in selecting, promoting and developing managerial personnel at Commerzbank. We further refined our long-established management circle approach last year, adapting it more closely to the requirements of the various business lines. Many other companies have taken up this approach in the meantime – confirmation that we are on the right course.

Performance-based remuneration – results count
The management process at Commerzbank is supported by an all-inclusive and flexible remuneration policy. It is intended to increase the efficiency and productivity of our staff, promote entrepreneurial thinking and action, encourage people to assume responsibility and strengthen the loyalty to the Bank of key personnel. In order to attain these goals, we will replace certain components of remuneration which in the past were paid indiscriminately to all staff with result- and performance-based components in future. The overall amount of this profit-sharing plan will reflect the respective business results of the Bank and, depending on how these turn out, may even be larger than the former November special bonus. The overall amount will be distributed to individual employees strictly in line with their performance. We believe that this new system of remuneration will make an important contribution towards strengthening the performance culture at our Bank, thereby providing sustained support for our commercial success.

Diversity – living with variety
Diversity enriches our lives and also day-to-day working alongside others at Commerzbank. For us, this means regarding the different qualities of all our staff as a special asset, appreciating it and using it.

Successful examples of Commerzbank's many diversity measures are:

- Flexible working conditions
- A number of childcare facilities
  In particular, our staff can have their children – up to and including kindergarten age – looked after by qualified personnel at the new crèche, Kids & Co., in Frankfurt am Main, with its highly flexible opening times.
- Mentoring programmes
  Female staff can benefit from the experience of selected managers at other companies, obtaining support for their career development.
- Support for employee networks
  Active support is given to "Courage", the network for women, to the "arco" network for gays and lesbians, and to the "Fokus Väter" network for fathers.

By considering the individual life-styles of our employees and by offering them support, we are able to improve their job satisfaction and motivation perceptibly. For younger people in particular, an attractive employer is always one who treats them in a partner-like way.

Company healthcare management – benefits all round
Nationwide cooperation with the company doctors, industrial psychologists and social workers of our external service provider Deutsche Bahn Gesundheitsservice GmbH forms the core of our healthcare management scheme. The combination of these three different professions ideally complements the range of services provided by our internal personnel work and has frequently proved its worth. As a result, we have been able to raise substantially our value added in human resources management and consequently in economic terms as well.

In the 2005 financial year as well, Commerzbank expanded its company healthcare management. For some time, we have been pursuing, among other things, the declared goal of tackling such problems as victimization, sexual harassment and discrimination professionally and of doing all in our power to ensure that such situations do not arise. In connection with this initiative, we gave intensive coaching to numerous personnel advisers and staff-council members last year. These members of staff are now available to advise potentially affected employees and mediate on their behalf.

In addition, we have launched a pilot project in a large processing centre of the Bank for developing structured management for periods of absence and the reintegration of staff. First, the reasons for abnormally long periods of absence are investigated and measures are devised to reduce them and, if necessary, to reintegrate people. Commerzbank wants to provide even more intensive support to help employees quickly regain their capacity to work. It is planned to use this programme as a standard, extending it later to other organizational units of the Bank.

We thank our staff for their cooperation
Within a short time, Commerzbank has achieved a turnaround in growth and earnings. We can be proud of this and thank all our staff quite emphatically. In a difficult environment, it is they who have made this success possible through their performance and their commitment.

We are also especially grateful to the staff councils, the representatives of the Bank's senior staff, and to the representatives of both the physically disabled and younger staff. Through their constructive and responsible cooperation, they too have contributed to the Bank's success.

Further detailed information on Commerzbank's commitment to the welfare of its employees, complementing this staff and welfare report, can be found in our "Corporate Responsibility Report".

our share, strategy and outlook

Data and facts on the Commerzbank share

Bearer shares	803 200
Reuters	CBKG.DE
Bloomberg	CBK GR
ISIN	DE0008032004

Outstanding performance of the Commerzbank share

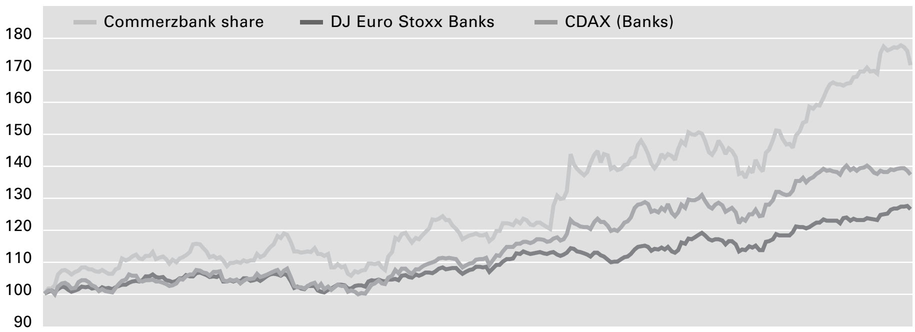
Despite rising interest rates, high oil prices and persistently weak economic activity, the DAX registered a plus of 27.1% in 2005. Soaring by 71.6%, the Commerzbank share was the second-strongest stock in Germany's leading index. Its performance also far exceeded that achieved by its national and international competitors.

In the course of the year, the share price steadily climbed within a range of €15.17 to €27.06, finishing the year at €26.02 – a level last seen in summer 2001. Trading volume expanded with the increase in the share price. On average, 4.3m Commerzbank shares changed hands daily, a rise of more than 20% on the previous year.

Within a year, Commerzbank's market value practically doubled. With a market capitalization of €17.1bn at end-2005 (previous year: €9.1bn), Commerzbank was 12th in the list of DAX companies with a weighting of 2.7%.

Performance of the Commerzbank share 2005

Daily figures, 30.12.2004=100



Communication an important factor behind success

Communication with investors and analysts was given priority in 2005 as well. Apart from the regular conferences for presenting the quarterly reports, we held 25 roadshows in Germany and abroad and took part in 12 international conferences. We also presented Commerzbank at more than 200 one-on-one meetings. The Board of Managing Directors were involved even more than in the past in our communication with the financial community.

Roughly 40 brokerage houses produced and published regular reports on Commerzbank. Virtually all of them gave the Commerzbank share either a buy or a hold recommendation – a good indication of the very positive response to the achievements of the Bank and its staff.

In September, we held our fourth Investors' Day. Once again, the members of the Bank's management board explained the strategy of the business lines for which they are responsible, after which they were available for extensive discussions. For the first time, the event was rounded off by two in-depth workshops – an idea that met with a positive reception and will be repeated. In 2006, our Investors' Day will be held on September 21.

Among other things, we provide our private investors with current and extensive information on the Investor Relations pages of our internet site. Using our e-mail services, we are able to pass on important information immediately and simultaneously.

Eurohypo acquisition – a milestone
The successful conclusion to the negotiations with Deutsche Bank and Allianz/Dresdner Bank to acquire the interests they held in Eurohypo marked a milestone in Commerzbank's history. The €4.56bn takeover of Eurohypo was financed among other things by a capital increase. Through an accelerated book-building offering, Commerzbank sold 57.7m of new shares from an authorized capital increase to institutional investors. Within a few hours, the available volume had been more than three times oversubscribed. The price of the new shares was above the previous day's closing price. The overwhelming demand confirmed the view of analysts, investors and rating agencies that the acquisition of Eurohypo is an important step for Commerzbank.

At present, 13 teams are working to complete the acquisition of Eurohypo and successfully integrate it into the Commerzbank Group. The integration process is running according to plan. Further details will be released together with the first-quarter results of 2006.

The integration will definitely create added value for our shareholders. Despite the restructuring expenses, we expect a stronger net profit and a higher return on equity even as from 2006. Our shareholders should benefit from this positive development in the form of correspondingly higher dividends.

Operational units achieve their goals
A glance at the performance of the individual segments reveals that all units achieved or exceeded their set goals. *Mittelstand*, Corporates & Markets and the Mortgage Banks segment were especially encouraging.

Private and Business Customers segment
In 2006 as well, we will invest in expansion in the Private and Business Customers segment. Concrete investments are planned in our online banking and in branch business. In Private Banking, we are opening new offices in order to increase our presence nationwide. We also intend to build upon our successful position in foreign markets – in Switzerland, for example. As investment in

Turnover in Commerzbank shares 2005

in € bn, quarterly figures

Daily turnover

in million units

High	31.45
Low	0.91
Average	4.26

Stock-exchange listings of the Commerzbank share

Germany	
• Berlin-Bremen	• Hanover
• Düsseldorf	• Munich
• Frankfurt	• Stuttgart
• Hamburg	• Xetra
Europe	**North America**
• London	• Sponsored ADR (CRZBY)
• Switzerland	CUSIP: 202597308

expansion will be higher once again, we currently expect a stable operating profit from Private and Business Customers in 2006. In retail business, we will continue to pay close attention to provisioning. Given the continuing strains on the labour market, we have to reckon on a slight increase.

Asset Management segment

Our individual Asset Management units registered good performance, living up to our expectations in 2005. In the final quarter in particular, there was an increase in revenue. Investment in 2006 will focus on selective marketing measures for our core products, the development of new products and further expansion of the distribution of third-party products. We expect a higher operating profit in 2006. As the problems of several competitors have led to sizeable outflows of funds since last December, we are closely watching how open-ended property funds develop. However, we are confident that, thanks to our professional management and also to the new guidelines, the situation in the industry will definitely return to normal again.

***Mittelstand* segment**

In this segment, we will strengthen our position as the leading German bank in 2006, continuing our successful strategy of offering *Mittelstand* clients innovative products and larger corporates value-added services. As things stand today, we will be able to reduce our provisioning in Germany further. In Central and Eastern Europe – a region which belongs to the *Mittelstand* segment – we will continue to examine opportunities to expand through acquisitions. In these locations, we also intend to streamline procedures and back-office functions. Our successful subsidiary BRE Bank achieved its earnings turnaround in 2005, strengthening its position in both retail and corporate business. For 2006, our Polish subsidiary is aiming for a pre-tax return on equity of over 18% and one of no less than 20% in 2007. In view of the positive development, we expect this segment to produce an operating return on equity of over 15% in 2006, which we want to raise to 17% by 2007.

International Corporate Banking segment

Here we concentrate on Western Europe, North America and Asia. The restructuring, already introduced in 2005, will be continued in the current year. We have begun to centralize our foreign units and to concentrate back-office activities. The good result in 2005 was mainly due to the reversal of loan-loss provisions. As a repeat of this seems unlikely at the present time, we assume a lower return on equity for 2006.

Corporates & Markets segment

In this area, the clear concentration on customer-based trading and on our core regions, combined with cost-cutting, has been highly successful. In future, we will focus on boosting sales of structured products and taking over more mandates as lead managers for European corporate bonds. Successful cooperation with Commerzbank's corporate clients will be further enhanced. Benefiting from the systematic reduction of the equity tied up in this segment, the operating return on equity is intended to reach 15% in the current year and even 20% in 2007.

Mortgage Banks segment

2005 was a really successful year for our mortgage banks. The positive performance of Eurohypo and Hypothekenbank in Essen led to an operating profit of €350m (previous year: €139m).

Strategic orientation and outlook

- Commerzbank will strengthen and build upon its position as Germany's leading commercial bank.

- We will continue to play an active part in the ongoing consolidation of the German banking market.

- In the future as well, we will concentrate on our core competencies and ensure dynamic earnings performance in our *Mittelstand*, Corporates & Markets and Mortgage Banks segments.

- Given favourable overall conditions, we will dispose of further non-strategic investments.

- Our target in 2006 is an after-tax return on equity of more than 10%. Taking the economic situation and the development of the capital markets into consideration, we continue to aim for an after-tax return on equity of 15% in the long term.

Commerzbank more than achieved its goals in 2005. And the acquisition of Eurohypo will considerably extend our scope for action and our Bank's strategic perspectives. We will continue to pursue a course of stability and focused growth in the future as well in order to become Germany's leading major bank for retail and corporate customers.

Commerzbank's 2006 financial calendar

May 4, 2006	Interim report as of March 31, 2006
May 17, 2006	AGM, Jahrhunderthalle Frankfurt
August 9, 2006	Interim report as of June 30, 2006
September 21, 2006	Commerzbank Investors' Day
Early November 2006	Interim report as of September 30, 2006
February 2007	Annual results press conference 2007

All the major Commerzbank corporate news items are also available from "Investor Relations" on our homepage: www.commerzbank.com.

risk report

Contents

Main highlights in 2005

- For the third year in a row, the Bank was able to lower its **loan-loss provisions** by much more than €200m to €566m; accordingly, the net provisioning ratio was reduced to 0.34% of total lending (previous year: 0.52%).

- **Economic capital** (ECap) was reduced as planned during the year by removing bulk risks in lending (ECap lowered from €5.5bn to €4.7bn) and through the sale of non-strategic equity holdings (ECap lowered from €1.7bn to €1.2bn).

- The Group-wide introduction of the **Commerzbank Master Scale** at the start of the year as well as new **incisive rating and scoring procedures** – combined with improved risk-adjusted pricing – led to better risk selection and, in future, to the need for less economic capital.

- The results produced by statistical methods of estimating the security furnished and recovery rates, implemented in connection with the Basel II project, were integrated into **the credit risk model**, as part of **current efforts to enhance it**.

- The main goals set for the Basel II project in 2005 were achieved according to plan and the **application for certification of the IRB Advanced Approach was submitted to BaFin by July 2005**.

- The methods required by the supervisory authorities for identifying, measuring, monitoring and steering **operational risk** are either already in use throughout the Group or at the pilot stage. It is planned to submit an application for approval of the Advanced Measurement Approach for operational risk in accordance with Basel II in the second quarter of 2006.

- The implementation of the Minimum requirements for the risk management of credit institutions **(MaRisk)**, which is supposed to take place by January 1, 2007, is proceeding according to plan at the Bank. Many of the requirements have already been implemented and we assume that the points still to be covered will be dealt with on time.

- In 2005, the Bundesbank conducted an **examination of trading activities pursuant to Art. 44, (1), KWG** (German Banking Act) on the instructions of BaFin. As a result, BaFin confirmed that, in the areas examined, our Bank is complying with MaH and that its internal control system is appropriate in terms of the scope, complexity and risk character of the trading activities it conducts.

- The German banks' auditing association conducted an **examination** of Commerzbank's **system of deposit protection** in 2005. The examination confirmed that, in the areas examined, Commerzbank pursues a cautious credit policy and evaluates security properly.

I. Risk-based overall Bank management

1) Risk-policy principles

The Commerzbank Group's value-based overall Bank management involves taking on identified risks and managing them professionally. Risk-management activities focus on making efficient use of equity from the risk and return standpoints:

- The Bank's Board of Managing Directors defines risk-policy guidelines as part of the annually reviewed **overall risk strategy**, which it has established. Previously consisting of various sub-strategies, this overall strategy will be examined in future for its compatibility with the Group's business strategy in accordance with the new MaRisk.
- The Board of Managing Directors and the Supervisory Board are informed promptly in the form of comprehensive, objective reports of the Bank's risk situation.
- At Board level, the **Chief Risk Officer** (CRO) is responsible for controlling all of the quantifiable risks (especially credit, market, liquidity and operational risk) of the Commerzbank Group and also for working out and implementing its overall risk strategy.
- As part of his **responsibility at Group level for the operative credit function**, the CRO assumes the management function for all credit risks.
- All quantifiable risks are monitored under the **economic capital approach** according to Group-wide standards and geared to the Commerzbank Group's risk-taking capability. This makes possible an efficient use of capital.
- The CEO bears responsibility for risks related to the Bank's business strategy and **reputational risks**.
- The CFO assumes responsibility for **compliance risk** (investor protection, insider guidelines, money laundering, etc.).
- The risk-policy guidelines and structures are presented in a **Risk Manual**, available to all staff via intranet. It is the basis for processing and communicating all the major types of risk in a uniform manner throughout the Group and consequently provides support for the management of identified risks within the Commerzbank Group.
- The **early-warning and monitoring systems for risk** are designed to achieve qualified and prompt identification of all the major risks.
- We make sure that the **risk functions**, whose efficiency we constantly examine using modern steering systems, are **well-equipped with personnel** in qualitative and quantitative terms.
- In view of the contribution made by efficient risk management to corporate success, especially in the case of a financing bank like Commerzbank, we always want to be **state-of-the-art** here.
- Applying appropriate **stress and scenario analyses**, we keep a watchful eye on the downside risk for all the relevant portfolios and, if necessary in terms of risk management, we launch counter-measures in good time.

As a result, the risk-management system makes a major contribution towards optimizing the structure of the Bank's risk and returns, and towards a value-based management of the Bank.

2) Risk categories

Commerzbank defines risk as the danger of possible losses or lost profits which may be caused by internal or external factors. For risk-management purposes, Commerzbank distinguishes between **quantifiable and non-quantifiable types of risk**.

All quantifiable risks are part of Commerzbank's overall risk strategy in accordance with MaRisk requirements and the economic capital approach (the refinancing risk not being included here). The individual risks are:

- **Credit risk:** the risk of losses or lost profits due to defaults (default or deterioration in creditworthiness) of counterparties and also the change in this risk. Apart from this traditional risk, credit risk also covers country risk and issuer risk as well as counterparty risk and settlement risk arising from trading activities.
- **Market risk:** the potential negative change in value of the Bank's positions as a result of changes in market prices (interest rates, spreads, currency and equity prices), their derivatives or parameters which influence prices (volatilities, correlations). In Commerzbank's definition, risks from equity holdings in the banking book and equity event risk (modelling of equity risk extending beyond VaR, such as the insolvency of the issuer) also represent market risks and are monitored like these.
- **Interest-rate risk in the banking book:** the risk of adverse effects of changes in market interest rates on the capital or current income. Different fixed-interest periods for claims and liabilities in balance-sheet transactions and derivatives represent the most important source of such risks.
- **Operational risk:** the risk of losses through inadequate or defective systems and processes, human or technical failures, or external events (such as system breakdowns or fire damage). By analogy with the Basel Committee's definition, operational risk also includes legal risk, i.e. risks stemming from inadequate contractual agreements or changes in the legal framework.
- **Liquidity risk:** the risk of the Bank not being able to meet its current and future payment commitments, or of not being able to do so on time (refinancing risk).
- **Market-liquidity risk:** the risk that inadequate market liquidity will prevent the Bank from selling trading positions at short notice or hedging them to the desired extent.
- **Business risk:** the risk of losses due to negative deviations in revenue (especially commissions) and costs from the budgeted figures. Business risk is influenced both by business strategy and by the Bank's internal planning process, as well as by changed overall conditions such as the market environment, customers' behaviour or technological developments.
- **Overall risk:** the proper recognition and representation of all relevant quantifiable risks in a model (economic capital approach) at the Commerzbank Group level, and the gearing and limiting of the economic capital calculated in this way (= unexpected loss, UL) to the Group's risk-taking capability. The expected loss (EL), similarly calculated within this model, is crucial for managing business (risk-adjusted pricing/determining what business is sought).

The non-quantifiable risks are subjected to qualitative monitoring in connection with pillar II of the Basel Accord and MaRisk. They include:

- **Strategic risk:** the risk that results develop negatively on account of previous or future fundamental business-policy decisions, produced by investment decisions in various business lines/regions (internal/external growth or divestments).
- **Compliance risk:** legal, regulatory sanctions or financial losses due to failure to comply with laws, regulations, guidelines or organizational standards and codes of conduct which have a bearing on Commerzbank business activities and which, for example, relate to the prevention of money laundering, the protection of data and business secrets, investor protection or observing the rules of the German legislation on securities trading.
- **Personnel risk:** based on the consideration of all the major risks that is required by MaRisk, personnel risk will also be integrated in future into Commerzbank's qualitative reporting. MaRisk requires the quantitative and qualitative staffing of a bank to reflect *inter alia* its business activities, strategy and risk situation.
- **Reputational risk:** the risk of losses, falling revenue or a reduction in the Bank's market value on account of business events which erode the confidence in the Bank of the public, rating agencies, investors or business associates. As a rule, reputational risks result from one of the above-mentioned sources and reinforce them.

3) Overall Bank management and economic capital

As part of overall Bank management, risk management and profitability management are consistently combined to yield an integrated value-based steering approach. Commerzbank's overall management has two main objectives:

- to ensure a capital base that is adequate for its risk profile,
- to achieve the most efficient allocation of the scarce resource equity, taking into consideration medium- and long-term strategic goals.

Expected loss (EL)

- Based on the structure of the Bank (aggregate portfolio, systems, staff), the EL represents the expected loss calculated in connection with the economic capital approach which has to be considered as a cost factor in budget planning.
- Its high discrimination in modelling parameters is essential for steering business, as only then is it possible to achieve risk-adjusted pricing and to avoid alpha and beta errors (alpha error: positive lending decision subsequently leading to loan losses; beta error: credit refused to borrowers/business that in retrospect prove to be stable during the requested lifetime of the credit).
- Each set of results for individual portfolios is compared with the actual risk outcome as part of the validation process.

- Unlike loan losses and losses arising from operational risks, changes in market prices and business risks in principle have the same effect in both directions. *Ex ante*, therefore, no expected gain or expected loss can be assumed. The gains or losses produced by uncertain future changes in market prices – such as changes in commission-earning business – are defined as entirely unexpected, therefore.

The following table shows the expected loss for the various types of risk, by division of the Commerzbank Group.

EL	Retail Banking and Asset Management		Corporate and Investment Banking		Mortgage Banks		Others and Consolidation		**Group**	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Credit risk	230	234	605	839	65	67	5	7	**906**	**1,147**
Market risk	0	0	0	0	0	0	0	0	**0**	**0**
Operational risk	18	25	28	49	1	1	1	3	**47**	**77**
Business risk	0	0	0	0	0	0	0	0	**0**	**0**
Group	**248**	**259**	**633**	**888**	**66**	**68**	**6**	**10**	**953**	**1,224**

The decline in expected loss – above all in the Corporate and Investment Banking division – can be traced back to improvements to the model in connection with the Basel II project and the resulting probabilities of default, loss-given-default parameters and charges for unutilized credit lines, all of which reflect risk more accurately.

Unexpected loss (UL = economic capital)

The use of economic capital is a measure for the unexpected loss (= volatility of EL), which is consequently not included in the profit/loss calculation in the course of budgetary planning. It can be traced back, for example, to economic ups and downs, problems in given industries and also bulk risks. Commerzbank's integrated risk/return-based management is built around the concept of economic capital, developed over a number of years, which forms the basis for a system of risk-adjusted key parameters. It makes possible the early risk recognition of negative developments in the form of transparent reports and the establishment of a suitable escalation procedure.

- Economic capital represents an internal measure reflecting the Bank's risk appetite.
- It is defined as the amount of capital which should be held available with a given probability in the course of one year to cover unexpected losses arising from risk positions. It represents the aggregate of all quantifiable risks which have to be backed by equity.
- The confidence level of 99.95% which is used as a basis here is derived from the probability of default for Commerzbank's A1 (Moody's) target rating.
- The approach adopted has been validated in national and international benchmark studies and counts as best practice. It is constantly being enhanced.
- In 2006, the risks arising from real-estate business (own investments) will be integrated into monitoring at Group level.

Economic capital reflects the Bank's specific risk profile and consequently includes risk categories which previously had not been considered under regulatory capital. The differences between regulatory and economic measures of capital have been reduced by Basel II, but the currently significant discrepancies will not disappear altogether even with the new Basel capital rules. Among other things, this is due to the diversification effects and bulk risks which Basel II does not take into consideration. In the past financial year, further differentiation was introduced into the measurement of credit risk, which improved the steering of risk concentrations and bulk risks in lending.

Differences between regulatory and economic capital

Basel I →

- Credit risk
- 8% capital backing for all credits
- Market risk
- Internal model for trading book and FX risks of banking book

Not considered:

- Counterparty and concentration risks and/or diversification risks
- Operational risk
- Interest-rate risk in banking book
- Other risks

Basel II →

- Credit risk
- Via internal rating models + LGD assessment, with counterparty risks, settlement risks, transfer risk taken into account
- Market risk
- Internal model maintained for trading book and FX risks of banking book
- Operational risk
- Internal AMA approach model

Not considered:

- Credit-concentration and bulk risks and/or diversification risks
- Interest-rate risk in banking book
- Business risk
Equity event risk
Market liquidity risk

Economic capital

- Credit risk
- Integrated portfolio model also measuring concentration risks and/or diversification effects
- Market risk
- Internal model for trading book and FX risks of banking book Interest-rate risk in banking book
- Operational risk
- Internal AMA approach model
- Business risk
Equity event risk
Market liquidity risk
- 99.95% confidence level and holding period of 1 year for all risks

Economic capital is now an integral part of overall Bank management; as from 2006, the economic capital approach will also be used in the capital management of the individual business lines. In the relevant calculations, the Bank's business lines and the units of which they are comprised are assigned not only costs and revenues but also economic capital and risk-adjusted performance benchmarks. This makes it possible to compare the respective divisions with regard to their revenue and risk components, to recognize value-destroyers/drivers, and to allocate capital efficiently within the Group on that basis.

As of December 31, 2005, the following values were registered for the economic capital of Commerzbank's various divisions:

UL	Retail Banking and Asset Management		Corporate and Investment Banking		Mortgage Banks		Others and Consolidation		**Group**	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Credit risk	1,074	918	3,225	3,913	409	517	26	115	4,734	5,463
Market risk	106	116	314	349	849	468	1,425	1,726	2,694	2,659
Operational risk	303	429	638	698	31	37	24	132	996	1,296
Business risk	141	175	198	224	12	12	131	149	482	560
Group	**1,624**	**1,638**	**4,375**	**5,184**	**1,301**	**1,034**	**1,606**	**2,123**	**8,906**	**9,979**
Group including diversification effects									**6,915**	**7,675**

The decline in the Group's economic capital for **credit risks** mainly stems from Corporate and Investment Banking. Whereas the reduction in the *Mittelstand* segment was primarily achieved through improved portfolio quality (better ratings, higher collateral), the decline at Corporates & Markets is principally attributable to the reduction of bulk risks.

In the past financial year, the Basel parameters (PD and LGD), worked out or validated in the course of the Basel II project, were successfully integrated into the calculation of the internal risk capital for credit risks. We expect the EL and UL arising from credit risk to be further reduced in 2006 as a result.

Thanks to further disposals of non-strategic equity holdings (in particular MAN, Banca Intesa and Heidelberger Druck), there was a marked reduction in the economic capital to cover the **market risk** from equity holdings at Others and Consolidation. By contrast, the economic capital for market risk not related to equity holdings increased during the year, primarily due to the strategic build-up of interest-rate risks in the banking book; it was not reflected, therefore, in a higher regulatory capital requirement (under both Principle I and Basel II, interest-rate risks in the banking book do not need to be backed by equity).

Recognition of diversification effects between event categories in modelling led to a marked reduction in the capital needed to cover **operational risk**. This takes account of the fact that different serious events do not occur simultaneously.

The economic capital for **business risk** was slightly lower than a year earlier.

Risk-taking capability

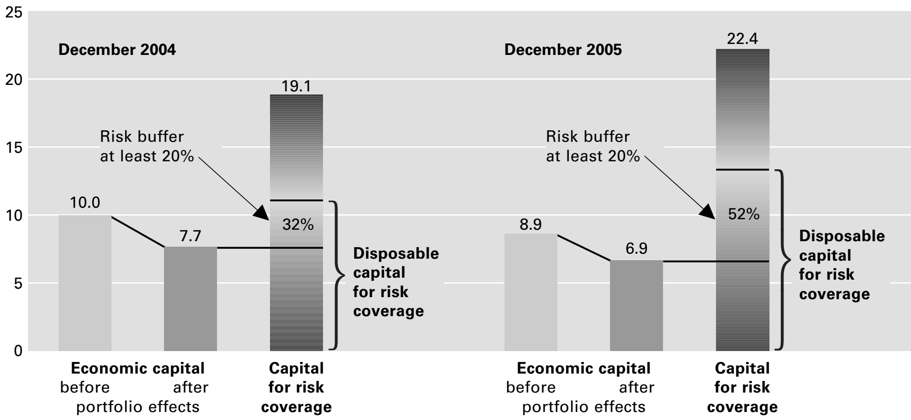
Calculation of the risk-taking capability is the second important pillar of overall Bank management after integrated risk/return-oriented steering based on economic capital.

- Here, the overall risk figure worked out for the Group – measured as economic capital – is set off against the total capital available for covering risk in the form of a "traffic-lights" system.
- The capital components corresponding to the various traffic-light scenarios correspond to the Group's ability to anticipate potential losses in terms of absolute figures and priority.
- The objective of this comparison is to establish whether the Bank is in a position to anticipate potential unexpected losses without serious negative effects on its business activity and to cover them from its own funds.
- For this purpose, a risk buffer of at least 20% was defined between the Group's overall risk – adjusted for portfolio effects – and the disposable parts of the capital available for risk coverage.
- At the individual borrower level, a limit of €20m CVaR has been set for steering bulk risks. If this is exceeded on more than a short-term basis (e.g. in the course of underwriting), the appropriate measures must be taken in order to reduce the risk (e.g. purchase of security via credit derivatives).

Within the Bank's overall risk strategy, the risk buffer requirement has been translated into specific targets for individual portfolios. During the year under review, the capital available for risk coverage was always greater than the 20% risk buffer which has been defined.

Risk-taking capability

December 2004 vs.
December 2005



II. Risk-management/risk-control organization

Responsibility for implementing the risk-policy guidelines laid down by the Board of Managing Directors throughout the Group lies with the Chief Risk Officer (CRO). The CRO regularly reports to the **Risk Committee of the Supervisory Board** and to the Board of Managing Directors on the Group's overall risk situation. In addition to being responsible for Risk Control (ZRC), the CRO is also in charge of the operative credit units throughout the Group; the operative credit function is shared by Global Credit Operations (ZCO), responsible for corporate clients, financial institutions/sovereigns and private clients outside Germany, and Credit Operations Private Customers (ZCP), responsible for private customers in Germany.

From the risk-control perspective, the integration of Eurohypo is already well advanced. Consensus has been reached on the common use of the Master Scale and the rating/scoring systems. The Group-wide application of Commerzbank's internal credit-risk model will be extended as from 2006 to Eurohypo as well; the same holds true for the rules for credit approval powers, the use of the committee approach and the harmonization of credit-risk strategy. Further synergy potential will be tapped through the standardization of technical and organizational areas (such as the already achieved agreement on uniform booking procedures and the creation of a credit factory for private and business customers).

For the operational implementation of risk management, the Board of Managing Directors have delegated functions to specific committees, which support them in making decisions on all risk-relevant issues:

- The **Risk Committee**, headed by the CRO, is responsible for issues related to monitoring all the major types of risk, as well as their aggregation as part of the economic-capital approach and the Group's overall risk situation. At fortnightly intervals, the Risk Committee discusses market-risk issues and general risk topics.

- The **Credit Committee** meets every week, chaired by the CRO. It is made up of equal numbers of front-office (Parent Bank's Board and Regional Board Members) and risk-management personnel (CRO and CCO = Chief Credit Officer) and is responsible for all credit risk at the individual and portfolio levels. The committee issues a recommendation on all the lending decisions to be taken by the Board of Managing Directors. Its work is supported by three credit sub-committees for corporates, financial institutions and private customers. With the integration of Eurohypo, it is planned to set up a further sub-committee for commercial real estate. MaRisk requires that the CRO or the risk-management side are not outvoted in lending decisions – the exception being decisions adopted by the Board of Managing Directors. Where there is disagreement, we have a well-functioning escalation process.
- The **Operational Risk Committee** is responsible for all the broader issues relating to operational risk within the Group. It provides support for the Risk Committee in decisions relating to the management and monitoring of operational risk.
- As a sub-committee of the Risk Committee, the **New Product Committee**, which is chaired by the head of ZRC, decides whether to launch activities in new products or new markets in the form of trading or loan products. In accordance with MaRisk, it will also focus on the investment side in future.
- The **Asset & Liability Committee** (ALCO) is headed by the Board member in charge of Treasury. It is responsible for fundamental issues in asset/liability management, the Bank's liquidity, and also its borrowing and equity.

1) Risk control

After the Board of Managing Directors, Risk Control (ZRC), which with its global organization reports directly to the CRO, bears overall responsibility for Group-wide control for all types of quantifiable risk. The core functions of ZRC within the risk-control process include:

- the ongoing identification, recognition, evaluation and monitoring of all quantifiable risks and their proactive control;
- the working-out of internal guidelines to ensure a uniform risk standard throughout the Group;
- the conception and enhancement of models and methods for quantifying risk (e.g. rating methods);
- the implementation of risk-related supervisory requirements within the Commerzbank Group (e.g. Basel II and MaRisk);
- internal and external risk reporting;
- performing an advisory function within the Bank on all risk-relevant issues and with regard to the conception of its risk strategy.

A central role here is played by the Group-wide aggregation of all types of quantifiable risk to form an overall risk position, its integration into a calculation of the Bank's risk-taking capability and also the development of a risk/return-based overall Bank management as part of the economic-capital approach.

2) Risk management: the operative credit function

As required by MaK, it has been ensured for all units of the Commerzbank Group that lending decisions are independent of the front office by systematically separating the market side from risk assessment/risk decision-making in every phase of the credit process and up to management board level.

- The operative credit function (back office) for corporate customers, sovereigns, institutions and banks worldwide, as well as for private customers abroad, has been concentrated at Global Credit Operations (ZCO).
- For retail business in Germany, the operative credit function is performed by Credit Operations Private Customers (ZCP).
- ZCO and ZCP monitor risk closely, an activity for which regional credit officers (RCO) are responsible, who report either to the CCO (head of ZCO) or to the head of ZCP.
- ZCO has global credit officers for industries (bulk risks), financial institutions (including non-bank financial institutions) and intensive treatment.
- It is planned to establish a separate global credit office for specialized finance (LBOs, ABS, CDO, special and project financing) in Frankfurt in order to meet the steadily increasing demand for special expertise.
- Special expertise is bundled in centres of competence for renewable energies and global shipping. In 2006, two further centres of competence will be set up for communal financing and the financing of small *Mittelstand* companies (loans of up to €750,000).
- All the subsidiaries are integrated into this credit-line function. The two large units BRE Bank and Hypothekenbank in Essen have their own risk committees, chaired by the operative credit side.
- Specialized intensive treatment know-how exists for handling problem loans, making it possible to deal with them intensively at an early stage. The principal goal is to improve the customer's ability to survive by adopting timely measures and to return the intensive-treatment loans, wherever possible, to better credit ratings.
- All customer mezzanine financing transactions are treated as credits at Commerzbank.

In addition to the functions of the back-office departments (ZCP, ZCO) which relate to individual customers, such as rating, loan approval, documentation and monitoring/early recognition, the targeted and proactive risk management of individual portfolios is becoming ever more important. Achieving a more dynamic portfolio and ensuring a high portfolio quality are increasingly developing into a core function in the forward-oriented steering of asset quality. Transactions to optimize the portfolio are closely coordinated between the front- and back-office teams, using modern trading-based instruments provided by Corporates & Markets (ZCM). For multinationals, hedging instruments are employed to a growing extent in order to obtain the best return on the capital invested.

3) Risk management: operative risk-steering of market units

Within the scope of their business activities, the individual divisions and subsidiaries of the Bank bear immediate responsibility for risk and earnings. Unlike the centralized responsibilities of risk control (steering, planning, control), operative risk management is handled – with the exception of credit risk (back-office departments ZCO/ZCP) – by the Bank's respective front-office units.

4) Internal risk reporting

- The Risk Committee of the Supervisory Board, the Board of Managing Directors and the Risk Committee are regularly informed about all of the major risks and the Group's overall risk situation in the form of structured risk reports.
- Reporting on the individual risk categories is complemented by a calculation of the Bank's risk-taking capability, which sets off all the quantifiable risks against the regulatory and economic capital for risk coverage and aggregates them to form an overall risk position.
- Events of major significance for the Bank's risk situation are reported to decision-makers on an *ad hoc* basis.
- The central information and steering instrument at Group level for the Board of Managing Directors and the Risk Committee of the Supervisory Board is the Quarterly Risk Report (QRR) produced by ZRC.
- This also presents the target/performance comparison with the formulated portfolio targets and limits. Countermeasures are adopted at short notice.

5) Compliance and security

For Commerzbank, it is especially important that its employees are people of integrity, who observe the relevant laws precisely because they have to deal every day with highly sensitive customer data and information. The crucial point, therefore, is to prevent conflicts of interest from arising and to make sure that market manipulation and insider trading do not occur. The declared goals of compliance are to protect customers and investors, but also employees and the Bank's reputation.

Supervisory and capital-market regulations as well as the Bank's internal rules are monitored centrally by Compliance and Security (ZCS) with the aid of a highly-developed monitoring system which covers both the Bank's proprietary trading and transactions on the part of employees.

6) Internal auditing

Internal Auditing works on behalf of the Board of Managing Directors, free from directives and external influence, as a unit independent of business processes. In reporting and in evaluating the results of its audits, Internal Auditing also operates free from directives.

The instrument employed by Internal Auditing is risk-oriented audit planning. It assesses the systems for risk management, control and also for general management and monitoring, thus helping to improve them.

In accordance with the Minimum requirements for the risk management of credit institutions (MaRisk), it audits all the sections of the Group. In addition to processes and systems, preventive individual audits are conducted and special audits are performed at less than annual intervals if the need arises.

7) Implementation of supervisory requirements: Basel II, MaK and MaRisk
Implementation of the supervisory requirements throughout the Commerzbank Group is coordinated by ZRC project teams, in close cooperation with the banking departments, staff departments and subsidiaries.

- Steering committees monitor the progress of the project.
- Commerzbank was selected by the German financial supervisory authority, BaFin, as a case study for the Basel II home-host monitoring process.

Further key aspects in the implementation of Basel II at Commerzbank last year were:

- the methodological refinement of internal rating methods in credit business;
- the collation of the necessary loss histories;
- the refinement of methods for estimating the main Basel parameters;
- the elaboration of methods for quantifying operational risk.

This fulfilled important requirements for the use of the IRB Advanced Approach and the Advanced Measurement Method (AMA), thereby creating the basis for a sophisticated risk-adjusted capital allocation. The procedure for examining ("certifying") the IRB approaches to credit risk were initiated by the German authorities early in 2005. Further steps to follow in the near future are:

- In close cooperation with the banking supervisory authority, the Bank expects the examination to begin sometime in 2006. Commerzbank submitted its Group application for certification of the IRB Advanced Approach in the third quarter of 2005.
- A similar regulatory certification process for operational risk (Advanced Measurement Approach) is being introduced in Germany at present.

As things stand today, the advanced Basel II approaches can be implemented and certified according to plan within the deadline that has been set – on the current planning of the supervisory authority: January 1, 2008.

Alongside the internal progress made with the project, the question of the ultimate calibration is decisive as regards the comparative advantages of the various approaches. The supervisory authority will make this calibration on the basis of the findings of QIS 5, which are to be presented in 2006. At the moment, the originally promised incentives to be generated by the advanced approaches have not yet emerged. It is also not compatible with a level playing field that the US supervisory authorities have extended the timetable for introducing Basel II. We are concerned that the Bank's large investments over the years in the implementation of the Advanced Approach of Basel II will not lead to a lower regulatory capital requirement. Depending upon the ultimate calibration, therefore, we reserve the right temporarily to select less advanced approaches leading to a better capital allocation as far as our shareholders are concerned.

On December 20, 2005, BaFin published the definitive version of the so-called **Minimum requirements for the risk management of credit institutions (MaRisk)**. The new requirements contained in MaRisk have to be implemented in general by January 1, 2007.

- MaRisk will represent the main qualitative requirements of the second pillar of Basel II and will form the basis for an integrated approach to risk.
- MaRisk formulates requirements for the organization of risk management which replace the minimum standards for credit business (MaK), trading activities (MaH) and internal auditing (MaIR), which have applied up to now.
- They will be complemented by further Basel II elements (e.g. interest-rate risk in the banking book and liquidity risk), for which no overall provisions have existed up to now in Germany. MaRisk, therefore, provides the organizational framework for the Basel II requirements regarding the supervisory process and the internal process for assessing capital adequacy (ICAAP), which has to be formally approved by banks before the Basel framework is introduced.
- MaRisk was already implemented to a large extent within the Commerzbank Group in 2005.

On BaFin's instructions, the Bundesbank examined the trading activities of Commerzbank AG last year in Frankfurt and London pursuant to Art. 44, (1), German Banking Act – KWG. BaFin confirmed that, in the areas examined, Commerzbank is complying with MaH and that its internal system of control is appropriate with regard to the scope, complexity and risk attached to the trading activities conducted.

III. Risk-control/risk-management process

1) Credit risk

Credit-risk strategy

Building upon the overall Bank strategy, the Commerzbank Group's credit-risk strategy establishes the framework for the medium-term management of the loan portfolio, based on an analysis of the business-policy situation and an assessment of the risks and returns related to lending. The credit-risk strategy provides the basis for the planned lending activities. The overriding goals are:

- identifying value drivers and reflecting them in the Bank's business policy, and also reducing value destroyers;
- supporting the goals of overall Bank management: maximizing the return on the equity tied up, taking into account Commerzbank's risk-taking capability, and defining the framework for optimizing the current portfolio;
- and selecting new and follow-up business from a risk/return aspect.

With the Bank's general risk appetite taken into consideration, the starting point for the credit-risk strategy is a critical analysis of the strengths and weaknesses of the current credit portfolio. Complemented by a forward-looking evaluation of the opportunities and risks in the target markets, this provides the framework for the definition of a risk/return-optimized target portfolio together with the related planning of measures. In the realization of the targeted risk/return profile, this "benchmark portfolio" forms the target and the basis of comparison for the Group-wide steering of new business and for portfolio-management activities.

A major priority of the credit-risk strategy is the growth of business with *Mittelstand* companies (including major corporates) in Germany as well as in Central and Eastern Europe, and also with private and business customers in Germany. By contrast, the focus in limiting risk continues to fall on bulk risks and equity holdings. Insofar as individual industries and countries are considered critical, the operative management has been performed for years with the aid of the Bank's well-established traffic-lights system.

As part of a comprehensive controlling process, observance of the credit-risk strategy is subjected to constant independent monitoring by Risk Control. In connection with its quarterly risk report (QRR), ZRC decides whether the structure and development of the Group's loan portfolio are compatible with its credit-risk strategy. On this basis, the Board of Managing Directors review significant deviations from the credit-risk strategy and any countermeasures to be adopted as a result. At its meetings, the Risk Committee of the Supervisory Board is regularly informed about the resolutions and assessments of the Board of Managing Directors on the basis of the QRR.

In order to ensure that the risk-strategy rules are implemented and to restrict concentrations of risk, the economic capital that is tied up is used as a measure of, and a risk cap for, sub-portfolios and concentration risks (business lines, sectors, products and regions). The traditional target/performance comparison is complemented by a regular review of the underlying assumptions – such as GNP growth and industry forecasts.

Rating procedures

Rating methods form an integral part of the risk-control/risk-management system and at the same time represent a core competence and competitive factor for our Bank. Apart from their function as a traditional instrument for judging creditworthiness, rating procedures provide the basis for working out margins which reflect risk and thus differentiate between degrees of risk. They are also the basis for calculating economic capital and for portfolio management. The high discriminatory power of our rating procedures leads to improved risk selection and consequently to lower capital requirements. The processing costs in lending business can be reduced significantly through the use of rating procedures in connection with a (partially) automated lending procedure.

The predominant feature of the year under review was the introduction of the Commerzbank Master Scale on a Group-wide basis at the start of the year, the launch of the new and refined rating procedures for corporates and of the rating procedures for the banks, specialized finance and commercial real estate segments. The procedures were also revised for credit-card portfolios and for deciding on alternative payments packages for retail customers; in addition, a rating procedure was developed for the Polish smaller business segment at the Commerzbank subsidiary BRE Bank; it was introduced in January 2006.

Rating and scoring procedures in retail business
In its retail lending, Commerzbank successfully employs application scoring procedures and rating methods for assessing the creditworthiness of both dependently employed borrowers and business customers. All of the methods used are computer-based and draw upon for the most part mathematical-statistical methods for the early recognition of risk and the assessment of the risk of default.

From January 2006 onwards, behavioural scoring is also being extended to business customers who are not obliged to prepare a balance sheet; it is being fully integrated into rating-based process management.

Rating procedures in corporate business
In the corporate-customer segment, three different models are applied, distinguished by the criteria size of turnover and region of origin of the company. The structural procedure for arriving at a rating is identical in each case: six sub-analyses are processed in a fixed order, yielding a probability of default for the corporate customer (so-called PD rating). The back-office unit is responsible for establishing the definitive PD rating.

Rating for specialized finance
Commerzbank subsumes cash-flow-based financings – such as LBO financing, project finance, structured trade finance – under the heading specialized finance (SF). For this segment, a simulation-based rating procedure was employed in 2005. With the aid of the new SF procedure, the expected loss of a transaction is worked out directly. For this purpose, the risk parameters probability of default, loss given default and the expected exposure at default are calculated for tranches representing the same level of risk and for each year of the respective tranche's lifetime. The SF rating procedure is expert-based and effectively examines the debt-servicing and restructuring capability of a transaction, using scenario analyses.

Rating procedures for banks
Commerzbank's procedure for rating banks is based on a mathematical-statistical model with expert-based extensions. Overall, the bank rating procedure breaks down into five different regionally-specific models. Alongside the developed-markets model, four different models exist for banks in emerging markets (Asia, Middle East and Africa, South America, Eastern Europe). Under this procedure, six sub-analyses have to be processed in a fixed order, yielding a probability of default for the bank in question.

Commitment rating and Master Scale

Apart from the PD rating, Commerzbank establishes for all rating-relevant segments a commitment rating, which takes into account such transaction-specific features as collateral, credit types, the lifetimes of loans and other qualitative criteria. In order to calculate the rating for a commitment, the expected loss (EL) is worked out as a percentage of the exposure at default (EAD). This presents the ratio of the expected loss to the overall exposure of a customer, taking into account all the credit lines. Like the PD rating, the rating for the commitment is geared to the Master Scale recently introduced throughout the Bank. This makes the PD and the commitment rating directly compatible.

All credit commitments are assigned by the Bank to one of three areas in accordance with their commitment rating. The so-called white area comprises the unremarkable credits (R 1.0-3.2) and the so-called monitoring risks (R 3.4-4.4). The grey area covers all substandard risks (R 4.6-5.8), while in the black area all the problem loans are bundled (R 6.1-6.5). With the exception of small commitments, those in the grey and black areas are not only analysed and decided by the back-office unit but are also managed directly by risk managers from this department.

From a minimum credit level upwards, every Commerzbank business and corporate customer has the right to be informed by his relationship manager in a personal interview about his probability of default. Written statements and more detailed analyses (Rating Coach, for instance) are made available at an appropriate fee.

Commerzbank Master Scale and PD/EL values

Commerz-bank AG rating	**PD and EL mid-point** as percentage	**PD and EL range** as percentage	**S&P**		**IFD scale***	
1.0	0	0	AAA	AAA	I	**Investment grade**
1.2	0.01	0 - 0.02				
1.4	0.02	0.02 - 0.03	AA+	AA		
1.6	0.04	0.03 - 0.05	AA, AA-			
1.8	0.07	0.05 - 0.08	A+, A,	A		
2.0	0.11	0.08 - 0.13	A-			
2.2	0.17	0.13 - 0.21	BBB+	BBB		
2.4	0.26	0.21 - 0.31	BBB			
2.6	0.39	0.31 - 0.47			II	
2.8	0.57	0.47 - 0.68	BBB-			
3.0	0.81	0.68 - 0.96	BB+	BB	III	**Non-investment grade**
3.2	1.14	0.96 - 1.34	BB			
3.4	1.56	1.34 - 1.81				
3.6	2.10	1.81 - 2.40	BB-		IV	
3.8	2.74	2.40 - 3.10	B+	B		
4.0	3.50	3.10 - 3.90				
4.2	4.35	3.90 - 4.86			V	
4.4	5.42	4.86 - 6.04	B			
4.6	6.74	6.04 - 7.52				
4.8	8.39	7.52 - 9.35	B-			
5.0	10.43	9.35 - 11.64				
5.2	12.98	11.64 - 14.48	CCC+	CCC	VI	
5.4	16.15	14.48 - 18.01				
5.6	20.09	18.01 - 22.41	CCC to CC-			
5.8	25.00	22.41 - 30.00				
6.1	100	Imminent insolvency	C, D-I, D-II			**Default**
6.2		Restructuring				
6.3		Restructuring with recapitalization/partial waiving of claims				
6.4		Cancellation without insolvency				
6.5		Insolvency				

* IFD = *Initiative Finanzstandort Deutschland*; Source: Commerzbank

Assessing creditworthiness in international business: country rating

The assessment of country risk draws upon an internal rating model reflecting a country's economic performance and political stability. The country rating evaluates the ability and readiness of a country to pay in foreign currency. The rating figures serve to assess the transfer risk (risk of the state restricting cross-border payment flows), the sovereign risk (creditworthiness of the state as a borrower) and the systemic risk.

Credit-approval powers

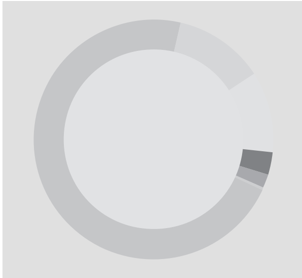
The basis for managing credit risk throughout the Commerzbank Group is a structure of rating-related credit approval powers, which now also extends to all subsidiaries, i.e. including Hypothekenbank in Essen, Erste Europäische Pfandbrief- und Kommunalkreditbank (EEPK) and BRE Bank.

In both corporate and retail business, credit-approval powers are based on the principle of committee decision-making. On all committees, the front office and the back office are equally represented, with the operative credit side also taking the chair; it cannot be outvoted on risk-related issues. The central body in such matters is the Credit Committee, which is chaired by the CRO. Drawing upon predefined entry levels, this committee is responsible for all the Commerzbank Group's major and large lending decisions (based on Group-wide limits for borrowers) or for passing the matter on for the Board of Managing Directors to decide. Smaller commitments may be approved by two loan officers; in the so-called "non-relevant" area pursuant to MaRisk, we make use of the possibility to delegate credit-approval powers to a single officer.

Credit decisions for individual borrowers or groups of borrowers are made on the basis of either the aggregated exposure that has been applied for, pursuant to Art. 19, (2), German Banking Act – KWG (borrower unit), or a larger economically defined risk entity. In 2006, a project for improving the efficiency of corporate loan processing and decisions (end-to-end credit, "etec") will be implemented. In addition, loan-approval powers will be revised in view of the dimensions involved in integrating Eurohypo; this will mean that far fewer individual credit applications will have to be decided by the Board of Managing Directors and the Risk Committee of the Supervisory Board. In future, both bodies will concentrate more strongly on portfolio-based applications, stress analyses and also on resolving any countermeasures that may become necessary.

We see even more efficient credit processing as a way of increasing value in order to provide our customers with credit at favourable prices – particularly since risk-adjusted pricing will lead to greater risk-oriented differences in terms and conditions. Wherever possible, we are going over to bundling standardized credit procedures and moving them to the front-office side. The remaining operational risks can be well monitored via key performance indicators at such credit-processing units. By contrast, for complex and individual credit decisions, a major component of the individual default risk is to be found in the loan documentation – liability and duty to supply information, security arrangements, covenants, etc. – together with the establishment and monitoring of the disbursement and repayment conditions as well as the possible courses of action in the event of default. For this reason, we set great store by the credits of all units of the Commerzbank Group being processed by back-office personnel.

Country risk, by rating group as of 31.12.2005



Regions of foreign exposure as of 31.12.2005

Modelling and quantifying credit risk

All credit risks are aggregated at the portfolio level with the aid of the internal credit-risk model. By providing key figures, this model is one of the bases for risk monitoring, portfolio management and credit-risk strategy. Within the context of an overall Bank management geared to the use of economic capital, it also makes a major contribution towards steering business.

The main result produced by the portfolio model is a loss distribution, permitting probability statements on possible losses arising from credit business. From this function are derived both the expected loss (EL) and the unexpected loss (UL).

The expected loss (EL) is the product of the expected exposure at default (EAD), the probability of default (PD) and the percentage loss given default (LGD):

$$EL = PD \times EaD \times LGD$$

The expected loss plays a central role both in risk-based pricing and – especially with regard to Basel II – as a benchmark for forming provisions.

Credit value-at-risk (Credit VaR) serves as the measure for unexpected loss; for a given confidence level, it represents an estimate of the maximum amount by which losses could exceed the expected loss. For the Group portfolio, the Credit VaR is calculated using a time frame of one year and a confidence level of 99.95%; at the same time, it represents the credit-risk portion of the Bank's economic capital.

The portfolio and diversification effects occurring at Group level are redistributed in the credit-risk model down to the individual client level in risk-adjusted form. In this way, the relative share of individual units in the overall credit risk can be determined at various aggregation levels.

Unexpected loss for Group's segments

in per cent

- 21% Private and Business Customers
- 1% Asset Management
- 31% *Mittelstand*
- 19% International Corporate Banking
- 18% Corporates & Markets
- 9% Mortgage Banks
- 1% Others and Consolidation

In the traditional *Mittelstand* segment (Corporate Banking), where the Bank's main credit risks arise, and in the Retail Banking segment, the ratio of unexpected to expected loss is roughly 9:2. In the Corporates & Markets section, however, where the structure of customers' creditworthiness is generally good and bulk risks with their own specific volatility represent the main loss potential, the ratio is roughly 8:1 – in other words, the risk is significantly determined by the unexpected loss.

A variety of risk factors and parameters are included in the credit-risk model. In addition to estimates of the exposure to be expected in the case of default and the conservative recognition of collateral, guarantees and netting agreements, these also take into account such statistical quantities as default rates, recovery rates und sectoral correlations. As part of the ongoing modification of the model, the input parameters for calculating risk were altered in 2005. In particular, further results produced by the statistical methods for estimating collateral and recovery factors were integrated into the model.

The credit-risk model plays a key role both in portfolio and business-line analysis and also for risk/return-based overall Bank management. In connection with the value-based steering of corporate business, standard risk costs and the economic capital costs are used in working out an economic contribution margin. Through risk-adjusted pricing, the Bank is increasingly creating steering impulses on the loan origination side by making the risk/return ratio central to lending in the acquisition of new and follow-up business as well. In this way, it is ensured that the portfolio targets defined by the Bank as part of its credit-risk strategy are considered even when the loan is being made available.

Monitoring of credit portfolio

The goal and measure in the Group's targeted monitoring of credit risk is the risk/return-based target portfolio defined as part of the credit-risk strategy, with the relevant sub-portfolios formed on the basis of target groups and markets.

Concentrations of risk in clusters, countries, target groups and products are restricted by means of a traffic-lights system.

New business (origination) is steered by means of selective instructions with regard to lending, which in themselves lay the basis for ZCP and ZCO to practice active portfolio management. One key feature in this respect is the creation of more dynamic parts of portfolios through recourse to credit derivatives, securitization and asset trading. Apart from secondary-market transactions involving written-down claims (single names), a portfolio of called-in non-performing loans (NPLs) was disposed of in the year under review.

The steering impulses for bulk risks and also for products and target groups take the features specific to a segment into consideration. As a central element of risk management, the **monitoring of bulk risks** is based on the economic capital approach. In order to reflect the risk structure characteristic of the Bank's commitments, the main factors in working out economic capital are volume, maturity and an analysis of creditworthiness, which takes into account among other things sectoral and country-specific factors. The appetite for each current bulk risk is indicated by means of a traffic-light colour.

Bulk risks are defined as borrower units accounting for at least €5m of economic capital; a graduated process is used to monitor them. Borrower units accounting for more than €20m of economic capital are not wanted in a long-term perspective and are systematically reduced, also with recourse to modern capital-market instruments such as CDS. For problem commitments (6.1-6.5 rating), all credits over €50m count as bulk risks.

The essential core of **country-risk monitoring** is a well-established limits/traffic-lights system pointing the direction for future business activities and lending. The degree to which the internally established and regularly adjusted country limits have been exhausted determines the colour of the traffic lights, which steers sales efforts, using resources economically, and indicates where the Bank seeks new business and where its commitment is deemed to be large enough.

Country-risk monitoring entails all the decisions, measures and processes which – drawing upon the information provided by risk quantification – are intended to influence portfolio structure in order to attain management goals.

Under the traffic-lights system, groups of countries with a certain rating and minimum exposure are covered. For risk optimization purposes, the Bank has extended its controlling for a number of countries to so-called total exposure. This takes account not only of the net country exposure but also of the claims in a non-risk country on the foreign outlets and subsidiaries of a parent company based in a risk country. Monthly country-risk reporting ensures that in the case of unexpected portfolio developments countermeasures can be taken promptly.

Country-risk reports appear at periodic intervals, describing the development of individual country exposures and the breakdown by rating category and region. In this way, the Bank achieves both risk-based control and geographical diversification in its exposure abroad. In 2006, the credit-risk model will be adopted for country monitoring, as it is in the monitoring of individual bulk risks.

Like country-risk monitoring, **sectoral monitoring** also operates with a system of limits and traffic lights. The colours for the various sectors are worked out using both internal and external key sector data taking into account the historical performance of the sector in question, the quality of the current loan portfolio and a sector overview.

Monitoring credit risk for trading activities

The management of credit risk resulting from trading activities is based on MaRisk. It takes account not only of counterparty and issuer risk but also of all the settlement risks resulting from trading activities. Primarily, a forward-looking presentation based on dynamic add-ons and simulation methods is used to quantify the risk for trading activities. Here, the risk-mitigating effects of netting agreements are taken into consideration, as is the effect of collateral agreements.

A system of limits is used to monitor whether daily utilization remains within the set framework. The system of limits directly intervenes in trading systems and ensures that credit exposure arising from trading activities is monitored right around the clock. The trading units establish whether free trading lines are available by means of a so-called pre-deal limit check and may only conclude new deals to the extent that limits are free. Limit breaches are reported daily to the management. In addition to this daily reporting, the management is informed monthly about the largest off-balance-sheet transactions. Risk reporting, which also includes regular portfolio reports devoted to certain groups of counterparties, is complemented by an evaluation of limits and exposures by type of business, maturity, counterparty category and class of risk. A graduated procedure ensures that overdrafts are brought back within set limits.

Development of risk and risk provisioning

Good performance in 2005 was mainly attributable to large-scale reversals of provisions for bulk risks in particular both in Germany and elsewhere. At the same time, provisioning in German corporate business, where the focus is on *Mittelstand* firms, has eased considerably. In addition, a notable part of overall provision for possible loan losses in 2005 related to a final clean-up of the commercial real-estate portfolio and here, with a view to legislative changes, to the fund-financing area which is bundled at CORECD. Net provisioning in retail business stayed at a high level as the market environment remained difficult.

Integration of Eurohypo into the Commerzbank Group will cause a substantial increase in total lending; in the German market, we will become easily the largest financing bank as a result. We will make sure that our conservative measurement principles are universally applied to the greatly expanded portfolio as well and expect this to lead to a moderate rise in our provisioning in 2006 compared with last year's consolidated figures. This statement is subject to some reservations, as we have not yet completed our credit check of Eurohypo's portfolio.

We see considerable potential negative factors on the retail side as the environment remains difficult (rising consumer insolvency figures, persistently high unemployment). Against this background, we expect no scope in 2006 for reducing provisioning in this segment; on the contrary, we believe it may tend to increase.

Reflecting a change in the credit culture, the main focus of the Commerzbank Group is not on minimizing provisioning. On the contrary, pursuing an opportunity-oriented approach, we want to assume selective risks provided that the returns are adequate. For small and medium-sized enterprises, for instance, we intend to gradually increase our risk appetite over the next few years, accepting higher provisioning in this sub-segment provided that this makes economic sense. The same holds true for consumer and credit-card business. Changes in the absolute level of the provisioning ratio cannot, therefore, be used as a basis for judging the success and quality of risk management. This is only possible if changes in net interest income from lending are also taken into consideration. International comparison reveals that apparently those banks are very successful which are able to increase their risk appetite in the sub-investment-grade area thanks to efficient steering systems and systematically implemented risk-adjusted pricing.

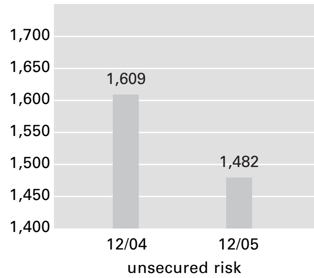
All identifiable credit risks are taken account of by forming the appropriate provisions. Doubtful credit exposures are kept in a special IT system, making it possible to process individual transactions effectively and to monitor risks. Under the Commerzbank Master Scale, problem loans in corporate business are assigned to five different default classes, differentiated by the reason for default. This ensures that the specific risk situation of individual cases is optimally recognized, which in turn finds expression in the amount of provisioning needed. In addition, an assessment of the individual borrower's future ability to pay will be used in calculating the amount of provisioning that is required.

In corporate business in particular, considerable excess cover exists for non-performing loans in the form of the provisions formed and the collateral furnished. However, this excess cover is not a "luxury" but rather it is necessary, depending on the volume of performing problem loans (so-called reporting accounts), to cover the existing acute risks.

The 20 largest problem loans consist of €438m of performing and €789m of non-performing assets. All told, provision of €798m has been formed for the 20 largest problem loans.

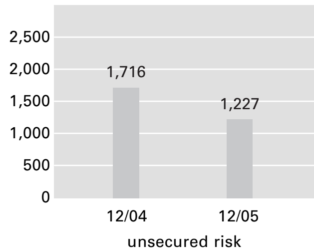
The 20 largest sub-standard loans (4.6-5.8 ratings)

in € m



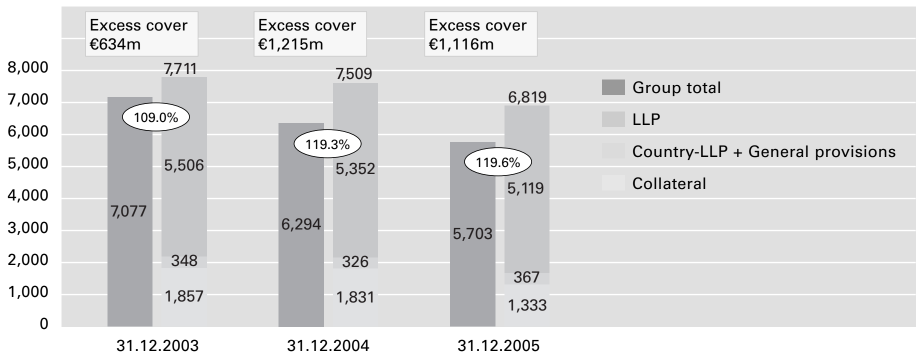
The 20 largest problem loans (6.1-6.5 ratings)

in € m



High coverage ratio for non-performing loans

in € m



For latent risks in the white and grey areas, general provisions are formed, representing coverage for the acute credit risks that exist there but which have not yet become transparent. Portfolio-based parameters (loss identification period, "LIP factor") are used to represent the time-lag here.

For concrete creditworthiness risks – which are indicated by the rating – provision is made, applying Group-wide standards, by means of specific valuation allowances on the scale of the potential loss ("loss-free valuation"); here we base our calculations on an updated conservative valuation of the furnished collateral. The amount of provisioning required for problem loans is gauged by the unsecured part of the exposure. In international credit business, the economic and political situation of the country is also reflected in the overall assessment of a borrower.

With the EU's approval of the amended IAS 39 early in 2005, binding IFRS rules now apply for risk provisioning. Building upon these rules, the Bank adopted measures last year to harmonize IFRS risk provisioning on the basis of the new Basel II parameters.

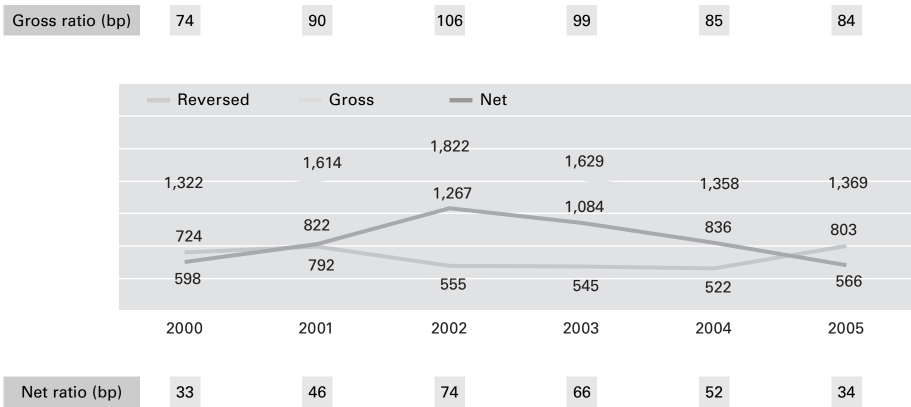
Net provisioning in 2005 was €566m and thus €270m lower than the previous year's figure of €836m and also €194m below the budgeted amount of €760m. The Group's net provisioning ratio was reduced year-on-year by 18 basis points to 0.34%, marking a return to the positive level of 2000.

The steady decline in the provisioning trend over several years is attributable, for one thing, to such external factors as bulk and country risks and, for another, to better risk management throughout the Group given improvements to the system in connection with Basel II, the creation and implementation of the credit-risk strategy, more early recognition and the inclusion of the Bank's subsidiaries.

The adequacy of the Bank's risk provisioning is regularly monitored at the portfolio level. The expected need for provisions throughout the entire financial year is worked out each spring and autumn on the basis of careful bottom-up estimates. The early recognition of risk is complemented by two top-down estimates, whereby a gradual improvement in the early recognition of all portfolio risks has been achieved over the past few years. We expect that the switch to the Basel II/IFRS system will tend to produce greater volatility in risk provisioning for both the interim and the year-end figures. Thanks to the so-called unwinding effect, some of the reversals pursuant to IFRS will be recognized in interest income, making year-on-year comparison more difficult.

Risk monitoring is complemented by the careful monitoring of the largest sub-standard and problem loans in terms of the overall volume of risk, the development of ratings and other relevant risk parameters. This creates a great sensitivity towards risk in all portfolios and at all levels of decision-making. Usually, claims are removed from the books and residual amounts are written off or reversed only after the conclusion of insolvency proceedings, after they have been disposed of, or after an accord has been reached with the borrower, or debts are waived at the expense of existing provisions. Experience has shown that, as a result, the level of problem loans – which includes non-performing loans and endangered performing loans – is higher than at institutions which follow a policy of making early write-downs due to their accounting rules.

Our experience indicates that, seen overall, a work-out policy of great staying power leads to more favourable provisioning charges. For this reason, we do not see the virtual doubling of the Commerzbank Group's portfolio of non-performing loans through the integration of Eurohypo as a threat, but rather as an opportunity. As the German real-estate scene improves in the course of the next few years, we expect to be able to register additional recoveries here.



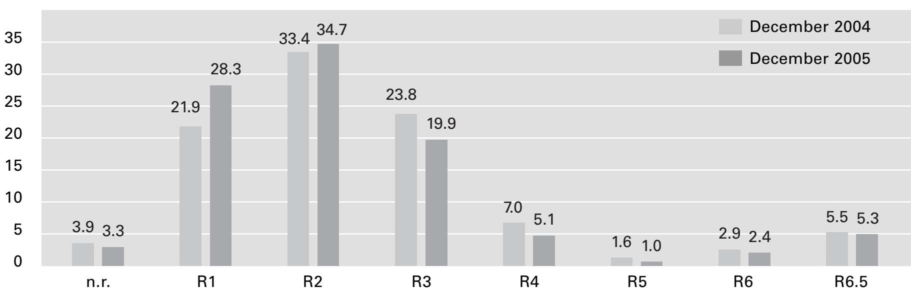
Risk provisioning of Commerzbank Group

in € m

Credit portfolio analysis

Central and regional credit risk management at Commerzbank relies heavily upon an intranet-based management information system (CoMKIS), a reporting and analytical tool forming an integral part of Group-wide credit-risk control. CoMKIS makes it possible to present the main steering parameters and important risk figures; it can also be used to perform individual evaluations, such as rating- or sector-based portfolio analyses. In this way, analyses of weak points may be made on the basis of various search criteria for the purpose of credit-risk strategy, and early-recognition indicators can be defined and evaluated.

At the start of 2005, several new rating methods for corporate business were introduced together with the Commerzbank Master Scale, which have led to a distinct improvement in discriminatory power. Gradually, this is affecting the rating structures in both commercial and investment banking. Selective measures in risk management as well as healthier economic conditions are producing a further improvement in rating structure.

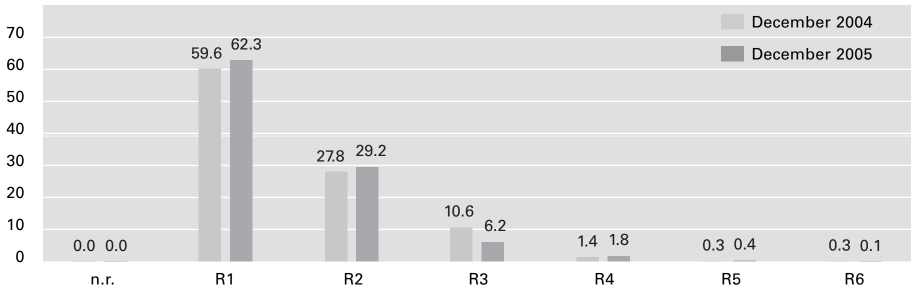


Utilization of credit, by rating structure in Commercial Banking (excl. BRE Bank and Essen Hyp) as of 31.12.2005

in per cent

Counterparty risk, by rating structure in Investment Banking as of 31.12.2005

in per cent



The rating structure in Investment Banking with a large proportion in rating groups 1 and 2 reflects the focus on counterparty risks of investment-grade quality.

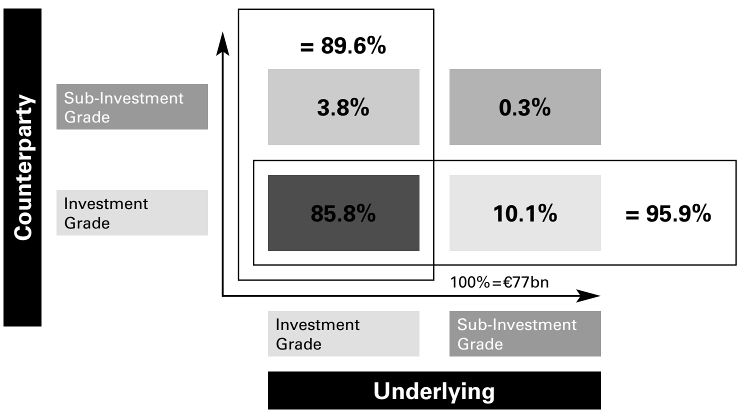
Use of credit derivatives

For Commerzbank, the use of credit derivatives represents a central instrument for transferring credit risk. The Bank is successful in proprietary trading as a market maker for credit default swaps and also offers its customers structured, derivative credit products. Commerzbank draws upon the expertise gained in proprietary trading to make selective use of the instruments as a credit surrogate in its banking book, thus enabling it to tap extra potential revenue in the form of risk/return-optimized earnings. In addition, the instruments are employed on the basis of publicly available information as hedging vehicles in the systematic reduction of risk. Here, Commerzbank uses credit derivatives to manage risk selectively as well and to diversify the portfolio in line with its credit-risk strategy.

The following diagram shows the structure of credit derivatives in the trading book. Credit hedges are mainly (95.9%) bought from investment-grade counterparties. Similarly, the reference assets are primarily to be found in the investment-grade bracket (89.6%). Commerzbank has concluded only 0.3% of the protection it has bought to cover sub-investment-grade issuers in the sub-investment-grade area. The development of counterparty risk and long/short positions is steered by means of the system of limits and the established credit limits. Open long positions may be taken up in the trading book within the approved issuer limits.

With hedge funds, we assume counterparty risk virtually only on a secured basis (collateral agreements) and ensure that our confirmations are themselves promptly confirmed.

Protection bought for the trading book as of 31.12.2005



Securitization transactions

Commerzbank arranges and places ABS/MBS transactions for clients in Germany and other European countries. Issuing activity was concentrated on true-sale securitizations last year. The underlying securities are primarily commercial mortgages, corporate loans and trade bills. Borrower's note loans and mezzanine portfolios are actively sold in Germany to *Mittelstand* clients with the aim of placing them in the capital market.

In order to achieve broader diversification of its portfolio and to tap extra earnings potential, Commerzbank is active to a reasonable extent as an investor – as defined by the new Basel Capital Accord (Basel II) – in tranches of other securitization transactions. The Bank also uses securitizations as an originator in accordance with the Basel II definition for freeing up regulatory capital and for selectively selling and covering credit risk. The following table presents an overview of Commerzbank's securitized assets (nominal volume as of December 31, 2005):

	Nominal amount in € m
Collateralized loan obligations (CLO)*	1,470
Residential mortgage-backed securities (RMBS)	5,582
Total	**7,052**

* As CLO represent revolving pools, the overall securitized volume in 2005 was €10,789m.

In order to promote the true-sale market in Germany and to improve the overall framework for these transactions, Commerzbank has joined the True Sale Initiative (TSI), cooperating with Kreditanstalt für Wiederaufbau and other banks.

2) Market risk

Organization and strategy

- The active management of market risk is entrusted to the various business lines, which within the scope of set limits and trading competencies expose themselves to market risk for the purpose of generating revenue.
- The central management of risk is performed by specialized market-risk control units within ZRC that are independent of trading activities.
- The Risk Committee deals exclusively with topics relating to market risk on a monthly basis. Detailed reports are presented at these meetings on the development of risk in the trading and banking books, complemented by scenario analyses of specific movements in interest-rate, equity, currency and credit markets.
- Market risk is managed by means of a sophisticated system of limits, combined with reliable and optimized methods for measuring and monitoring risk. The methodological competence for the Group as a whole, including the provision of the required market data and reporting, lies with ZRC.
- ZRC in consultation with the various business lines and the Board of Managing Directors establishes the limits in a top-down and bottom-up planning process, taking into account the Bank's risk-taking capability.

- Commerzbank uses economic capital and business expectations in establishing its market-risk limits, creating a risk/return-based steering of market risk. The extent to which the limits are used, together with the relevant P&L figures, is reported daily to the Board of Managing Directors and the various heads of business lines.
- In consultation with the Parent Bank, the subsidiaries have as a rule established a similar form of risk control. In such cases, market risk is monitored on a local basis. The relevant data are made available daily to ZRC, which calculates and monitors the Group risk.
- We ensure high liquidity for our market-risk positions and subject portfolios comprising less liquid products to particularly close observation.

Methodology

The calculation of market risk is based on the value-at-risk method. In line with the supervisory requirements, the monitoring of market risk by ZRC covers the following categories:

- The general market risk: calculated by means of historical simulation.
- The specific market risk: worked out using the variance-covariance method.
- The interest-rate risk: calculated as part of the market-risk model on the basis of sensitivities related to certain maturities and extensive stress tests.
- The market liquidity risk: for quantifying market liquidity risk closing-out strategies for specific portfolios are defined.

At the Parent Bank and its foreign branches, Commerzbank uses an internal model in order to calculate the capital requirements for the general and specific market risk. In addition, Commerzbank's internal model has already been approved for its CISAL subsidiary. It is planned to submit applications for other subsidiaries.

Through the employment of backtesting methods, the internal model's reliability is regularly checked. Apart from meeting supervisory requirements, the aim is to assess and steadily improve forecasting quality. The total number of significant deviations provides the basis for the evaluation of the internal risk model by the supervisory authorities.

Stress test and scenario analysis

While the value-at-risk approach provides a forecast for possible losses under "normal" market conditions, it cannot predict contingent losses under extreme conditions. For this reason, the VaR approach is complemented by the calculation of stress tests in order to take account of possible extreme market movements. Stress tests are intended to simulate the impact of crises, extreme market conditions and major changes in correlations and volatilities.

- As part of daily reporting, stress tests are applied in a system of "overnight" stress limits, which are adapted to accommodate the risk factors of individual portfolios in each business line.
- Stress tests performed across portfolios simulate the impact of historical and conceivable future crisis scenarios on the Group as a whole.

- The impact of an interest-rate shock on the economic value of the Group's banking books are simulated every quarter. The maximum decline due to a parallel shift of 200 basis points in the interest-rate curve was €522m at year-end. This translates into a decline in equity of 4.1%, which is well below the limit of 20% defined by Basel II for so-called outlier banks.
- The overall picture is rounded off by monthly scenario analyses for each investment category (e.g. hypothetical interest-rate, equity, foreign-exchange and credit-spread scenarios).

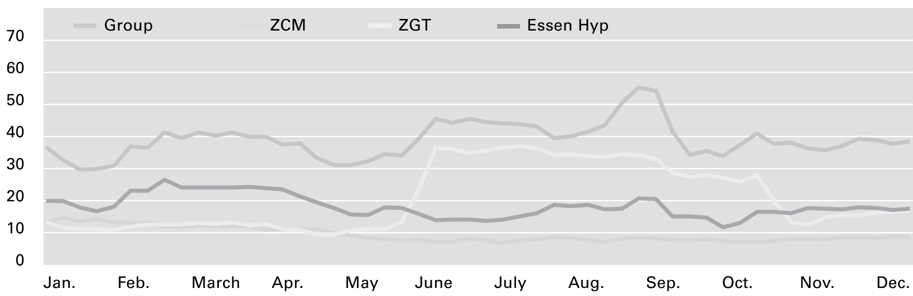
Development in 2005 financial year

For Commerzbank, 2005 was another year in which market risk was systematically reduced even further in various sections of the Group. In Investment Banking, this was achieved through the continuing concentration on customer-related business and the accordingly narrower scope for proprietary trading. Further reductions were realized by systematically paring down the Bank's portfolio of equity holdings.

At the same time, risk control itself had to adjust considerably to the market environment and to changes in customers' preferences. In response to greater demand for hedge funds and banking products related to hedge funds, for instance, and to Commerzbank's increasing activities in this area, the relevant approval powers were introduced and suitable internal guidelines were implemented.

The Bank's own investments in this area are systematically counted against the available market-risk limits and in future they will also be subject to special volume limits for hedge-fund investments, hedge-fund-specific stress tests, diversification criteria for target investments and a strict due diligence for hedge-fund partners.

	Equity holdings		Corporates & Markets (ZCM)		Group Treasury (ZGT)		Essen Hyp		Group (excl. equity holdings)	
in € m	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Maximum	84.6	140.6	15.4	26.6	37.6	27.4	26.1	27.6	56.1	55.8
Median	60.4	82.5	8.2	18.7	15.1	12.4	17.1	21.2	37.9	39.1
Minimum	50.8	74.5	6.2	11.3	8.5	8.9	10.9	9.1	27.0	21.3
Year-end figure	59.3	82.9	8.6	12.4	15.9	13.3	17.3	14.1	39.1	25.2



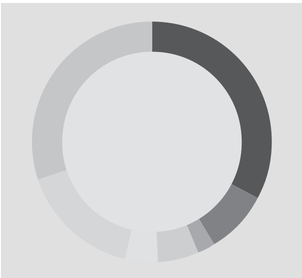
Value-at-risk in the course of 2005

Weekly averages, in € m
1-day holding period,
97.5% confidence level

In refining its methods of calculating risk, the Bank devoted special attention to the market liquidity of its trading positions in the past financial year. Over and above the supervisory requirements, it introduced a market-liquidity VaR on the basis of hedging strategies for market risk which are used for specific portfolios.

Percentage distribution of market risk as of 31.12.2005

1-day holding period; 97.5% confidence level



30.1% ZGT
16.3% ZCM
4.5% ZAM
32.7% Essen Hyp
8.5% New York Corp. Bank IB
2.4% EEPK
5.5% Other

3) Liquidity risk

Organization and strategy

At Commerzbank, liquidity risk is used as a synonym for the cash liquidity risk and describes the risk of possible payment gaps in terms of the Bank's solvency. Ensuring that Commerzbank is solvent at all times, including in crisis situations, is the duty of the staff department Group Treasury (ZGT). Measurement and monitoring at Group level, however, are performed by the staff department Accounting and Taxes (ZBS) and ZRC.

In accordance with the current supervisory requirements (Principle II), an institution's liquidity is deemed to be guaranteed if the weighted liquid assets available to it within 30 days cover the weighted payment obligations callable during this period. This figure is calculated and reported by ZBS. All the same, in practice, a liquidity risk also exists over an institution's full maturity spectrum and for its off-balance-sheet items. For this reason, and to meet elementary requirements of Basel II, Commerzbank has introduced supplementary liquidity ratios.

Since the year under review, liquidity risk is additionally controlled by means of a differentiated system of limits on the basis of the computed available net liquidity. The use made of such limits is worked out both for a base scenario reflecting current market conditions and for stress scenarios influenced by either market or behavioural factors; it is monitored at the relevant steering and limit levels. The current use of limits is calculated weekly and made available for further processing on special pages of Commerzbank's intranet. All limit overruns are reported to ZGT and the Risk Committee.

Liquidity ratios

The available net liquidity (ANL) approach is used for controlling purposes. Crucial to applying the ANL approach is the calculation of so-called legal and economic cash flows, both for balance-sheet and off-balance-sheet items. Legal cash flows cover the flows of payments expected under contractual agreements, whereas economic cash flows also include the effects of customers' behaviour. For possible liquidity gaps in the future, offset assets are worked out (balance sheet liquidity), which are the result of borrowing against liquid assets and/or disposing of such assets.

All three ratios are worked out both under current market conditions and under various stress scenarios influenced by either market or behavioural factors. Limits are established for both the base case and the stress case. The Bank also aims to ensure that the Commerzbank Group always has a supply of liquidity in times of greater stress, while preserving the flexibility of the individual market units.

Liquidity management

The future funding need is calculated on the basis of the ANL figures, projected into the future, complemented by the expected liquidity effects resulting from business-policy decisions. The aim is to manage liquidity efficiently and to cover the Bank against liquidity bottlenecks, taking into account the recommendations of Basel II. For this purpose, the Bank practises the stable funding concept, whereby long-term lending is largely funded at long term. In order to react promptly to any gaps that are identified between Commerzbank's assets and its funding side, the structure of the balance sheet is constantly analysed. In addition, ZGT maintains liquidity portfolios in the leading currency centres.

In 2005 (2004), the liquidity coefficient in accordance with Principle II was between 1.10 (1.13) and 1.20 (1.19); it was thus at all times well above the value of 1.0 required by the supervisory authorities. At end-2005, the Bank – as in the previous year – had a liquidity reserve of €21bn.

4) Equity holding risk

Equity holding risk is controlled by ZRC, whereas the management of such risks is handled by two different units of the Bank. Private equity business is managed by ZCM and monitored by the operative credit unit ZCO. Strategy and Controlling (ZKE), performing the independent back-office function, is responsible for all the strategic and other equity holdings.

Before new equity holdings are acquired, the potential risks are analysed by means of due diligence measures, while already existing equity investments are controlled on the basis of regular reports from the enterprises in question. At the same time, the market risk stemming from the Bank's listed equity investments is monitored daily – like the calculation of trading positions – by ZRC and reported, together with the risk from non-listed investments, to the Board of Managing Directors.

5) Operational risk

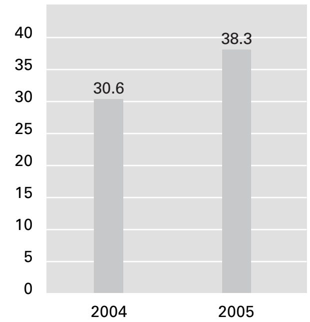
Organization and strategy

Commerzbank's management of operational risk is built upon the recommendations of the Basel II specialist committee OpRisk, which were worked out in the year under review with the Bundesbank and BaFin. Work focused on steadily expanding the operational risk management framework and preparing for supervisory approval of the Advanced Measurement Approach (AMA) pursuant to Basel II. The various organizational units as well as independent Risk Control draw upon the same methods and systems for identifying, evaluating, analysing, reporting and managing operational risk.

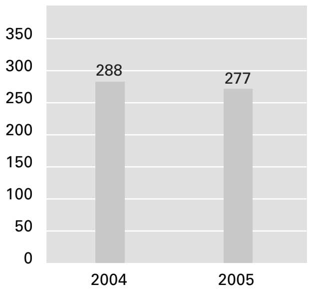
The Operational Risk Committee and the Risk Committee are regularly informed about the risk situation. In addition, the Global OpRisk Forum serves to help Risk Control and the operational risk managers prepare the ground for decisions and discuss ongoing developments, projects and events; it also serves the general exchange of views at work level.

Losses resulting from operational risk (no. of events and volume) excl. provisions

in € m



Number of losses



Operational risk methods

On the basis of the requirements which were made more concrete last year, the Bank continued to prepare the ground for working out the capital needed for operational risk under the Basel II Advanced Measurement Approach (AMA). Above all, this makes it necessary to carry out Group-wide cross-process quality self-assessment. With the aid of this method, the quality of work processes, internal controls and the business environment are systematically evaluated locally and analysed centrally on the basis of end-to-end processes. The findings are used to identify potential weak spots and represent a major qualitative component in the AMA model.

The Group-wide collection of loss data exceeding €5,000 – in line with Basel II – continued in the year under review and was extended to include information relevant from the insurance standpoint. In this way, the management of operational risk and insurance have been more strongly integrated, creating the conditions for insurance to be included in the calculation of the Bank's capital. The internal loss data collected since 2002 thus more than meet the Basel II requirement of a minimum collection of three years for the first-time application of the AMA approach for calculating equity as from 2008.

For modelling the fat tail of the loss distribution – i.e. the financial risk of rare major loss events – external loss data from Operational Riskdata eXchange Association, Zurich (ORX) are used in addition to the internal loss data. The data syndicate, which the Bank helped to found, now consists of 22 international banks. These data also enable the Bank to compare its own risk profile with that of other international banks, which provides important impulses for managing operational risk.

In addition to the anonymous external data from ORX, the Bank continued to evaluate public external data last year. These are particularly useful for developing suitable scenario analyses. Scenario analysis has been launched at the Group's main units and provides support for those responsible for assessing their local operational risk.

Last year, the Bank's organizational units began to collect key risk indicators (KRI) permitting statements about potential risks of loss. In addition, Commerzbank continues to participate in an initiative of international banks to establish a uniform system for ordering and collecting these indicators. Our KRIs in the credit derivatives area, for instance, show that the Bank can confirm business in this market segment far more quickly than the benchmark of the International Swaps and Derivatives Association (ISDA).

In the reconciliation area, the Bank has substantially optimized processes and monitors any breaks which occur promptly by means of a revamped management information system (MIS). Here the breaks (EL/UL) are measured, which facilitates the escalation process, making adequate provisioning possible. Compared with the average ISDA data of large international banks, the Commerzbank Group has far fewer breaks and open confirmations relative to its transaction volume, which we see as evidence of our efficient settlement procedures.

The stability, quality and information value of the mathematical-statistical model were improved further in the year under review and its depth was increased. Explicit inclusion of the correlations between the Bank's various business units produces diversification effects which give rise to a figure about €300m lower than the previous year's (in either case, before insurances). Regular benchmarking and exchanges with leading banks ensure that the model can be used for international comparisons.

Parallel to this, the Bank's future capital requirements are still calculated according to the standardized approach of Basel II. The partial use of AMA and the standardized approach is also possible for individual Group units.

Legal risk

The management of the Commerzbank Group's legal risk worldwide is entrusted to Legal Services (ZRA). The central function of ZRA is to recognize potential losses arising from legal risk at an early stage and to devise solutions for reducing, restricting or avoiding such risks. In this connection, ZRA produces guidelines and standard contracts for the entire Group, which are implemented in close cooperation with business lines, branches and subsidiaries.

ZRA also manages the provisions which are formed for the Commerzbank Group's legal proceedings and ensures that they are included in the calculation of operational risk. The major legal proceedings against the Commerzbank Group are reported at regular intervals to the Operational Risk Committee, the Risk Committee, the Board of Managing Directors and the Supervisory Board in the form of individual analyses. Worldwide, a growing readiness can be noted in the financial sector to press customers' claims through legal action. This is also being encouraged by the ever more complex regulation of the financial markets, with the constant additions to banks' catalogue of duties.

Business contingency and continuity planning

In order to ensure that banking activities are maintained and to reduce losses arising from serious interruptions of its operations to a minimum, the Bank has business contingency plans in written form. In a Group-wide central business contingency policy, the responsibilities of the different head-office departments and individual units are described.

By means of regular business contingency self-assessments, the Bank creates for itself a standardized overview of the emergency measures for which the units assume responsibility. These assessments were performed in all the main relevant units last year. In addition, numerous emergency tests are conducted in which the failure of individual locations or systems are simulated.

6) Business risk

In line with their immediate responsibility for risk and earnings, the individual divisions and subsidiaries of the Bank also take charge of the operational management of business risks which occur in their area of activity. As part of overall Bank management, business risk is also included in the calculation of economic capital.

Business risk is worked out using an earnings/cost-volatility model, which calculates historical monthly deviations of actual fee income and general non-period costs from the planned result. As with the procedure applied for other types of risk, the calculation is based on a confidence level of 99.95% and a one-year time frame.

7) Non-quantifiable risks

Pillar II of the new Basel framework and MaRisk call for an integrated approach to risk and consequently require that other non-quantifiable categories of risk be considered, such as reputational risk. As it is not possible to model these risks, they are subject to qualitative controlling.

Strategic risk

Responsibility for the strategic steering of Commerzbank lies with the Board of Managing Directors, with support in the case of strategic issues provided by ZKE. Some business-policy decisions – e.g. the acquisition of equity holdings exceeding 1% of the Bank's equity – also require the approval of the Risk Committee of the Supervisory Board. Constant observation of German and international competitors leads to an analysis of the major changes and developments, with conclusions derived for the Bank's strategic positioning and the appropriate measures introduced for ensuring competitiveness. In accordance with MaRisk, the Bank has to document both a business strategy and an overall risk strategy compatible with it.

Reputational risk

Reputational risk may lead to groups which Commerzbank addresses – above all the public, its employees and rating agencies, investors and business associates – losing confidence in the Bank or to its reputation being impaired. For the most part, reputational risk stems from other types of risk, which it reinforces. Against this background, all business-policy measures and activities are subjected to careful scrutiny. In particular, Commerzbank avoids business-policy measures and transactions which entail extreme tax or legal risks and also environmental risks.

In their business activities, the operational divisions, branches and subsidiaries bear immediate responsibility for reputational risk arising from their particular business activity. In retail business, for example, the focus is on providing risk-sensitive advice appropriate to the customer's investment approach. Competent advice reflecting customers' needs and intensive information ensure that customers suffer no harm, consequently preventing reputational risk. The satisfaction of Commerzbank customers is regularly measured by the relevant market research institutes. The Bank's professional complaints management is an additional instrument through which customers can establish contact.

In corporate business and in export finance, environmental risks are increasingly taken into consideration – wherever necessary, when loan applications are being examined.

In the course of its corporate governance, Commerzbank ensures that it remains within the framework of its articles of association and published business-policy principles. The staff department Compliance and Security (ZCS), which reports directly to the CFO, monitors compliance with all German and foreign regulations and supervisory requirements in connection with securities transactions. The following topics also play an important role in protecting the Bank's reputation: investor protection, reducing the potential for insider trading and the general avoidance of conflicts of interest or – wherever necessary – managing such conflicts with the goal of resolving them.

Contact with the financial community (investors and analysts), the media and the general public is managed by the staff department Corporate Communications (ZKV), which reports directly to the Chairman of the Board of Managing Directors. A communication guideline for the entire Group lays down binding rules in this respect. On the basis of media observation and market research as well as stakeholder surveys and dialogue with various groups, topics relevant for the Bank's reputation are constantly identified, evaluated and actively dealt with, if necessary.

In 2005, a first milestone was reached with the Bank's publication of its corporate responsibility report.

In the course of 2006, a newly installed group will coordinate reputation management throughout the Group.

Compliance risk

Very strict legal provisions apply in the financial sector as regards compliance. Commerzbank has established additional rules which are intended to ensure that the conduct of its employees is always correct even in difficult situations and is in line with current legislation. The Bank's compliance manual should be mentioned here, as well as staff guidelines of the Federal Banking Supervisory Office and the Federal Supervisory Office for Securities Trading (now German Financial Supervisory Authority – BaFin), which have been integrated through employment contracts or internal Bank agreements, and job instructions published on the Bank's intranet, providing staff with concrete guidelines for implementing the respective legislation. At Commerzbank, the staff department Compliance and Security sets up and monitors observance of such rules.

Compliance not only advises and informs the various business lines and the Bank's employees on general issues relevant to compliance, supporting colleagues in critical cases of day-to-day business as well; in conjunction with the respective specialist departments, it also ensures that statutory or supervisory requirements relating to compliance are implemented. In this connection, the German legislation to improve investor protection (AnSVG) should be mentioned, which became effective on October 31, 2004. Further legislative or supervisory measures were enacted by the supervisory authority in order to make AnSVG more concrete.

When these statutory and supervisory requirements were implemented, the areas of the Bank affected as well as the Board of Managing Directors and Supervisory Board were informed, detailed information was published on the intranet and a procedure was implemented by Compliance for reporting suspected offences. Compliance monitors staff who are potentially capable of insider trading in the form of a watch list.

Since the attack on the World Trade Center in New York, the legal and supervisory requirements in connection with money laundering and the financing of terrorism have steadily increased, as has the public's interest in this topic. The third EU money-laundering directive, which is now being incorporated into German law, will lead to further requirements as regards the preventive measures of the financial sector.

In order to counter the specific risk that its business activities will be misused by third parties for the purpose of money-laundering or funding terrorism, the Bank is conducting an analysis of the threat posed by the existing relevant risks. The findings of this analysis will be taken into account as part of the constant adjustment and improvement of the Bank's preventive measures. They will be integrated through the implementation of specific risk-mitigating measures, either when new customers are accepted, or when their transactions are monitored, but also in training staff and making them sensitive to the dangers. All the experience gained through this selective analysis and its continual monitoring will be used in adjusting the system of risk management.

The Bank's employees are obliged to report out-of-the-ordinary transactions raising the suspicion of money laundering or the funding of terrorist activities to Compliance/Financial Investigations, so that the transaction can be subjected to individual scrutiny.

IV. Summary and outlook

Summary

In the 2005 financial year, Commerzbank further extended its risk-control and risk-management system. In many areas, significant progress was achieved, which will make a major contribution in the future as well towards improving overall Bank management.

In this connection, the stronger integration of the internal economic capital approach into more individual and overall Bank management processes represents a considerable contribution towards realizing potential value within the Commerzbank Group.

At all times, it was ensured that the available risk capital was well above the defined capital buffer.

All the parties involved showed great commitment in maintaining the current projects for implementing the new supervisory requirements (Basel II, MaK) in 2005. The Bank took a major step forward in this respect, leading not only to optimized capital allocation in accordance with Basel II but also to a distinct improvement in risk-sensitive steering.

Building upon the rules of the amended IAS 39, the Bank adopted measures in 2005 to harmonize its risk provisioning in accordance with IFRS on the basis of the Basel II parameters.

Outlook

The supervisory authority is expected to start examining the Commerzbank Group's application for certification of the Basel II IRB Advanced Approach in 2006. As things stand today, the advanced Basel II approaches can definitely be implemented and tested within the set period – which, according to the supervisory authority's present planning, means by December 31, 2007. Thanks to the continuing progress made in collating, evaluating and modelling operational risk, the stability and information value of Basel II's ambitious AMA approach were further enhanced in the year under review.

Overhaul of credit-risk strategy

The Bank's credit-risk strategy was subjected to its annual review in 2005. Based on the stock-taking conducted jointly by Risk Control and the front- and back-office units, the strategic direction was established for lending and measures were planned for the 2006-2008 period. This year, a comprehensive overall risk strategy for 2007-2009 will be worked out, covering Eurohypo as well.

The forward-looking orientation of the loan portfolio in keeping with the credit-risk strategy is being systematically maintained. Clear incentives are being created here for expanding overall lending to SMEs according to plan, but also for reducing and limiting risk-carrying sub-portfolios. The focus in risk mitigation is on bulk risks.

Intensive treatment and development of provisioning

In the intensive treatment area, the Bank is prepared to act as lead manager; its staff in this segment are developing quite consciously into risk managers, concentrating on preserving the company in question and its jobs and acting, therefore, in their clients' interest.

Through the expansion of portfolio-management activities and the early adoption of risk-mitigating measures, it proved possible to lower provisioning considerably again last year, with the selective reduction of latent bulk risks and problem loans making an important contribution here. For 2006, Commerzbank has set itself the goal of further optimizing its risk/return-based provisioning. For bulk and country risks, the optimum level has been achieved, with no net charges registered in 2005; realistically, though, we must expect setbacks here at some time. In the meantime, we have achieved a positive level on the whole in German *Mittelstand* business, which is why we do not see a further reduction of overall net provision for possible loan losses within the Commerzbank Group as the most realistic case in 2006. Under normal circumstances, we would be able at best to hold the level now achieved; however, we expect additional charges on the retail side. As Eurohypo will no longer have a risk umbrella at its disposal in 2006, and we have to bring its provisioning into line with the strict standards applied throughout the Group, we do not believe at present that the new consolidated figure for the two institutions will be lower than in 2005.

Boosting efficiency in credit processing

Starting in 2006, the results of a worldwide project to further boost productivity in the overall lending process ("etec" – end-to-end credit) will substantially help to raise efficiency, thereby improving our market presence for the targeted *Mittelstand* clients in particular. One major project in 2006 will be to combine loan processing for private and business customers with that of Eurohypo in the form of a loan factory and to reposition the separate back-office function, with recourse to modern decision systems. Over the medium term, we see not only a chance of making credit processing far more efficient, but also an opportunity for much improved risk selection. Since market conditions in the Private and Business Customers segment continue to be difficult, we intend to place special emphasis in future on the risk-based steering of business in selectively expanding our share of the mass retail market. As we can expect our retail portfolio to tie up far less equity with the implementation of Basel II, however, we want to explore all the scope for growth that is reasonable from a risk/return aspect.

The introduction of rating methods with demonstrably great discriminatory power is a major contribution to value creation within the Commerzbank Group. Together with the certification of rating methods, the migration of further methods to a uniform web-based platform and also the support provided for business lines in the form of follow-up releases will represent significant steps in 2006.

Enhancing overall Bank management

In overall Bank management, a review of resource allocation and the steering process will take place at Group level, with the objective of establishing new control variables, including the respective profit targets, based on the economic capital approach.

Subsequently, consistent value-based planning and steering will be implemented at the overall Bank and business-line levels, based on the economic capital approach. Eurohypo will be included here right from the outset.

Another main activity in 2006 will be developing and establishing specific stress scenarios for the use of economic capital for the overall Bank portfolio and for individual portfolios.

Making our employees even more sensitive to risk is a key goal this year. The establishment of a risk culture, which this entails, will be supported by a risk manual, available throughout the Bank, the publication of last year's report on corporate responsibility and a code of conduct.

Integration of Eurohypo

We look upon the integration of Eurohypo into economic capital management, risk control and the risk-based management of credit risk as the special challenge we face in 2006, yet we are confident that we can ensure that all the relevant processes are harmonized in the course of the year. In risk control/risk management, the integration timetable is already well advanced. We consider the great expertise of Eurohypo's back-office team to be very positive, facilitating the integration process in all risk-related issues.

Corrigan Report implemented

Now that BaFin's MaH examination has been successfully completed, Commerzbank will subject the recommendations of the so-called Corrigan Report (Counterparty Risk Management Policy Group II [CRMPG II]) to intensive scrutiny in 2006 and ensure that they are systematically implemented throughout the Group – insofar as they have not already been met. This applies in particular to business involving hedge funds. The report's 47 recommendations for market participants are intended to create a more stable financial market overall through the proactive behaviour of all market participants, especially in risk management. In this way, systemic risk is to be reduced to a minimum and crises of the financial markets as a whole prevented.

To sum up

With the integration of Eurohypo, the Commerzbank Group will become Germany's leading financing bank. Precisely for this reason, we believe that considerable value leverage for further boosting the Group's earnings performance over the next few years lies in the claim to "being the benchmark in risk control and management". The importance of highly-developed risk management was also confirmed in an international benchmarking study last year, where it is seen as the most significant challenge to successful business management for internationally competitive banks. We share this view and are confident that we can achieve further major breakthroughs in risk control and management during this decade. This will prove highly positive for the market positioning of the Commerzbank Group in its target markets and for the selective exploration of the risk/return-based scope for expansion in lending. What is more, the cyclical volatility of business performance in lending can be further reduced as a result.

The aim to be a national and international leader in risk management is not an end in itself for Commerzbank and by no means implies avoiding risk wherever possible. Rather, it stands for creating and developing efficient structures, systems and strategies and implementing them with the aid of skilful front- and back-office staff with the goal of achieving good risk/return results in the target portfolios. We intend to take on risks wherever we are able to steer and monitor them and wherever they pay off for our shareholders.

financial statements in accordance with international accounting standards (ias) / international financial reporting standards (ifrs) for the commerzbank group as of december 31, 2005

Notes

Notes

income statement

	Notes	1.1.–31.12.2005 € m	1.1.–31.12.2004[1] € m	Change in %
Interest received		12,527	11,374	10.1
Interest paid		9,355	8,361	11.9
Net interest income	(29)	3,172	3,013	5.3
Provision for possible loan losses	(11, 30, 47)	–566	–836	–32.3
Net interest income after provisioning		2,606	2,177	19.7
Commissions received		2,817	2,587	8.9
Commissions paid		402	337	19.3
Net commission income	(31)	2,415	2,250	7.3
Net result on hedge accounting	(32)	–22	6	·
Trading profit	(33)	707	539	31.2
Net result on investments and securities portfolio (available for sale)	(34)	647	339	90.9
Other result	(35)	26	193	–86.5
Operating expenses	(36)	4,662	4,493	3.8
Operating profit		**1,717**	**1,011**	**69.8**
Regular amortization of goodwill		–	83	·
Restructuring expenses	(37)	37	132	–72.0
Profit from ordinary activities/ Pre-tax profit		**1,680**	**796**	·
Taxes on income	(38)	409	353	15.9
After-tax profit		**1,271**	**443**	·
Profit/loss attributable to minority interests		–106	–81	30.9
Consolidated surplus	(39)	**1,165**	**362**	·

1) The year-ago figures have been adjusted to the changed rules (see Note 2)

Appropriation of profit	Notes	2005 € m	2004[1)] € m	Change in %
Consolidated surplus	(39)	1,165	362	·
Allocation to retained earnings		–837	–212	·
Consolidated profit		**328**	**150**	·

The consolidated profit represents the distributable profit of Commerzbank Aktiengesellschaft. The proposal will be made to the AGM that a dividend of €0.50 per share be paid from the net profit of Commerzbank Aktiengesellschaft. With 656,812,557 shares issued, this translates into an overall payout of €328m. Last year, a dividend payment of €0.25 per share was made.

Basic earnings per share	Notes	2005 €	2004[1)] €	Change in %
Earnings per share	(39)	1.93	0.61	·

The calculation of the earnings per share according to IAS/IFRS is based on the consolidated surplus, with minority interests not taken into consideration. There were no diluted earnings per share, since – as in the previous year – no conversion or option rights were outstanding.

1) The year-ago figures have been adjusted to the changed rules (see Note 2)

balance sheet

Assets	Notes	**31.12.2005** € m	**31.12.2004**[1] € m	Change in %
Cash reserve	(9, 42)	8,628	4,888	76.5
Claims on banks	(10, 43, 45, 46)	86,203	86,719	–0.6
Claims on customers	(10, 43, 44, 46)	153,674	150,277	2.3
Provision for possible loan losses	(11, 47)	–5,181	–5,305	–2.3
Positive fair values from derivative hedging instruments	(13, 48)	4,734	3,920	20.8
Assets held for dealing purposes	(14, 49)	100,321	102,081	–1.7
Investments and securities portfolio	(15, 50, 53)	86,241	72,193	19.5
Intangible assets	(16, 51, 53)	973	801	21.5
Fixed assets	(17, 18, 52, 53)	1,525	1,766	–13.6
Tax assets	(24, 54)	5,538	5,811	–4.7
Other assets	(55)	2,205	1,726	27.8
Total		**444,861**	**424,877**	**4.7**

Liabilities and equity	Notes	**31.12.2005** € m	**31.12.2004**[1] € m	Change in %
Liabilities to banks	(19, 45, 56)	129,900	115,430	12.5
Liabilities to customers	(19, 45, 57)	102,846	105,064	–2.1
Securitized liabilities	(19, 58)	96,920	87,250	11.1
Negative fair values from derivative hedging instruments	(20, 59)	9,839	8,653	13.7
Liabilities from dealing activities	(21, 60)	74,999	80,006	–6.3
Provisions	(22, 23, 61)	3,521	3,402	3.5
Tax liabilities	(24, 62)	3,706	3,893	–4.8
Other liabilities	(63)	1,337	1,280	4.5
Subordinated capital	(25, 64)	8,143	8,876	–8.3
Equity	(27, 66, 67, 68)	13,650	11,023	23.8
Subscribed capital	(66)	1,705	1,546	10.3
Capital reserve	(66)	5,686	4,481	26.9
Retained earnings	(66)	4,165	3,383	23.1
Revaluation reserve	(15, 66)	1,995	1,600	24.7
Measurement of cash flow hedges	(6, 66)	–1,069	–1,214	–11.9
Reserve from currency translation	(7, 66)	–107	–192	–44.3
Consolidated profit		328	150	·
Total before minority interests		12,703	9,754	30.2
Minority interests		947	1,269	–25.4
Total		**444,861**	**424,877**	**4.7**

1) The year-ago figures have been adjusted to the changed rules (see Note 2)

statement of changes in equity

€ m	Sub-scribed capital	Capital reserve	Retained earnings	Revalu-ation reserve	Measure-ment of cash flow hedges	Reserve from currency trans-lation	Consoli-dated profit	Total before minority interests	Minority interests	Equity
Equity as of 31.12.2003	**1,545**	**4,475**	**3,286**	**1,240**	**–1,236**	**–219**	**–**	**9,091**	**1,213**	**10,304**
Changes due to new accounting rules		1	–19	–4				–22	–1	–23
Equity as of 1.1.2004	**1,545**	**4,476**	**3,267**	**1,236**	**–1,236**	**–219**	**–**	**9,069**	**1,212**	**10,281**
Consolidated profit							150	150		150
Allocation to retained earnings			212					212		212
Profits/losses								–	81	81
Changes in revaluation reserve				364				364	53	417
Changes arising from cash flow hedges					22			22	–74	–52
Changes in currency reserve						27		27		27
Comprehensive income 2004			**212**	**364**	**22**	**27**	**150**	**775**	**60**	**835**
Capital increases								–	72	72
Issue of shares to employees	2	8						10		10
Profits/losses in previous year								–	–85	–85
Changes in companies included in consolidation and Other changes*)	–1	–3	–96					–100	10	–90
Equity as of 31.12.2004	**1,546**	**4,481**	**3,383**	**1,600**	**–1,214**	**–192**	**150**	**9,754**	**1,269**	**11,023**
Consolidated profit							328	328		328
Allocation to retained earnings			837					837		837
Profits/losses								–	106	106
Changes in revaluation reserve				395				395	–73	322
Changes arising from cash flow hedges					145			145	–64	81
Changes in currency reserve						85		85		85
Comprehensive income 2005			**837**	**395**	**145**	**85**	**328**	**1,790**	**–31**	**1,759**
Capital increases	150	1,177						1,327	23	1,350
Issue of shares to employees	1	8						9		9
Profits/losses in previous year								–	–81	–81
Dividend							–150	–150		–150
Changes in companies included in consolidation and Other changes*)	8	20	–55					–27	–233	–260
Equity as of 31.12.2005	**1,705**	**5,686**	**4,165**	**1,995**	**–1,069**	**–107**	**328**	**12,703**	**947**	**13,650**

*) including changes in treasury shares

As of December 31, 2005, the subscribed capital of Commerzbank Aktiengesellschaft pursuant to the Bank's articles of association stood at €1,708m; it was divided into 656,812,557 no-par-value shares (accounting par value per share: €2.60). After the 1,113,296 treasury shares held by the Bank on December 31, 2005, are deducted, its subscribed capital amounts to €1,705m.

The Bank made use of the authorization resolved by the Annual General Meeting of May 20, 2005 to purchase its own shares for the purpose of securities trading, pursuant to Art. 71, (1), no. 7, German Stock Corporation Act – AktG. Gains and losses from trading in the Bank's own shares have no effect on the net profit.

No use was made in the 2005 financial year of the resolution of the Annual General Meeting of May 20, 2005, authorizing the Bank to repurchase its own shares pursuant to Art. 71, (1), no. 8, AktG, for purposes other than securities trading.

Other changes in retained earnings, the revaluation reserve and the measurement of cash flow hedges relate to changes in equity at associated companies which, in accordance with IAS 28, have to be shown on a pro-rata basis with no effect on the net profit.

cash flow statement

	2005	2004[1]
	€ m	€ m
Consolidated surplus	**1,165**	**362**
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 to fixed and other assets, changes in provisions and net changes due to hedge accounting	1,288	1,551
Change in other non-cash positions	–2,280	2,997
Profit from the sale of assets	–647	–339
Profit from the sale of fixed assets	7	–15
Other adjustments (net interest income)	–3,172	–3,330
Sub-total	**–3,639**	**1,226**
Change in assets and liabilities from operating activities after correction for non-cash components:		
Claims on banks	516	–27,702
Claims on customers	–3,397	2,813
Securities held for dealing purposes	–370	–2,931
Other assets from operating activities	–1,082	208
Liabilities to banks	14,470	20,181
Liabilities to customers	–2,218	5,064
Securitized liabilities	9,670	3,258
Other liabilities from operating activities	–114	–338
Interest and dividends received (see Note 29)	12,527	11,374
Interest paid	–9,355	–8,361
Income tax paid	–241	–483
Net cash provided by operating activities	**16,767**	**4,309**
Proceeds from the sale of:		
Investments and securities portfolio	44,045	39,720
Fixed assets	66	285
Payments for the acquisition of:		
Investments and securities portfolio	–57,560	–45,806
Fixed assets	–429	–505
Effects of changes in the group of companies included in the consolidation		
Payments from the acquisition of subsidiaries	333	–3
Net cash used by investing activities	**–13,545**	**–6,309**
Proceeds from capital increases	1,364	1
Dividends paid	–150	–
Other financing activities (subordinated capital)	–733	–529
Net cash provided by financing activities	**481**	**–528**
Cash and cash equivalents at end of previous period	**4,888**	**7,429**
Net cash provided by operating activities	16,767	4,309
Net cash used by investing activities	–13,545	–6,309
Net cash provided by financing activities	481	–528
Effects of exchange-rate changes on cash and cash equivalents	37	–13
Cash and cash equivalents at end of period	**8,628**	**4,888**

Cash and cash equivalents includes changes in the group of companies included in the consolidation in an amount of €333m.

1) The year-ago figures have been adjusted to the changed rules (see Note 2)

The cash flow statement shows the structure of and changes in cash and cash equivalents during the financial year. It is broken down into operating activities, investing activities and financing activities.

Under net cash provided by operating activities, payments (inflows and outflows) from claims on banks and customers and also securities from the trading portfolio and other assets are shown. Additions to and disposals from liabilities to banks and customers, securitized liabilities and other liabilities also belong to operating activities. The interest and dividend payments resulting from operating activities are similarly reflected in the net cash provided by operating activities.

The net cash used by investing activities shows payments for the investments and securities portfolio as well as for fixed assets and payments for the acquisition of subsidiaries. The effects of changes in the list of consolidated companies are also recognized under this item.

The net cash provided by financing activities covers the proceeds from capital increases as well as payments received and made with regard to subordinated capital. Distributed dividends are also shown here.

We consider cash and cash equivalents to be the Cash reserve (see Note 42), consisting of 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 far as banks are concerned, the cash flow statement can be considered not very informative. For us, the cash flow statement replaces neither liquidity planning nor financial planning, nor do we look upon it as a steering instrument.

notes

Consolidated accounting principles

Our consolidated financial statements as of December 31, 2005 were prepared in accordance with Regulation (EC) No. 1606/2002 (IAS Regulation) of the European Parliament and of the Council of 19 July, 2002, together with other regulations for adopting certain international accounting standards on the basis of the International Accounting Standards (IAS) – and the International Financial Reporting Standards (IFRS) – approved and published by the International Accounting Standards Board (IASB) and with their interpretation by the Standing Interpretations Committee (SIC) and International Financial Reporting Interpretation Committee (IFRIC). These financial statements are based on the IAS/IFRS rules, as they are to be applied in the EU. With the exception of IAS 39, all the standards have been recognized. Certain hedge accounting rules of IAS 39 have been ignored. A summary of the regulations that have been applied can be found on pages 108-109.

In addition to the consolidated balance sheet and the consolidated income statement, the consolidated financial statements also include a statement of changes in equity, a cash flow statement and the notes. Segment reporting appears in the notes on pages 128-136.

The consolidated management report, including a separate report on the opportunities and risks related to future developments (Risk report) pursuant to Art. 315, German Commercial Code – HGB, appears on pages 56-93 of our annual report.

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

Accounting policies

(1) Basic principles

The consolidated financial statements are based on the going concern principle. Income and expenses are recognized on a pro-rata temporis basis; they are shown for the period to which they may be assigned in economic terms.

We have applied IAS 39, together with the different classification and measurement principles prescribed by this standard, in our accounting. Hedge accounting rules are applied in the case of derivative hedging instruments (further details may be found in note 6).

Throughout the Commerzbank Group, uniform accounting policies are used in preparing the financial statements. All fully consolidated companies prepared their financial statements as of December 31, 2005.

If estimates or assessments are necessary for accounting and measuring under IAS/IFRS rules, we have made these in accordance with the respective standards. They are based on past experience and other factors, such as planning and – from the present standpoint – likely expectations or forecasts of future events.

(2) Adjustment of the accounting policies (IAS Improvement Project)

Basically, we have employed the same accounting policies as for the consolidated financial statements as of December 31, 2004. Due to the reformulation or amendment of individual IAS/IFRSs, however, both retrospective and prospective adjustments were necessary, which are outlined below.

1. Claims on banks and customers

Up to now, we have distinguished in our accounting between claims originated by the Bank and those acquired in the secondary market:

- Claims originated by the Bank appeared as Claims on banks or Claims on customers at amortized cost. Disposal gains or losses were recognized under Net interest income.
- Claims acquired in the secondary market (above all promissory notes) were shown at their fair value in the Investments and securities portfolio. Disposal gains or losses were recognized under Net result on investments and securities portfolio (available for sale).

Under the new rules of IAS 39, the accounting of claims from now on will reflect whether they are listed in an active market or not. Accordingly,

- claims not quoted in an active market will appear at amortized cost as Claims on banks or Claims on customers, with disposal gains or losses recognized under Net interest income;
- claims quoted in an active market will appear at their fair value, with disposal gains or losses recognized under Net result on investments and securities portfolio (available for sale).

In order to make comparisons easier, we have adjusted the year-ago levels and the figures in the income statement. This has had no effect on the consolidated surplus.

2. Amortization of goodwill

Up to now, goodwill has been amortized over 15 years, using the straight-line method. In accordance with the reformulated rule of IFRS 3, no regular amortization of goodwill will be made after January 1, 2005. However, as previously, goodwill will be subjected to an impairment test at least once a year. As this change has to be applied prospectively, we have not adjusted the year-ago figures.

3. Minority interests

Minority interests in the Bank's equity were previously shown separately from equity under Minority interests. In accordance with the reformulated IAS 1, minority interests have appeared within equity since January 1, 2005.

4. Staff remuneration plans

Up to now, provisions have been formed and charged to operating expenses for staff remuneration plans which seem likely to be used. IFRS 2, which has had to be applied since January 1, 2005, also provides for the fair value of staff remuneration plans to be recognized under expenses – spread across the lifetime of the plans. Recognition of the plans in the balance sheet distinguishes between payments to the employee settled in cash and those settled in the form of equities:

- Cash-settled plans appear in the balance sheet as a provision.
- Equity-settled plans appear in the balance sheet under equity.
- Plans offering a choice of payment option have to be split between provisions and equity according to the likelihood of the option being chosen.

This amendment has had to be applied retrospectively. As a result, we have adjusted the year-ago figures for personnel expenses, provisions and equity. The consolidated surplus shown in the previous year was reduced by €31m.

5. Fair value option

In the version of IAS 39 valid as from January 1, 2005, the fair value option was introduced as an additional measurement option. It enables companies preparing their accounts to apply the fair value principle voluntarily on initial recognition when measuring financial instruments which do not have to be measured according to this principle. Changes on remeasurement are recognized in the income statement under Trading profit and are explained individually in Note 33. In June 2005, the IASB presented a revised version of the fair value option, which was recognized by the EU in November 2005. The changes primarily related to the conditions under which the fair value option may be applied.

This regulation also had to be applied retrospectively. As a result, the year-ago figure for the consolidated surplus rose by €0.4m.

(3) IAS/IFRS, SIC and GASB rules applied

As a matter of principle, we apply all the valid standards in our accounting and measurement. For this reason, we have not taken into consideration standards and interpretations to be applied only as from January 1, 2006, or later (IFRS 6 and 7, IFRIC 4, 5, 6 and 7). We do not expect the IAS/IFRS rules to be applied for the first time in 2006 to have any material consequences.

The 2005 consolidated financial statements are based on the IASB framework and the following relevant IAS/IFRSs:

IAS 1	Presentation of financial statements
IAS 7	Cash flow statements
IAS 8	Accounting policies, changes in accounting estimates and errors
IAS 10	Events after the balance-sheet date
IAS 12	Income taxes
IAS 14	Segment reporting
IAS 16	Property, plant and equipment
IAS 17	Leases
IAS 18	Revenue
IAS 19	Employee benefits
IAS 21	The effects of changes in foreign-exchange rates
IAS 23	Borrowing costs
IAS 24	Related party disclosures
IAS 27	Consolidated and separate financial statements
IAS 28	Investments in associates
IAS 30	Disclosures in the financial statements of banks and similar financial institutions
IAS 31	Interests in joint ventures
IAS 32	Financial instruments: disclosure and presentation
IAS 33	Earnings per share
IAS 36	Impairment of assets
IAS 37	Provisions, contingent liabilities and contingent assets
IAS 38	Intangible assets
IAS 39*)	Financial instruments: recognition and measurement
IAS 40	Investment property
IFRS 2	Share-based payment
IFRS 3	Business combinations
IFRS 5	Non-current assets held for sale and discontinued operations

*) In the version taken over by the EU Commission

We have not taken IFRSs 1, 4 and IASs 2, 11, 20, 26, 29, 34 and 41 into consideration, as we did not have to apply them.

In addition to the standards mentioned, we have also taken into consideration in our consolidated financial statements the following interpretations of SIC or IFRIC that are relevant for us:

No.	**Title**	**relates to**
SIC-7	Introduction of the euro	IAS 10, 21
SIC-12	Consolidation – special-purpose entities	IFRS 2, IAS 8, 19, 27, 32
SIC-15	Operating leases – incentives	IAS 17
SIC-21	Income taxes – recovery of revalued non-depreciable assets	IAS 12, 16
SIC-25	Income taxes – changes in the tax status of an enterprise or its shareholders	IAS 12
SIC-27	Evaluating the substance of transactions in the legal form of a lease	IAS 1, 17, 18
SIC-32	Intangible assets – web site costs	IAS 38

IFRICs 1, 2 and SIC-10, 13, 29 and 31 did not have to be taken into consideration.

With the approval of GAAS 1 by the German Accounting Standards Board (GASB) and its publication in the Federal Gazette (*Bundesanzeiger*) on August 31, 2005, the German Accounting Standards (GAS) were altered such that they basically no longer have to be applied if the consolidated financial statements are prepared according to international accounting standards as defined in Art. 315a, HGB. Exempted from this regulation are GAS 15 Management Reporting and the supplementary GAS 5 and 5-10 Risk Reporting, which we have taken into consideration in our consolidated financial statements.

(4) Consolidated companies

Besides the Parent Bank, the consolidated financial statements include 115 subsidiaries (2004: 98) in which Commerzbank Aktiengesellschaft holds more than 50% of the capital directly or indirectly or exerts control over them. Of these, 53 have their legal seat in Germany (2004: 46) and 62 (2004: 52) elsewhere.

154 subsidiaries and associated companies (2004: 162) of minor significance for the Group's asset and financial position and earnings performance have not been included; instead, they have been shown under Investments and securities portfolio as holdings in subsidiaries or investments. These companies account for less than 0.2% (2004: 0.3%) of the Group's overall balance-sheet total.

In the year under review, 18 subsidiaries were included in the consolidation for the first time.

In addition to the 115 (2004: 98) subsidiaries, we included in the 2005 financial year 28 (2004: four) special-purpose entities and 21 (2004: 14) non-publicly-offered funds in our consolidated financial statements in accordance with IAS 27 and SIC-12. 35 special-purpose entities and non-publicly-offered funds have been included in the consolidation for the first time.

No longer included in the list of consolidated companies are:

- von der Heydt-Kersten & Söhne, Wuppertal

Non-publicly-offered funds/special-purpose entities

- ABN AMRO-Credit Spread-Fonds, Frankfurt am Main
- Comas Strategy Fund I Limited, Grand Cayman
- HIE-COFONDS III, Frankfurt am Main
- HIE-COFONDS IV, Frankfurt am Main

Ten major associated companies (2004: nine) – six of them based in Germany (2004: five) – are measured using the equity method. As a major associated company, Eurohypo Aktiengesellschaft, Eschborn, is included in the consolidated financial statements reflecting the interest we hold in it, as it was in previous years. Two associated companies have been included for the first time.

The following company has been removed from the list of associated companies:

- KEB Commerz Investment Trust Management Company Ltd., Seoul

A complete list of the subsidiaries, associated companies and special-purpose entities and non-publicly-offered funds included in our consolidated financial statements can be found on pages 188-193.

(5) Principles of consolidation

For the consolidation of the capital accounts, we measure the assets and liabilities of subsidiaries completely afresh, regardless of the percentage share of the equity which we held at the time of acquisition. With deferred taxes taken into consideration, the remeasured assets and liabilities are included in the consolidated balance sheet; the realized hidden reserves and built-in losses which have been identified are treated in accordance with the standards which have to be applied in subsequent reporting periods. If a positive difference remains after remeasurement, this is shown as goodwill.

Claims and liabilities deriving from business relations between Group companies, as well as expenses and income, are eliminated as part of the consolidation of earnings; intra-Group book gains or losses registered during the financial year are deducted, unless they are of minor importance.

Associated companies are measured according to the equity method and are shown as investments in associated companies under Investments and securities portfolio. The purchase cost of these investments and the goodwill are determined at the time of their first inclusion in the consolidated financial statements, applying the same rules as for subsidiaries. For major associated companies, the equity book value which is carried and appears either in profit or loss or in the revaluation reserve is based on the auxiliary calculations of the associated companies, prepared and audited in accordance with our instructions, with IAS/IFRS rules applied.

Holdings in subsidiaries not consolidated because of their minor significance and investments are shown at their fair value, or if this cannot be reliably established, at cost under Investments and securities portfolio.

(6) Financial instruments: recognition and measurement (IAS 39)

In accordance with IAS 39, all financial assets and liabilities – which also include derivative financial instruments – have to be recognized in the balance sheet and measured in accordance with their assigned category. A financial instrument is a contract which automatically produces a financial asset for the one company and a financial liability or equity instrument for the other.

The following remarks present an overview of how the rules of IAS 39, in the version to be employed as from 2005, have been applied within our Group:

a) Categorization of financial assets and liabilities and their measurement

- Loans and claims:
  Non-derivative financial instruments with fixed or determinable payment claims for which no active market exists are assigned to this category. This holds true regardless of whether they were originated by the Bank or acquired in the secondary market. An active market exists if quoted prices are regularly made available, for example, by a stock exchange or broker, and these prices are representative for current transactions between remote third parties. Measurement is made at amortized cost. Premiums and discounts appear under Net interest income over the entire lifetime.

- Held-to-maturity financial assets:
  Non-derivative financial assets with fixed or determinable payments and also a fixed maturity may be included in this category if an active market exists for them and both the intent and the ability exist to hold them to final maturity. They are measured at amortized cost, with premiums and discounts being recognized under Net interest income over the entire lifetime to maturity. The Commerzbank Group has not used the Held-to-maturity financial assets category with respect to the 2005 financial year either.

- Assets held for dealing purposes and Liabilities from dealing activities:
  All financial assets which are held for dealing purposes are assigned to this class. These include original financial instruments (especially interest-bearing securities, equities and promissory notes), precious metals and also derivative financial instruments with a positive fair value. Accordingly, all financial liabilities from dealing activities are assigned to this class. These include above all derivative financial instruments with a negative fair value as well as delivery obligations arising from short sales of securities.

  Derivative financial instruments used as hedging instruments are only recognized as assets held for dealing purposes or liabilities from dealing activities insofar as they do not meet the conditions for the application of hedge accounting rules (see below in this note). Otherwise, they are shown as Fair values attributable to hedging instruments.

  Assets held for dealing purposes and liabilities from dealing activities are measured at their fair value on each balance-sheet date. The results of such measurement appear under Trading profit in the income statement.

  Spot transactions are recognized immediately upon conclusion of the transaction; we make a balance-sheet entry when the contract is performed.

- Available-for-sale financial assets:
  All non-derivative financial assets not assignable to one of the above categories have to be counted as available-for-sale financial assets. Primarily, these are interest-bearing securities, equities, promissory notes and investments. They are initially measured at cost and subsequently at their fair value. After deferred taxes have been taken into consideration, measured gains and losses are recognized with no effect on the income statement in a separate equity item (revaluation reserve). If the financial asset is sold, the cumulative valuation previously recognized in the revaluation reserve is released and appears in the income statement. Should the asset's value be permanently impaired, the revaluation reserve has to be adjusted for the impairment, and the amount has to be reflected in the income statement. If the fair value cannot be reliably ascertained, measurement is made at amortized cost. Premiums and discounts are recognized under Net interest income over the entire lifetime.

- Other financial liabilities:
  This category includes liabilities to banks and customers and also securitized liabilities. Measurement is made at amortized cost. Premiums and discounts are recognized under Net interest income over the entire lifetime.

- Fair value option:
  The fair value option, introduced in IAS 39, makes it possible voluntarily to measure each financial instrument at fair value and to reflect the net result of such measurement in the income statement. The decision whether to use the fair value option or not has to be made at the inception of the financial instrument.

  The fair value option may be applied for a financial instrument provided that

  – an accounting mismatch is avoided or substantially reduced, or
  – a portfolio of financial instruments is managed, and its performance is measured on a fair value basis, or
  – the financial instrument has one or several embedded derivatives.

  Financial instruments for which a fair value option is employed are shown at their fair value in the appropriate balance-sheet item for their respective category. The results of measurement appear under Trading profit. Further details on how and to what extent the fair value option is used can be found in Note 78.

b) Embedded derivatives

IAS 39 also regulates the treatment of derivatives embedded in original financial instruments (embedded derivatives). Such financial instruments are also referred to as hybrid financial instruments. These include, for example, reverse convertible bonds (bonds with a right to repayment in the form of equities) or bonds with indexed interest payments. In accordance with IAS 39, under certain conditions the embedded derivative should be shown separately from the original host contract as a stand-alone derivative.

Such separation has to be made if the characteristics and risks of the embedded derivative are not closely related to those of the original host contract. In this case, the embedded derivative has to be regarded as part of the trading portfolio and recognized at its fair value. Changes on remeasurement have to be shown in profit and loss. The host contract is accounted for and measured applying the rules of the category to which the financial instrument is assigned.

However, if the characteristics and risks of the embedded derivative are closely linked to those of the original host contract, the embedded derivative is not shown separately and the hybrid financial instrument is measured as a whole in accordance with the general provisions of the category to which the financial instrument is assigned.

c) Hedge accounting

IAS 39 contains extensive hedge accounting regulations, i.e. accounting for hedging instruments – especially derivatives – and the underlying hedged transactions.

In line with general regulations, derivatives are classified as trading transactions (assets held for dealing purposes or liabilities from dealing activities) and are measured at their fair value. The result of such measurement is shown under Trading profit. If it can be demonstrated that derivatives are used to hedge risks from non-trading transactions, IAS 39 permits, under certain conditions, the application of hedge accounting rules. For the most part, two forms of hedge accounting are distinguished:

- Fair value hedge accounting:
  IAS 39 prescribes the use of hedge accounting for derivatives which serve to hedge the fair value of recognized assets or liabilities. Above all, the Group's issuing and lending business and the securities portfolio of liquidity management, insofar as these are fixed-income securities, are subject to such a fair value risk. Primarily, interest-rate and interest-rate/currency swaps are used to hedge these risks.

In line with the regulations for fair value hedge accounting, the derivative financial instruments used for hedging purposes are shown at fair value as Fair values attributable to derivative hedging instruments. Changes upon remeasurement appear as profit or loss in the income statement under Net result on hedge accounting. Any changes in the fair value of the hedged asset or hedged liability resulting from the hedged risk have to be recognized and similarly shown in the income statement under Net result on hedge accounting. Given a perfect hedge, the changes upon remeasurement recognized in the income statement for the hedge and the hedged transaction will balance one another.

- Cash flow hedge accounting:
  IAS 39 prescribes the use of cash flow hedge accounting for derivatives which serve to hedge the risk of a change in future cash flows. A cash-flow risk exists in particular for floating-rate loans, securities and liabilities as well as forecast transactions (for example, forecast fund-raising or financial investments). Within the Commerzbank Group, the interest-rate risks in asset/liability management are largely covered by means of cash flow hedges. Primarily, interest-rate and interest-rate/currency swaps are used for hedging purposes.

  Derivative financial instruments used in cash flow hedge accounting are carried at fair value as Fair values attributable to derivative hedging instruments. Reporting of the gain or loss has to be divided into an effective and an ineffective part. The effective result measured is that part of the hedging derivative's change in fair value which represents an effective hedge of the cash flow risk arising from the underlying hedged transaction and is recognized, after deferred taxes have been taken into consideration, in a separate item under equity (Measurement of cash flow hedges). By contrast, the ineffective portion is shown in the income statement. There is no change in the general accounting rules described above for the transactions underlying cash flow hedges.

The application of hedge accounting rules is tied to a number of conditions. These relate above all to the documentation of the hedge and also to its effectiveness.

The hedge has to be documented at the time of its conclusion. Documentation extends above all to an identification of the hedging instrument and the underlying hedged transaction and also details of the hedged risk and the method employed to determine the effectiveness of the hedge. Documentation for an underlying transaction hedged with a derivative may relate either to an individual asset, liability, pending business or forecast transaction or to a portfolio of such items (microhedge) which are given similar accounting treatment. It is not sufficient, however, to document a net risk position to be hedged.

In addition to documentation, IAS 39 calls for evidence of an effective hedge in order for hedge accounting rules to be applied. Effectiveness in this connection means the relationship between the change in fair value or the cash flow resulting from the hedged underlying transaction and the change in fair value or the cash flow resulting from the hedge. If these changes almost entirely balance one another, a high degree of effectiveness exists. Proof of effectiveness requires, on the one hand, that a high degree of effectiveness can be expected from a hedge in the future (prospective effectiveness). On the other hand, when a hedge exists, it must be regularly demonstrated that this was highly effective during the period under review (retrospective effectiveness). A high degree of retrospective effectiveness exists if the ratio of changes in the fair value or the cash flow lies between 0.8 and 1.25. Here, the methods used for determining effectiveness have to be disclosed.

(7) Currency translation

Assets and liabilities denominated in foreign currencies, as well as immatured spot foreign-exchange transactions, are translated at the spot rates, and foreign-exchange forward contracts at the forward rate on the balance-sheet date. Expenses and income are translated at market rates. Currency translation for investments and holdings in subsidiaries that are denominated in foreign currencies is effected at historical cost. Translation gains and losses from the consolidation of the capital accounts appear in the balance sheet under Equity.

As a result of their economically independent business activity, the financial statements of our units abroad that are prepared in foreign currencies are translated at the spot rates of the balance-sheet date.

The expenses and income generated by the translation of balance-sheet items are recognized in the income statement. Hedged expenses and income are translated at the hedging rate.

The following translation rates apply for the currencies that are most important to the Commerzbank Group (amount per €1 in the respective currency):

	2005	2004
USD	1.1797	1.3621
GBP	0.6853	0.70505
CHF	1.5551	1.5429
PLN	3.8600	4.0845

(8) Offsetting
We set liabilities off against claims if these relate to the same counterparty, are due at call, and agreement has been reached with the contractual partner that interest and commissions be calculated as if only a single account existed.

(9) Cash reserve
With the exception of debt issued by public-sector borrowers, which is shown at its fair value, all the items appear at their nominal value.

(10) Claims
The Commerzbank Group's claims on banks and customers which are not held for trading and are not quoted on an active market are shown at either their nominal value or at amortized cost. Premiums and discounts appear under Net interest income over the entire lifetime. The book values of claims which qualify for hedge accounting are adjusted for the gain or loss attributable to the hedged risk. Claims recognized under the fair value option appear at their fair value.

(11) Provision for possible loan losses
We fully provide for the special risks associated with banking business by forming specific valuation allowances and portfolio valuation allowances.

In order to cover the lending risks represented by claims on customers and banks, we have formed specific valuation allowances according to uniform Group standards. Valuation allowances have to be formed for a loan if it is probable that not all the interest payments and repayments of principal can be made according to the agreement. The size of the valuation allowance corresponds to the difference between the book value of the loan after valuable security has been taken into consideration and the cash value of the expected future cash flow, discounted by the original effective interest rate.

In addition, we cover credit risk by means of portfolio valuation allowances. Actual loan losses serve as a yardstick for the scale on which portfolio valuation allowances have to be formed, differentiated according to sub-portfolios as shown in the balance sheet.

Insofar as it relates to claims in the balance sheet, the aggregate amount of provision for possible loan losses is shown separately from Claims on banks and Claims on customers. However, provision for risks in off-balance-sheet business – guarantees, endorsement liabilities, lending commitments – is shown as a provision for lending risks.

Unrecoverable accounts for which no specific valuation allowance has been formed are written down immediately. Amounts received on written-down claims appear in the income statement.

(12) Genuine repurchase agreements and securities-lending transactions
Repo transactions 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, and are measured, in the 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. The agreed interest payments are booked as interest paid, reflecting the respective maturities.

The outflows of liquidity caused by reverse repos appear as claims on banks or customers and are measured accordingly. The securities bought under repurchase agreements and on which the financial transaction is based (spot purchase) are not carried in the balance sheet, nor are they measured. The agreed interest from reverse repos is counted as interest income, reflecting the respective maturities. Claims arising from reverse repos are not netted against liabilities from repos involving the same counterparty.

We show securities-lending transactions in a similar manner to securities in genuine repurchase agreements. Lent securities remain in our securities portfolio and are measured according to the rules of IAS 39. Borrowed securities do not appear in our balance sheet, nor are they measured. We show cash security which we have furnished for securities-lending transactions as a claim and received security as a liability.

(13) Positive fair values from derivative hedging instruments

Derivative financial instruments used for hedging which qualify for hedge accounting and have a positive value appear under this item. The instruments are measured at fair value.

Listed instruments are measured at market prices; for non-listed products, internal price models (net present-value or option-price models) are used. The hedge accounting results for fair value hedges appear in the income statement under Net result on hedge accounting. By contrast, effective portions of the gains and losses on cash flow hedges are recognized under Measurement of cash flow hedges in Equity.

(14) Assets held for dealing purposes

Securities held for dealing purposes, promissory notes and precious metals appear in the balance sheet at their fair value on the balance-sheet date. Also shown at fair value are all derivative financial instruments which are not used as hedging instruments in hedge accounting and have a positive fair value. For listed products, market prices are used; non-listed products are measured on the basis of the net present-value method or other suitable measurement models (for instance, option-price models). All the realized gains and losses and also the net changes which are not realized appear as part of the Trading profit in the income statement. Under this item, interest and dividend income from trading portfolios are also shown, less the expenses required to finance them.

(15) Investments and securities portfolio (available for sale)

Our Investments and securities portfolio comprises all the bonds, notes and other fixed-income securities, shares and other variable-yield securities and all the investments and investments in associated companies, as well as holdings in non-consolidated subsidiaries which are not held for dealing purposes. In addition, we include here claims quoted in an active market and recognize any disposal proceeds under Net result on investments and securities portfolio (available for sale).

These portfolios are recognized and measured at fair value, or according to the equity method in the case of investments in associated companies. If the fair value cannot be reliably calculated, the item is shown at amortized cost; this primarily holds true for non-listed assets. Net changes are shown – after deferred taxes have been taken into consideration – under the Revaluation reserve in Equity. Realized gains and losses only affect the income statement when the holdings are sold. Premiums and discounts are recognized in Net interest income over the lifetime of the investment or security. If, however, an effective hedge with a derivative financial instrument exists for investments or securities, that part of the change in fair value attributable to the hedged risk is shown under the Net result on hedge accounting in the income statement. In the case of permanent impairment, the required write-down is charged to the income statement.

The objective indicators for determining impaired value were extended in the 2005 financial year, above all for equity instruments of the available-for-sale portfolio. Value is impaired, for instance, if the fair value falls either significantly or for a longer period below acquisition cost. No write-ups may be made affecting profit or loss for available-for-sale equity instruments. Changes in the fair value of listed equity instruments during subsequent reporting periods are shown in the revaluation reserve. This means that the net profit and loss is affected only in the case of impaired value and disposals. Write-ups of non-listed equity instruments whose value cannot be regularly determined may be recognized neither in the income statement nor in the revaluation reserve. If the reasons for a value impairment of debt instruments cease to exist, a write-up has to be made, equal at most to the amortized cost, and reflected in profit or loss. The amount in excess of the amortized cost has to be reflected in the revaluation reserve.

(16) Intangible assets

Under Intangible assets, we mainly recognize software and acquired goodwill. Measurement is made at amortized cost. On each balance-sheet date, all goodwill is examined with a view to its future economic utility on the basis of cash-generating units. If it appears that the expected utility will not materialize, an extraordinary depreciation is made. We depreciate software over a period of two to five years.

(17) Fixed assets

The land and buildings, and also office furniture and equipment, shown under this item are capitalized at cost, less regular depreciation. Extraordinary depreciation and write-offs are made in the case of permanently impaired value.

In determining the useful life, the likely physical wear and tear, 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
Purchased IT equipment	2 – 8

In line with the materiality principle, purchases of low-value fixed assets in the past financial year are recognized immediately as operating expenses. Profits realized on the disposal of fixed assets appear under Other income, with losses being shown under Other expenses.

(18) Leasing

In accordance with IAS 17, a lease is classified as an operating lease if it does not substantially transfer to the lessee all the risks and rewards that are incident to ownership. By contrast, finance leases are considered to be those agreements which substantially transfer all the risks and rewards to the lessee.

– The Group as lessor –

Insofar as the leasing companies within the Commerzbank Group are involved in operating lease business, economic ownership of the object of the agreement remains with the Group company. Leased objects appear in the consolidated balance sheet under Fixed assets, shown at cost or production cost, less regular depreciation over their useful economic lives or less extraordinary depreciation which is required if their value is permanently impaired. Unless a different distribution suggests itself in individual cases, the proceeds from leasing transactions are recognized on a straight-line basis over the lifetime of the agreement and are shown under Net interest income.

If virtually all the risks and rewards relating to the leased property are transferred to the lessee (finance leases), the Commerzbank Group recognizes a claim on the lessee. The claim is shown at its net investment value at the inception of the agreement. Leasing payments received are divided into an interest portion, which appears as interest income, and a repayment portion. The income is recognized as interest income for the respective period.

– The Group as lessee –

The payments made under operating lease agreements are included under Operating expenses. The costs are computed like a rental payment on a regular basis corresponding to the useful life of the leased object. No contractual obligations existed in the 2005 financial year which have to be classified as finance leases.

(19) Liabilities to banks and customers and also Securitized liabilities

Financial liabilities are recognized at amortized cost. The derivatives embedded in liabilities (embedded derivatives) have been separated from their host debt instrument, measured at fair value and shown under either Assets held for dealing purposes or Liabilities from dealing activities. In hedge accounting, hedged liabilities were adjusted for the fair value attributable to the hedged risk.

(20) Negative fair values from derivative hedging instruments

Under this item, we show derivative hedging instruments with a negative fair value which do not serve trading purposes. The financial instruments are measured at fair value, with market prices used as a basis for measuring listed instruments; internal price models (net present-value or option-price models) are applied in the case of non-listed products. The net results from hedge accounting for instruments classified as fair value hedges appear in the income statement. We show the effective portions of the gains or losses on cash flow hedges under Measurement of cash flow hedges in Equity.

(21) Liabilities from dealing activities

Derivative financial instruments which have a negative fair value, and delivery obligations from short sales of securities, are shown as Liabilities from dealing activities. Such liabilities are measured at their fair value.

(22) Provisions for pensions and similar commitments

Virtually all employees of Commerzbank Aktiengesellschaft as well as staff at some subsidiaries in Germany acquire rights to a company pension under various systems of company provision for old age.

Some employees are given an indirect – contribution-based – commitment (defined-contribution plan), for which the Group, with employees also making contributions, pays a fixed amount for old-age provision to external providers, including Versicherungsverein des Bankgewerbes a.G. (BVV), Berlin, and Versorgungskasse des Bankgewerbes e.V., Berlin.

The size of future pension benefits is determined here by the amounts paid in and – for the non-guaranteed portion of the benefits – by the accrued income on the assets. The classification of this provision as an indirect commitment means that the contributions to BVV and Versorgungskasse are recognized as current expenses, eliminating the need to form provisions.

Other employees are given a direct commitment, under which the size of the benefit is established, being determined by such factors as age, salary and length of service (defined-benefit plan).

In order to cover the promised pension benefits, we accumulate the assets required to meet the pension obligation for the most part internally and show the corresponding provision under Liabilities. A small part of these assets is invested in a trust to provide additional protection against insolvency. The trustee of these assets held in trust is Commerzbank Pension-Trust e.V.

The pension expenses for direct commitments, which have to appear in the income statement, consist of several components. First and foremost, the service cost has to be considered. In addition, there is the interest cost on the cash value of the obligation, as the time at which it must be met has moved one period closer. The net income forecast for the separate plan assets (assets held in trust) is deducted from expenses. If the 10% "corridor" or fluctuation-band rule gives rise to amortization amounts for actuarial gains and losses, the expenses for the period rise or fall accordingly.

The size of the provisions formed is initially determined by the cash value of the obligation to be met. The portion which is covered by the separate assets held in trust has to be set off against the obligation. The "corridor" rule determines the amount of provision to be formed each year as follows:

Cash value of obligation for direct commitments
less separate pension assets
less/plus not recognized actuarial losses or gains
= size of provision for pensions

The pension obligation is calculated annually by an independent actuary, using the projected-unit-credit method. This calculation is based not only on biometric assumptions but above all on a current market interest rate for prime-quality long-dated bonds as well as the rates of increase for salaries and pensions to be expected in the future. We only recognize higher or lower obligations as a result of actuarial calculations if they lie outside a 10% "corridor" of the actuarial value of the obligation. In the past financial year, adjustment to a lower calculatory interest rate led to the 10% corridor being exceeded. Our internal accounting methods indicate that – as permitted by the rules – we will recognize the excess in our income statement more quickly than IAS 19 prescribes. Pursuant to IAS 19, the amount that falls outside the corridor has to be charged as an expense over the average expected remaining working lives of the employees. The assumptions used in actuarial calculations are:

	31.12.2005	**31.12.2004**
Calculatory interest rate	4.25%	5.00%
Change in salaries	2.50%	2.50%
Adjustment to pensions	1.40%	1.40%

The former internal agreements on the granting of direct pension benefits were replaced with effect from January 1, 2005, by the Commerzbank modular plan for company pension benefits (CBA). Staff entitled to benefits will receive benefits under CBA, which will be made up of an initial module for the period up to December 31, 2004, and benefit modules – possibly augmented by a dynamic module – for each contributory year from 2005 onwards. Staff joining the Bank after January 1, 2005, will be given a commitment under the Commerzbank capital plan for company retirement pensions (CKA).

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

(23) Other provisions

We form Other provisions on the scale deemed necessary for liabilities of uncertain amount towards third parties and for anticipated losses related to immatured contracts. We are not permitted by IAS rules to form provisions for expenses not related to an external commitment.

(24) Taxes on income

Current tax assets and liabilities were calculated by applying the currently valid tax rates at which a refund from, or a payment to, the relevant fiscal authorities is made.

Deferred tax assets and liabilities derive from differences between the value of an asset or liability as shown in the balance sheet and its assigned value in tax terms. In the future, these will probably either increase or reduce taxes on income (temporary differences). They were measured at the specific income-tax rates 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 at the same unit. No discounting of tax assets and liabilities is practised. Deferred tax assets and liabilities are formed and carried such that – depending on the treatment of the underlying item – they are recognized either under Taxes on income in the income statement or under the respective equity item with no effect on profit or loss.

Income-tax expenses or income are shown under Taxes on income in the consolidated income statement and divided in the notes into current and deferred tax claims and liabilities in the financial year. Other taxes which are not dependent on earnings appear under Other result. Current and deferred tax assets and tax liabilities appear as separate asset or liability items in the balance sheet.

(25) Subordinated capital

Under Subordinated capital, we carry issues of profit-sharing certificates as well as securitized and non-securitized subordinated liabilities. After their initial recognition at cost, they are shown at amortized cost. Premiums and discounts are recognized under Net interest income over the entire lifetime.

(26) Trust business

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

(27) Treasury shares

Treasury shares held by Commerzbank Aktiengesellschaft in its portfolio on the balance-sheet date are deducted directly from Equity. Gains and losses resulting from the Bank's own shares are set off against one another, with no effect on profit or loss.

(28) Staff remuneration plans

For its executives and selected other members of staff, the Group has approved five "long-term performance plans" (LTP). These plans (LTP 2001-2005) permit a remuneration geared to the performance of the share price or a stock index; in view of their conditions, they may be considered as "virtual" stock option plans. The programmes entail a payment commitment if the Commerzbank share outperforms the Dow Jones Euro Stoxx® Banks index and/or the absolute performance of the Commerzbank share is at least 25%. People at Commerzbank Aktiengesellschaft, various subsidiaries in Germany and at selected operational units outside Germany are entitled to participate.

In order to participate in the LTPs, those eligible have to invest in Commerzbank shares. The scale of such an investment for staff who are not members of the Board of Managing Directors depends on their function group (possible investment: between 100 and 1,200 shares). Payments under these plans will be determined by two criteria:

For 50% of the shares:

- the Commerzbank share outperforms the Dow Jones Euro Stoxx® Banks index (payment guaranteed by outperformance of at least 1 percentage point to a maximum of 10 percentage points).

For 50% of the shares:

- an absolute rise in the price of the Commerzbank share (payment guaranteed by a rise of at least 25% to a maximum of 52%).

Provided that the two criteria are achieved, eligible participants will receive a maximum of €100 per share of their own participation, whereby Commerzbank shares will be delivered to the participant's custody account for 50% of this gross amount.

Payment and the delivery of shares are dependent upon Commerzbank Aktiengesellschaft paying a dividend for the financial year.

The first comparison of the base prices of the first quarter of 2001 (LTP 2001), the first quarter of 2002 (LTP 2002), the first quarter of 2003 (LTP 2003), the first quarter of 2004 (LTP 2004), and the first quarter of 2005 (LTP 2005) with the data for the comparable period will be made after three years in each case, or as soon as a first hurdle to exercising is reached or exceeded. Should none of the exercising criteria have been met after this time has elapsed, comparison will be made with the base data at annual intervals. If none of the performance targets have been achieved after five years, the plans will be terminated. The first and second comparisons for LTP 2001 with the prices for the first quarter of 2004 and 2005, respectively, and the first comparison for LTP 2002 with the prices for the first quarter of 2005 revealed that none of the exercise criteria had been fulfilled.

Within the Jupiter International Group plc (JIG), three staff remuneration/stock-option plans existed as of December 31, 2005.

The so-called C shares or Growth Shares Plan gives those eligible – a group of senior staff – the right to subscribe to shares of Commerz Asset Management (UK) plc, which are also subject to an obligation to purchase on the part of Commerzbank Aktiengesellschaft. The value of these shares is oriented to the typified change in value of the JIG Group. Those eligible do not receive a guaranteed payment, as the reference figure may change. Limits have been established for the payment of minimum amounts (corresponding to the costs to employees when awards are granted; i.e. personal income tax and social security charges) and maximum amounts. Employees have the right to tender delivery of shares annually, within certain limits, but they also have the possibility of disposing of their entire portfolio after four years. In addition, certain rights also exist in connection with a change-of-control clause. The reference base for this plan was altered in 2003, with the adjusted profit for 2000 being replaced by that for 2002. No more new awards have been granted under this plan since 2003. In the 2005 financial year, Commerzbank Aktiengesellschaft purchased shares under this plan to an overall value of £15.1m.

At the same time, an ongoing "options programme" was launched in 2003 in favour of the employees of JIG, which entails cash compensation based on the performance of JIG and can be considered to be a virtual stock option plan. Internally, this plan is known as the "D options plan" and entitles all those to participate who had joined Jupiter by December 31, 2003, most of whom were already entitled under the C Shares Plan. Under this plan, a payment falls due if the adjusted profit in the year prior to the exercising of the option is higher than the level of the base year. By way of exception, the 2003 adjusted profit was established as the reference figure for the options granted in 2003. A third of the options may be exercised three years after they are granted and a further third after four years, while all options must be exercised five years after they are granted, otherwise they expire. In addition, certain rights also exist in connection with a change-of-control clause. In 2005, further adjusted option rights were assigned to these in the described manner, as were rights under the parallel E Options Plan, which differs only in terms of the rights conferred by the change-of-control clause and extends entitlement to staff who joined after December 31, 2003. No rights were exercised under these two plans during the 2005 financial year.

In addition, it is possible at other subsidiaries, including in Asset Management, for selected employees to participate through private equity models in the performance of the respective company. Payment in such cases depends on the extent to which fixed performance targets are attained. These models include direct investment in shares of the respective company. Frequently, these are offered at reduced prices and/or in combination with call or put options. In addition, warrants and share subscription rights are issued. Premiums are also granted which may similarly be used to subscribe to shares. The observance of blocking periods and agreements for later repurchase determine whether additional income is received.

Staff remuneration plans are treated according to the rules of IFRS 2 "Share-based payment". IFRS 2 distinguishes between plans which count as share-based transactions settled in the form of equity instruments and those which count as share-based transactions settled in cash. For both forms, however, the granting of share-based payments has to be recognized at fair value in the annual financial statements. The awards granted under the above-described LTPs are recognized in accordance with IFRS 2 as 50% share-based payments settled in the form of equity instruments and 50% share-based payments settled in cash. The other staff remuneration plans that are described are classified and recognized as cash-settled payment transactions

Share-based payments settled in the form of equity instruments

The fair value of share-based payments settled in the form of equity instruments has to be recognized as personnel expenses and reflected accordingly in Equity. The fair value at the time the awards are granted – with the exception of the effect of non-market-based exercising conditions – has to be determined and recognized on a straight-line basis in the form of costs over the time during which the employee acquires irrevocable claims to the awards. The amount recognized as expenses is adjusted only to the extent that the estimates made by accounting staff regarding the number of equity instruments which are finally exercised are taken into consideration.

No expenses are recognized for those rights which are not finally exercised due to the absence of a non-market-based condition. One exception exists for those rights which can be exercised only given a certain market condition. These will be considered to have been exercised regardless of whether the market condition has been fulfilled, provided that the other conditions have been fulfilled (services, non-market-based conditions for performance).

Share-based cash-settled payments

The portion of the fair value of share-based payments settled in cash that relates to services performed up to the date of measurement is recognized as personnel expenses, accompanied by its recognition as a provision. The fair value is calculated afresh for every reporting date up to and including the date of settlement. Every change in the fair value of the provision has to be reflected in profit or loss. On the date of settlement, therefore, the accumulated value of the fair value of the provision has to correspond to the amount paid to the relevant employee.

Measurement models

In order to calculate the fair values of the staff remuneration plans that exist within the Commerzbank Group, we have engaged external actuaries. Either a Monte Carlo model or a binominal model is used for measurement purposes.

A Monte Carlo model simulating changes which boost future share prices is applied to measure the awards granted under LTPs. The model is based on the assumption that stock yields are normally distributed in statistical terms around a mean corresponding to a risk-free investment in an interest-bearing security.

An actuarial binominal model is used for determining the fair value of the options that exist as a result of staff remuneration plans at JIG, Caisse Centrale de Réescompte (CCR) and their subsidiaries. It takes into account the terms and conditions for granting such awards. The share price on each reporting date and the exercise price are calculated on the basis of the specific conditions and formulae contained in the plans which are linked to the after-tax profit of the company in question.

Acquisition of the majority interest in Eurohypo Aktiengesellschaft

Under an agreement on November 16, 2005, Commerzbank Inlandsbanken Holding AG, a subsidiary of our Group, concluded purchase agreements to acquire 66.2% of the shares of Eurohypo at a price of €4.56bn. The purchase will take place in two stages: 17.1% was taken over on December 15, 2005, while the remaining 49.1% will probably be acquired at end-March 2006, once various conditions (in particular antitrust approval) have been met.

With the Group's previous interest of 31.8% in Eurohypo included, we held 48.9% of its equity per December 31, 2005. On the balance-sheet date, therefore, the company still had to be included as an associated company in the list of consolidated companies, applying the equity method. For the newly acquired interest of 17.1%, a difference in amount of €77m exists between the purchase cost and the share of equity we hold; as far as possible, we have spread this amount over the assets shown in the balance sheet and other individually identifiable assets (customer base, brand name), thereby revaluing them, and treated the remaining amount as goodwill. In accordance with IAS 28, the overall amount has to be assigned to the book value of the investment and shown in the balance sheet under Investments and securities portfolio (available-for-sale).

Changes in the investment's book value (including goodwill, pro-rata revaluation reserve and cash-flow hedge reserve) in the 2005 financial year were as follows:

	€ m
As of 1.1.2005	**2,109**
Profit contribution of Eurohypo in 2005 plus changes in the revaluation reserve and the measurement of cash flow hedges, less dividend	67
Share of equity acquired on 15.12.2005, including incidental expenses	1,185
As of 31.12.2005	**3,361**

When the purchase agreement has been finally implemented, Eurohypo Aktiengesellschaft will be fully included in the list of consolidated companies, taking into account the provisions of IFRS 3.

Notes to the income statement

(29) Net interest income

	2005 € m	2004 [1)] € m	Change in %
Interest income from lending and money-market transactions and also from available-for-sale securities portfolio	11,924	10,926	9.1
Dividends from securities	109	89	22.5
Current result on investments and subsidiaries	95	130	–26.9
Current result on investments in associated companies	182	93	95.7
Current income from leasing	217	136	59.6
Interest income	*12,527*	*11,374*	*10.1*
Interest paid on subordinated capital	481	505	–4.8
Interest paid on securitized liabilities	3,206	3,159	1.5
Interest paid on other liabilities	5,494	4,595	19.6
Current expenses from leasing	174	102	70.6
Interest expenses	*9,355*	*8,361*	*11.9*
Total	**3,172**	**3,013**	**5.3**

Interest margin:

The average interest margin, based on the average risk-weighted assets in balance-sheet business according to BIS, was 2.86% (previous year: 2.76%).

(30) Provision for possible loan losses

Provision for possible loan losses appears as follows in the consolidated income statement:

	2005 € m	2004 € m	Change in %
Allocation to provisions	–1,346	–1,282	5.0
Reversals of provisions	829	550	50.7
Direct write-downs	–95	–124	–23.4
Income received on written-down claims	46	20	·
Total	**–566**	**–836**	**–32.3**

1) The year-ago figures have been adjusted to the changed rules (see Note 2)

(31) Net commission income

	2005 €m	2004 €m	Change in %
Securities transactions	901	839	7.4
Asset management	620	576	7.6
Payment transactions and foreign commercial business	422	426	–0.9
Guarantees	153	142	7.7
Income from syndicated business	110	99	11.1
Other net commission income	209	168	24.4
Total	**2,415**	**2,250**	**7.3**

(32) Net result on hedge accounting

	2005 €m	2004 €m	Change in %
Net result on derivatives used as hedging instruments	–1,330	–1,554	–14.4
Net result on hedged items	1,308	1,560	–16.2
Total	**–22**	**6**	**·**

This item reflects the gains and losses attributable to effective hedges in connection with hedge accounting. The result deriving from hedging instruments and the related hedged items represents only the measurement effects arising from fair value hedges.

(33) Trading profit

Trading profit has been split into three components:

- Net result on trading in securities, promissory notes, precious metals and derivative instruments.
- Net result on the measurement of derivative financial instruments which do not form part of the trading book and do not qualify for hedge accounting.
- Net result from applying the fair value option.

All financial instruments held for dealing purposes are measured at their fair value. We use market prices to measure listed products, while internal price models (above all, net present-value and option-price models) are used in determining the current value of non-listed trading transactions. Apart from the realized and unrealized gains and losses attributable to trading activities, the Trading profit also includes the interest and dividend income related to such transactions and also their funding costs.

	2005 €m	2004 €m	Change in %
Net result on trading	834	632	32.0
Net result on the measurement of derivative financial instruments	–148	–93	59.1
Net result from applying the fair value option	21	0	·
Total	**707**	**539**	**31.2**

(34) Net result on investments and securities portfolio (available for sale)

Under the Net result on investments and securities portfolio, we show the disposal proceeds and the gains and losses on available-for-sale securities, investments, investments in associated companies and holdings in subsidiaries which have not been consolidated.

	2005	2004[1)]	Change
	€ m	€ m	in %
Net result on available-for-sale securities	216	193	11.9
Net result on disposals and measurement of investments, investments in associated companies and holdings in subsidiaries	431	146	·
Total	**647**	**339**	**90.9**

(35) Other result

The Other result primarily comprises allocations to and reversals of provisions, as well as interim expenses and income attributable to hire-purchase agreements. Expenses and income arising from building and architects' fees occur in connection with the construction management of our sub-group CommerzLeasing und Immobilien AG. Other taxes are also included in this item.

	2005	2004	Change
	€ m	€ m	in %
Major other expenses	**146**	**170**	**–14.1**
Expenses arising from building and architects' services	42	51	–17.6
Allocations to provisions	69	49	40.8
Hire-purchase expenses and interim costs	35	70	–50.0
Major other income	**198**	**284**	**–30.3**
Reversals of provisions	108	127	–15.0
Hire-purchase proceeds and interim income	35	72	–51.4
Income from building and architects' services	47	57	–17.5
Income from disposal of fixed assets	8	28	–71.4
Balance of sundry other expenses/income	**–26**	**79**	·
Other result	**26**	**193**	**–86.5**

1) The year-ago figures have been adjusted to the changed rules (see Note 2)

(36) Operating expenses

The Group's Operating expenses consist of personnel and other expenses, and depreciation on office furniture and equipment, real property, and on other intangible assets. The expenses break down as follows:

Personnel expenses:

	2005 €m	**2004** [1] €m	Change in %
Wages and salaries	2,108	1,954	7.9
Compulsory social-security contributions	305	293	4.1
Expenses for pensions and other employee benefits	254	205	23.9
of which:			
contributions to BVV and Versorgungskasse des Bankgewerbes	48	48	0.0
company pension scheme	206	157	31.2
Total	**2,667**	**2,452**	**8.8**

Other expenses:

	2005 €m	**2004** €m	Change in %
Expenses for office space	480	503	–4.6
IT costs	394	455	–13.4
Compulsory contributions, other operating and company-law expenses	248	244	1.6
Advertising, PR and promotional costs, consulting	130	110	18.2
Workplace costs	171	181	–5.5
Sundry expenses	137	146	–6.2
Total	**1,560**	**1,639**	**–4.8**

The auditors' fee (excluding turnover tax) of €7.6m, recognized as expenses in Germany in the financial year, breaks down as follows:

€1,000	**2005**
Audit of financial statements	4,978
Provision of other certificates or assessments	1,338
Tax consulting services	507
Other services	762
Total	**7,585**

1) The year-ago figures have been adjusted to the changed rules (see Note 2)

Depreciation of office furniture and equipment, real property and other intangible assets:

	2005	2004	Change
	€ m	€ m	in %
Office furniture and equipment	219	315	–30.5
Real property	148	52	·
Other intangible assets	68	35	94.3
Total	**435**	**402**	**8.2**

The depreciation on real property includes an unplanned decrease in value of €118m on land and buildings in Asia.

(37) Restructuring expenses

	2005	2004	Change
	€ m	€ m	in %
Expenses for restructuring measures introduced	37	132	–72.0
Total	**37**	**132**	**–72.0**

In the 2004 financial year, expenses related to the restructuring of our Corporates & Markets department. One of the various concrete individual measures was to reduce the non-customer-based business lines – proprietary trading, brokerage and research – in particular.

In the 2005 financial year, we launched two projects intended to improve the efficiency of our back-office procedures in our corporate business and elsewhere. Restructuring expenses of €37m were incurred in connection with staff reductions and the closing-down of outlets.

(38) Taxes on income

Income-tax expenses break down as follows:

	2005	2004	Change
	€ m	€ m	in %
Current taxes on income	264	423	–37.6
Deferred taxes	145	–70	·
Total	**409**	**353**	**15.9**

Deferred taxes on the assets side include tax expenses of €50m (previous year: €73m) from the writing-back of capitalized advantages deriving from loss carry-forwards, which were used in the past financial year.

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

	2005	2004
	€ m	€ m
Net pre-tax profit according to IAS/IFRS	**1,680**	**796**
Group's income-tax rate (%)	39.9	39.9
Calculated income-tax payments in financial year	**670**	**318**
Effects due to differing tax rates affecting income during periods in question	–27	–41
Effects of taxes from previous years recognized in past financial year	8	104
Effects of non-deductible operating expenses and tax-exempt income	–498	–347
Regular amortization of goodwill	–	34
Deferred tax assets not recognized	210	68
Other effects	46	217
Taxes on income	**409**	**353**

The Group income-tax rate selected as a basis for the transitional presentation is made up of the corporate income-tax rate of 25% applied in Germany, plus the solidarity surcharge of 5.5%, and an average rate of 18.4% for trade earnings tax. With the deductibility of trade earnings tax taken into consideration, the German income-tax rate is roughly 39.9%.

Income effects result from discrepancies between the tax rates valid for foreign units. Tax rates outside Germany ranged between 0% and 46%.

(39) Basic earnings per share

	2005	2004 [1]	Change in %
Operating profit (€ m)	1,717	1,011	69.8
Consolidated surplus (€ m)	1,165	362	·
Average number of ordinary shares issued (units)	603,956,296	593,373,110	1.8
Operating profit per share (€)	2.84	1.70	67.1
Earnings per share (€)	1.93	0.61	·

The earnings per share, calculated in accordance with IAS 33, is based on consolidated surplus without the profit/loss for the year attributable to minority interests.

In the past financial year and on December 31, 2005, no conversion or option rights were outstanding. The diluted earnings per share, therefore, correspond to the earnings per share.

(40) Cost/income ratio

	2005	2004 [1]	Change in %
Cost/income ratio before regular amortization of goodwill and restructuring expenses	67.1	70.9	–5.4

1) The year-ago figures have been adjusted to the changed rules (see Note 2)

(41) Segment reporting

Segment reporting reflects the results of the operational business lines included in the Commerzbank Group. Our internal management information memoranda, which are prepared monthly in line with IAS rules, serve as a basis.

The organizational structure of the Commerzbank Group was altered in autumn 2004. Since January 1, 2005, we have adapted our segment reporting – and also the year-ago figures – to the new structure.

Survey of the structure of the operating divisions valid in the past financial year:

Retail Banking and Asset Management		Corporate and Investment Banking			Group Investments and Others	
Private and Business Customers	Asset Management	*Mittelstand*	International Corporate Banking	Corporates & Markets	Mortgage Banks	Others and Consolidation

We report on seven segments:

- Private and Business Customers includes branch business with private individuals, professional people and business people, private banking, and the activities of comdirect bank.

- Asset Management comprises above all COMINVEST Asset Management, Jupiter International Group, Caisse Centrale de Réescompte, Commerzbank Europe (Ireland) and Commerz Grundbesitzgesellschaft.

- *Mittelstand* presents the results of corporate banking in Germany, the Central and Eastern European region as well as CommerzLeasing und Immobilien.

- International Corporate Banking covers Western Europe, America, Asia, Africa and the Financial Institutions department.

- Corporates & Markets comprises equity and bond-trading activities, trading in derivative instruments, interest-rate and currency management, as well as mergers and acquisitions and the London Branch. In addition, this segment is responsible for business involving multinational companies and major corporates requiring capital-market products.

- Mortgage Banks consists of Eurohypo Aktiengesellschaft, which we include at equity, Hypothekenbank in Essen and Erste Europäische Pfandbrief- und Kommunalkreditbank in Luxemburg.

- In the "Others and Consolidation" segment, the expenses and income appear for which the operational banking departments are not responsible. These also include those expenses and income items that are necessary in order to reconcile the control variables of internal accounting, shown in the segment reporting of the operational departments, with the corresponding external accounting data. This segment also covers equity holdings which are not assigned to other segments.

While foreign treasury activities have been assigned to the respective locations outside Germany, the revenue from German treasury activities (domestic liquidity management and equity structure management) is divided between the relevant segments.

The result generated by each segment is measured in terms of the operating profit and the pre-tax profit, as well as the figures for the return on equity and the cost/income ratio. Through the presentation of pre-tax profits, minority interests are included in both the result and the average equity tied up. All the revenue for which a segment is responsible is thus reflected in the pre-tax profit.

The return on equity is calculated from the ratio between the operating profit (operating or pre-tax) and the average amount of equity that is tied up. It shows the return on the equity that is invested in a given business line. The cost/income ratio in operating business reflects the cost efficiency of the various segments. It represents the quotient formed by operating expenses and income before provisioning.

Income and expenses are shown such that they reflect the originating unit and appear at market prices, with the market interest rate applied in the case of interest-rate instruments. Net interest income reflects the actual funding costs of the equity holdings which, since 2005, have been assigned to the respective segments according to their specific business orientation. The investment yield achieved by the Group on its equity is assigned to the net interest income of the various units such that it reflects the average amount of equity that is tied up. The interest rate corresponds to that of a risk-free investment in the long-term capital market. The average amount of equity tied up is worked out using the BIS system, based on the established average amount of risk-weighted assets and the capital charges for market risk positions (risk-weighted asset equivalents). The capital backing for risk-weighted assets which we assume for segment reporting purposes is 7%.

Direct and indirect expenditure represent the operating expenses which are shown in the operating profit. They consist of personnel costs, other expenses and depreciation of fixed assets and other intangible assets, excluding goodwill. The amortization of goodwill, expenses arising from special factors and restructuring expenses appear below the operating profit in the pre-tax profit. Operating expenses are assigned to the individual segments on the basis of the causation principle. The indirect expenses arising in connection with internal services are charged to the beneficiary or credited to the segment performing the service.

Breakdown, by segment

2005 financial year	**Retail Banking and Asset Management**		**Corporate and Investment Banking**			**Group Investments and Others**		**Total**
€ m	Private and Business Customers	Asset Management	*Mittelstand*	International Corporate Banking	Corporates & Markets	Mortgage Banks	Others and Consolidation	
Net interest income	1,124	–10	1,193	294	187	528	–144	3,172
Provision for possible loan losses	–205	–	–394	69	–3	–33	–	–566
Net interest income after provisioning	919	–10	799	363	184	495	–144	2,606
Net commission income	1,065	575	568	153	69	–12	–3	2,415
Net result on hedge accounting	–	–	–	5	–1	–24	–2	–22
Trading profit	3	9	75	15	758	–130	–23	707
Net result on investments and securities portfolio	–	16	–4	21	–12	73	553	647
Other result	14	–4	–1	2	7	–4	12	26
Revenue	*2,001*	*586*	*1,437*	*559*	*1,005*	*398*	*393*	*6,379*
Operating expenses	1,719	466	1,029	260	793	48	347	4,662
Operating profit	**282**	**120**	**408**	**299**	**212**	**350**	**46**	**1,717**
Regular amortization of goodwill	–	–	–	–	–	–	–	–
Restructuring expenses	–	–	22	11	4	–	–	37
Pre-tax profit	**282**	**120**	**386**	**288**	**208**	**350**	**46**	**1,680**
Average equity tied up	**1,891**	**537**	**3,028**	**1,388**	**1,818**	**1,007**	**566**	**10,235**
Operating return on equity (%)	**14.9**	**22.3**	**13.5**	**21.5**	**11.7**	**34.8**	**·**	**16.8**
Cost/income ratio in operating business (%)	**77.9**	**79.5**	**56.2**	**53.1**	**78.7**	**11.1**	**·**	**67.1**
Return on equity of pre-tax profit (%)	**14.9**	**22.3**	**12.7**	**20.7**	**11.4**	**34.8**	**·**	**16.4**
Staff (average no.)	10,461	1,705	8,680	1,313	912	206	8,265	31,542

Breakdown, by segment

2004 financial year	Retail Banking and Asset Management		Corporate and Investment Banking			Group Investments and Others		Total
€ m	Private and Business Customers	Asset Management	*Mittelstand*	International Corporate Banking	Corporates & Markets	Mortgage Banks	Others and Consolidation	
Net interest income	1,137	–7	1,152	301	190	233	7	3,013
Provision for possible loan losses	–213	–	–555	12	–29	–51	–	–836
Net interest income after provisioning	924	–7	597	313	161	182	7	2,177
Net commission income	1,010	529	403	155	152	–12	13	2,250
Net result on hedge accounting	–	1	–	–	–	4	1	6
Trading profit	3	8	43	32	567	–110	–4	539
Net result on investments and securities portfolio	3	13	1	28	–2	126	170	339
Other result	40	25	85	14	–11	–6	46	193
Revenue	*1,980*	*569*	*1,129*	*542*	*867*	*184*	*233*	*5,504*
Operating expenses	1,657	392	998	231	942	45	228	4,493
Operating profit	**323**	**177**	**131**	**311**	**–75**	**139**	**5**	**1,011**
Regular amortization of goodwill	–	59	10	–	–	8	6	83
Restructuring expenses	–	–	–	–	132	–	–	132
Pre-tax profit	**323**	**118**	**121**	**311**	**–207**	**131**	**–1**	**796**
Average equity tied up	**1,894**	**558**	**2,663**	**1,337**	**2,022**	**1,003**	**781**	**10,258**
Operating return on equity (%)	**17.1**	**31.7**	**4.9**	**23.3**	**–3.7**	**13.9**	**·**	**9.9**
Cost/income ratio in operating business (%)	**75.6**	**68.9**	**59.3**	**43.6**	**105.1**	**19.1**	**·**	**70.9**
Return on equity of pre-tax profit (%)	**17.1**	**21.1**	**4.5**	**23.3**	**–10.2**	**13.1**	**·**	**7.8**
Staff (average no.)	10,207	1,671	8,095	1,328	1,294	192	8,613	31,400

Quarterly results, by segment

1st quarter 2005	Retail Banking and Asset Management		Corporate and Investment Banking			Group Investments and Others		Total
€ m	Private and Business Customers	Asset Management	*Mittelstand*	International Corporate Banking	Corporates & Markets	Mortgage Banks	Others and Consolidation	
Net interest income	274	4	280	64	49	96	–46	721
Provision for possible loan losses	–46	–	–118	–19	–7	–8	–	–198
Net interest income after provisioning	228	4	162	45	42	88	–46	523
Net commission income	264	127	124	38	27	–2	–	578
Net result on hedge accounting	–	–	–	–2	–	–8	–2	–12
Trading profit	1	2	15	6	258	–35	15	262
Net result on investments and securities portfolio	–	1	1	6	–1	36	251	294
Other result	–3	–2	4	–	–2	–	6	3
Revenue	*490*	*132*	*306*	*93*	*324*	*79*	*224*	*1,648*
Operating expenses	421	95	238	62	225	10	56	1,107
Operating profit	**69**	**37**	**68**	**31**	**99**	**69**	**168**	**541**
Regular amortization of goodwill	–	–	–	–	–	–	–	–
Restructuring expenses	–	–	–	–	–	–	–	–
Pre-tax profit	**69**	**37**	**68**	**31**	**99**	**69**	**168**	**541**

Quarterly results, by segment

2nd quarter 2005	Retail Banking and Asset Management		Corporate and Investment Banking			Group Investments and Others		Total
€ m	Private and Business Customers	Asset Management	*Mittelstand*	International Corporate Banking	Corporates & Markets	Mortgage Banks	Others and Consolidation	
Net interest income	269	–1	307	67	52	138	15	847
Provision for possible loan losses	–46	–	–115	–8	–1	–7	–	–177
Net interest income after provisioning	223	–1	192	59	51	131	15	670
Net commission income	272	133	134	40	15	–2	1	593
Net result on hedge accounting	–	–	–	2	–	–6	–1	–5
Trading profit	–	3	17	–2	77	–36	–48	11
Net result on investments and securities portfolio	–	3	2	6	–4	13	64	84
Other result	4	–4	2	2	4	–	18	26
Revenue	*499*	*134*	*347*	*107*	*143*	*100*	*49*	*1,379*
Operating expenses	415	117	244	62	198	10	42	1,088
Operating profit	**84**	**17**	**103**	**45**	**–55**	**90**	**7**	**291**
Regular amortization of goodwill	–	–	–	–	–	–	–	–
Restructuring expenses	–	–	–	–	–	–	–	–
Pre-tax profit	**84**	**17**	**103**	**45**	**–55**	**90**	**7**	**291**

Quarterly results, by segment

3rd quarter 2005	Retail Banking and Asset Management		Corporate and Investment Banking			Group Investments and Others		Total
€ m	Private and Business Customers	Asset Management	*Mittelstand*	International Corporate Banking	Corporates & Markets	Mortgage Banks	Others and Consolidation	
Net interest income	287	–7	300	75	43	139	–66	771
Provision for possible loan losses	–46	–	–104	9	2	–12	–	–151
Net interest income after provisioning	241	–7	196	84	45	127	–66	620
Net commission income	267	145	143	35	11	–3	1	599
Net result on hedge accounting	–	1	–	–	–	–6	–	–5
Trading profit	1	1	20	6	206	–21	4	217
Net result on investments and securities portfolio	1	4	1	18	–2	12	45	79
Other result	3	5	4	–	5	–1	–10	6
Revenue	*513*	*149*	*364*	*143*	*265*	*108*	*–26*	*1,516*
Operating expenses	433	103	261	63	183	10	44	1,097
Operating profit	**80**	**46**	**103**	**80**	**82**	**98**	**–70**	**419**
Regular amortization of goodwill	–	–	–	–	–	–	–	–
Restructuring expenses	–	–	–	–	–	–	–	–
Pre-tax profit	**80**	**46**	**103**	**80**	**82**	**98**	**–70**	**419**

Quarterly results, by segment

4th quarter 2005 €m	Retail Banking and Asset Management		Corporate and Investment Banking			Group Investments and Others		Total
	Private and Business Customers	Asset Management	*Mittelstand*	International Corporate Banking	Corporates & Markets	Mortgage Banks	Others and Consolidation	
Net interest income	294	–6	306	88	43	155	–47	833
Provision for possible loan losses	–67	–	–57	87	3	–6	–	–40
Net interest income after provisioning	227	–6	249	175	46	149	–47	793
Net commission income	262	170	167	40	16	–5	–5	645
Net result on hedge accounting	–	–1	–	5	–1	–4	1	–
Trading profit	1	3	23	5	217	–38	6	217
Net result on investments and securities portfolio	–1	8	–8	–9	–5	12	193	190
Other result	10	–3	–11	–	–	–3	–2	–9
Revenue	*499*	*171*	*420*	*216*	*273*	*111*	*146*	*1,836*
Operating expenses	450	151	286	73	187	18	205	1,370
Operating profit	**49**	**20**	**134**	**143**	**86**	**93**	**–59**	**466**
Regular amortization of goodwill	–	–	–	–	–	–	–	–
Restructuring expenses	–	–	22	11	4	–	–	37
Pre-tax profit	**49**	**20**	**112**	**132**	**82**	**93**	**–59**	**429**

Results, by geographical market

Assignment to the respective segments on the basis of the seat of the branch or consolidated company produces the following breakdown:

2005 financial year € m	Europe including Germany	America	Asia	Other countries	**Total**
Net interest income	2,942	175	46	9	3,172
Provision for possible loan losses	–646	46	36	–2	–566
Net interest income after provisioning	2,296	221	82	7	2,606
Net commission income	2,339	52	21	3	2,415
Hedging result	–27	5	–	–	–22
Trading profit	697	4	3	3	707
Net result on investments and securities portfolio (available for sale)	651	–4	–	–	647
Other result	15	8	3	–	26
Revenue	*5,971*	*286*	*109*	*13*	*6,379*
Operating expenses	4,360	122	55	125	4,662
Operating profit	**1,611**	**164**	**54**	**–112**	**1,717**
Risk-weighted assets according to BIS*)	**129,828**	**12,016**	**3,523**	**711**	**146,078**

*) excluding market risk

In the previous year, we achieved the following results in the geographical markets:

2004 financial year[1)] € m	Europe including Germany	America	Asia	Other countries	**Total**
Net interest income	2,770	199	35	9	3,013
Provision for possible loan losses	–843	–11	18	–	–836
Net interest income after provisioning	1,927	188	53	9	2,177
Net commission income	2,093	108	46	3	2,250
Hedging result	6	–	–	–	6
Trading profit	498	23	11	7	539
Net result on investments and securities portfolio (available for sale)	331	4	4	–	339
Other result	177	1	15	–	193
Revenue	*5,032*	*324*	*129*	*19*	*5,504*
Operating expenses	4,248	167	72	6	4,493
Operating profit	**784**	**157**	**57**	**13**	**1,011**
Risk-weighted assets according to BIS*)	**122,161**	**9,640**	**2,387**	**719**	**134,907**

*) excluding market risk

1) The year-ago figures have been adjusted to the changed rules (see Note 2)

Notes to the balance sheet

(42) Cash reserve

We include the following items in the cash reserve:

	31.12.2005	31.12.2004	Change
	€ m	€ m	in %
Cash on hand	597	597	0.0
Balances with central banks	4,868	3,037	60.3
Debt issued by public-sector borrowers, and bills of exchange rediscountable at central banks	3,163	1,254	·
Treasury bills and discountable treasury notes, as well as similar debt issues by public-sector borrowers	2,761	945	·
Bills of exchange	402	309	30.1
Total	**8,628**	**4,888**	**76.5**

The balances with central banks include claims on the Bundesbank totalling €4,120m (previous year: €2,145m). The minimum reserve requirement to be met at end-December 2005 amounted to €1,899m (previous year: €1,646m).

(43) Claims on banks

	total			due on demand		other claims	
	31.12.2005	31.12.2004[1)]	Change	31.12.2005	31.12.2004[1)]	31.12.2005	31.12.2004[1)]
	€ m	€ m	in %	€ m	€ m	€ m	€ m
German banks	39,123	40,976	–4.5	5,211	4,289	33,912	36,687
Foreign banks	47,080	45,743	2.9	11,602	16,588	35,478	29,155
Total	**86,203**	**86,719**	**–0.6**	**16,813**	**20,877**	**69,390**	**65,842**

The claims on banks include €11,432m of public-sector loans (previous year: €11,548m) extended by the mortgage banks.

(44) Claims on customers

The claims on customers break down as follows:

	31.12.2005	31.12.2004[1)]	Change
	€ m	€ m	in %
Claims on domestic customers	112,607	109,613	2.7
Claims on foreign customers	41,067	40,664	1.0
Total	**153,674**	**150,277**	**2.3**

The claims on customers include €26,985m (previous year: €27,283m) of loans secured by mortgages or other security interests in real property (loans of up to 60% of the collateral value) as well as €33,479m (previous year: €31,388m) of communal loans.

1) The year-ago figures have been adjusted to the changed rules (see Note 2)

(45) 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:

	31.12.2005 € m	31.12.2004 € m	Change in %
Claims on banks	**8,848**	**4,916**	**80.0**
Subsidiaries	–	–	·
Associated companies and companies in which an equity investment exists	8,848	4,916	80.0
Claims on customers	**154**	**253**	**–39.1**
Subsidiaries	97	218	–55.5
Associated companies and companies in which an equity investment exists	57	35	62.9
Bonds, notes and other fixed-income securities	**1,500**	**1,687**	**–11.1**
Subsidiaries	–	–	·
Associated companies and companies in which an equity investment exists	1,500	1,687	–11.1
Shares and other variable-yield securities	**222**	**318**	**–30.2**
Associated companies and companies in which an equity investment exists	222	318	–30.2
Total	**10,724**	**7,174**	**49.5**
Liabilities to banks	**1,042**	**321**	·
Subsidiaries	–	–	·
Associated companies and companies in which an equity investment exists	1,042	321	·
Liabilities to customers	**66**	**731**	**–91.0**
Subsidiaries	39	727	–94.6
Associated companies and companies in which an equity investment exists	27	4	·
Total	**1,108**	**1,052**	**5.3**

(46) Total lending

	31.12.2005 € m	31.12.2004[1] € m	Change in %
Loans to banks	18,940	20,704	–8.5
Claims on customers	145,297	139,533	4.1
Bills discounted	403	311	29.6
Total	**164,640**	**160,548**	**2.5**

We distinguish loans from claims on banks and customers such that only those claims are shown as loans for which special loan agreements have been concluded with the borrowers. Therefore, interbank money-market transactions and repo transactions, for example, are not shown as loans.

1) The year-ago figures have been adjusted to the changed rules (see Note 2)

(47) Provision for possible loan losses

Provision for possible loan losses is made in accordance with rules that apply Group-wide and covers all discernible creditworthiness risks. On the basis of past experience, we have formed portfolio valuation allowances for the latent credit risk.

	Specific valuation allowances*)		Portfolio valuation allowances		**Total**		
	2005	**2004**	**2005**	**2004**	**2005**	**2004**	Change
	€ m	€ m	€ m	€ m	€ m	€ m	in %
As of 1.1.	**5,352**	**5,506**	**326**	**348**	**5,678**	**5,854**	**–3.0**
Allocations	1,263	1,265	83	17	1,346	1,282	5.0
Deductions	1,529	1,405	45	46	1,574	1,451	8.5
of which: utilized	745	900	–	1	745	901	–17.3
of which: reversals	784	505	45	45	829	550	50.7
Changes in consolidated companies	3	–	1	–	4	–	.
Exchange-rate changes/ transfers	30	–14	2	7	32	–7	.
Provision for possible loan losses as of 31.12.	**5,119**	**5,352**	**367**	**326**	**5,486**	**5,678**	**–3.4**

*) including provisions

With direct write-downs and income received on written-down claims taken into account, the allocations and reversals reflected in the income statement gave rise to provision of €566m (previous year: €836m) for lending risks.

Provision for possible risks was formed for:

	31.12.2005	**31.12.2004**	Change
	€ m	€ m	in %
Claims on banks	20	13	53.8
Claims on customers	5,161	5,292	–2.5
Provision to cover balance-sheet items	**5,181**	**5,305**	**–2.3**
Guarantees, endorsement liabilities, credit commitments	305	373	–18.2
Total	**5,486**	**5,678**	**–3.4**

The provision for credit risk by customer group breaks down as follows:

€ m	Specific valuation allowances and provisions for lending business	Loan losses[1] in 2005	Net allocation[2] to valuation allowances and provisions in lending business
German customers	**4,646**	**754**	**506**
Companies and self-employed	3,823	675	406
Manufacturing	723	114	59
Construction	247	55	–41
Distributive trades	392	86	26
Services, incl. professions, and others	2,461	420	362
Other retail customers	823	79	100
Foreign customers	**473**	**86**	**–27**
Banks	16	2	–
Corporate and retail customers	457	84	–27
Total	**5,119**	**840**	**479**

1) Direct write-downs, utilized specific valuation allowances and provisions in lending business
2) Allocation less reversals

Data on provision for credit risk:

in %	**2005**	**2004**
Allocation ratio[1]	0.34	0.52
Write-off ratio[2]	0.48	0.63
Cover ratio[3]	3.33	3.54

1) Net provisioning (new provisions less reversals of valuation allowances and provision for commercial loans, plus the balance of direct write-downs and income received on previously written-down claims) as a percentage of total lending
2) Defaults (utilized valuation allowances and provision for commercial loans, plus the balance of direct write-downs and income received on previously written-down claims) as a percentage of total lending
3) Existing provisions (level of valuation allowances and provisions for credit risk in commercial lending) as a percentage of total lending

Total lending = Total lending in commercial business (Note 46)

(48) Positive fair values attributable to derivative hedging instruments

Derivative instruments used for hedging purposes and for hedge accounting and also showing a positive fair value appear under this item in the balance sheet.

These instruments are measured at their fair value. For the most part, interest-rate and interest-rate/currency swaps are used.

	31.12.2005	31.12.2004	Change
	€ m	€ m	in %
Positive fair values from related effective fair value hedges	3,011	2,111	42.6
Positive fair values from related effective cash flow hedges	1,723	1,809	–4.8
Total	**4,734**	**3,920**	**20.8**

(49) Assets held for dealing purposes

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

The positive fair values also include financial instruments which cannot be used as hedging instruments in hedge accounting.

	31.12.2005	31.12.2004	Change
	€ m	€ m	in %
Bonds, notes and other fixed-income securities	22,080	20,137	9.6
Money-market instruments	1,332	903	47.5
issued by public-sector borrowers	341	504	–32.3
issued by other borrowers	991	399	·
Bonds and notes	20,748	19,234	7.9
issued by public-sector borrowers	6,498	6,338	2.5
issued by other borrowers	14,250	12,896	10.5
Shares and other variable-yield securities	8,417	10,338	–18.6
Promissory notes held in the trading portfolio	1,287	798	61.3
Positive fair values attributable to derivative financial instruments	68,537	70,808	–3.2
Currency-based transactions	4,136	8,824	–53.1
Interest-based transactions	58,370	58,307	0.1
Other transactions	6,031	3,677	64.0
Total	**100,321**	**102,081**	**–1.7**

€26,685m (previous year: €26,314m) of the bonds, notes and other fixed-income securities and also shares and other variable-yield securities were listed securities.

(50) Investments and securities portfolio (available for sale)

The Investments and securities portfolio represents financial instruments not assigned to any other category. It includes all bonds, notes and other fixed-income securities, shares and other variable-yield securities not held for trading purposes, investments, holdings in associated companies measured at equity and holdings in subsidiaries not included in the consolidation.

	31.12.2005 € m	**31.12.2004** [1] € m	Change in %
Bonds, notes and other fixed-income securities	77,539	64,320	20.6
Money-market instruments	1,926	821	·
issued by public-sector borrowers	13	54	–75.9
issued by other borrowers	1,913	767	·
Bonds and notes	75,613	63,499	19.1
issued by public-sector borrowers	36,302	30,075	20.7
issued by other borrowers	39,311	33,424	17.6
Shares and other variable-yield securities	2,402	2,138	12.3
Investments	2,537	3,217	–21.1
of which: in banks	1,181	1,667	–29.2
Investments in associated companies	3,643	2,379	53.1
of which: in banks	3,580	2,322	54.2
Holdings in subsidiaries	120	139	–13.7
of which: in banks	–	–	·
Total	**86,241**	**72,193**	**19.5**
of which: measured at amortized cost	709	594	19.4

Fair values of listed financial investments:

€ m	**31.12.2005** Fair value	**31.12.2004** Fair value
Bonds, notes and other fixed-income securities	68,544	56,484
Shares and other variable-yield securities	1,057	830
Investments	1,946	2,751
Total	**71,547**	**60,065**

1) The year-ago figures have been adjusted to the changed rules (see Note 2)

Investments in large incorporated companies held by the Commerzbank Group, pursuant to Art. 313, (2), no. 4, HGB:

Name	Seat	Percentage share of capital held
		31.12.2005
Carmeile AG	Wülfrath	10.0*)
ConCardis GmbH	Frankfurt am Main	6.0
EURO Kartensysteme GmbH	Frankfurt am Main	6.0
Ferrari S.p.A.	Maranello, Modena	8.5
GZS Gesellschaft für Zahlungssysteme mbH	Frankfurt am Main	6.1
Korea Exchange Bank	Seoul	14.6
Linde Aktiengesellschaft	Wiesbaden	10.0*)

*) indirectly held

(51) Intangible assets

	31.12.2005	**31.12.2004**	Change
	€ m	€ m	in %
Goodwill	758	697	8.8
Other intangible assets	215	104	·
Total	**973**	**801**	**21.5**

We amortized goodwill on a regular basis for the last time as of December 31, 2004. Since January 1, 2005, we only make a write-down when the result of the annual impairment test is lower than the book value.

Further goodwill arising from companies shown at equity is contained in investments in associated companies (€114m).

Of the other intangible assets, capitalized software accounted for €208m (previous year: €82m).

(52) Fixed assets

	31.12.2005	**31.12.2004**	Change
	€ m	€ m	in %
Land and buildings	663	762	–13.0
Office furniture and equipment	628	859	–26.9
Leased equipment	234	145	61.4
Total	**1,525**	**1,766**	**–13.6**

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

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

€ m	Intangible assets: Goodwill	Intangible assets: Other intangible assets	Fixed assets: Land and buildings	Fixed assets: Office furniture and equipment
Book value as of 1.1.2005	**697**	**104**	**762**	**859**
Cost of acquisition/production as of 1.1.2005	1,618	239	990	3,535
Additions in 2005	63	68	69	131
Disposals in 2005	–	9	94	346
Transfers/changes in consolidated companies	8	370	29	–376
Cost of acquisition/production as of 31.12.2005	1,689	668	994	2,944
Write-ups in 2005	–	–	–	–
Cumulative write-downs as of 31.12.2004	921	135	228	2,676
Changes in exchange rates	2	1	3	8
Additions in 2005	–	68	148	219
Disposals in 2005	–	4	49	333
Transfers/changes in consolidated companies	8	253	1	–254
Cumulative write-downs as of 31.12.2005	931	453	331	2,316
Book value as of 31.12.2005	**758**	**215**	**663**	**628**

€ m	Fixed assets: Leased equipment	Investments	Investments in associated companies	Holdings in subsidiaries
Book value as of 1.1.2005	**145**	**3,217**	**2,379**	**139**
Cost of acquisition/production as of 1.1.2005	200	4,122	2,995	190
Additions in 2005	61	142	1,191	23
Disposals in 2005	20	1,446	11	36
Transfers/changes in consolidated companies	90	198	–	22
Cumulative changes arising from measurement at fair value or at equity	–	220	80	–
Cost of acquisition/production/fair value as of 31.12.2005	331	3,236	4,255	199
Write-ups in 2005	–	–	–	–
Cumulative write-downs as of 31.12.2004	55	905	616	51
Additions in 2005	44	59	–	28
Disposals in 2005	8	307	4	–
Transfers/changes in consolidated companies	6	42	–	–
Cumulative write-downs as of 31.12.2005	97	699	612	79
Book value as of 31.12.2005	**234**	**2,537**	**3,643**	**120**

(54) Tax assets

	31.12.2005 €m	31.12.2004 €m	Change in %
Current tax assets	**400**	**606**	**–34.0**
Germany	350	544	–35.7
Abroad	50	62	–19.4
Deferred tax claims	**5,138**	**5,205**	**–1.3**
Deferred taxes carried as assets	5,138	5,205	–1.3
Total	**5,538**	**5,811**	**–4.7**

Deferred taxes represent the potential income-tax relief arising from temporary differences between the values assigned to assets and liabilities in the consolidated balance sheet in accordance with IAS/IFRS and their values for tax-accounting purposes in accordance with the local tax regulations for consolidated companies.

Altogether, the deferred tax claims and liabilities directly set off against equity as of December 31, 2005, amounted to €457m.

No deferred taxes have been recognized for loss carry-forwards of €3,797m (previous year: €3,428m), as it is uncertain at present whether they will be realized.

For the most part, there are no time limits on the use of the existing tax loss carry-forwards.

Deferred taxes carried as assets were formed in connection with the following balance-sheet items:

	31.12.2005 €m	31.12.2004 €m	Change in %
Fair values of derivative hedging instruments	2,325	2,092	11.1
Assets held for dealing purposes and liabilities from dealing activities	1,654	2,189	–24.4
Claims on banks and customers	221	306	–27.8
Provisions	197	101	95.0
Securitized liabilities	1	31	–96.8
Liabilities to banks and customers	133	16	·
Sundry balance-sheet items	269	196	37.2
Tax loss carry-forwards	338	274	23.4
Total	**5,138**	**5,205**	**–1.3**

(55) Other assets

Other assets mainly comprise the following items:

	31.12.2005 €m	31.12.2004 €m	Change in %
Collection items	182	211	–13.7
Precious metals	982	350	·
Non-current assets held for sale in accordance with IFRS 5	228	–	·
Sundry assets, including deferred items	813	1,165	–30.2
Total	**2,205**	**1,726**	**27.8**

(56) Liabilities to banks

	total		
	31.12.2005	**31.12.2004**	Change
	€ m	€ m	in %
German banks	58,517	57,987	0.9
Foreign banks	71,383	57,443	24.3
Total	**129,900**	**115,430**	**12.5**

of which:	due on demand		other liabilities	
	31.12.2005	**31.12.2004**	**31.12.2005**	**31.12.2004**
	€ m	€ m	€ m	€ m
German banks	5,358	7,449	53,159	50,538
Foreign banks	9,833	10,359	61,550	47,084
Total	**15,191**	**17,808**	**114,709**	**97,622**

(57) Liabilities to customers

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

	total		
	31.12.2005	**31.12.2004**	Change
	€ m	€ m	in %
German customers	**73,258**	**72,514**	**1.0**
Corporate customers	42,735	39,656	7.8
Retail customers and others	27,834	31,071	–10.4
Public sector	2,689	1,787	50.5
Foreign customers	**29,588**	**32,550**	**–9.1**
Corporate and retail customers	28,057	31,894	–12.0
Public sector	1,531	656	·
Total	**102,846**	**105,064**	**–2.1**

	Savings deposits		Other liabilities			
			due on demand		with agreed lifetime or period of notice	
€ m	**31.12.2005**	**31.12.2004**	**31.12.2005**	**31.12.2004**	**31.12.2005**	**31.12.2004**
German customers	**11,238**	**15,604**	**30,217**	**26,495**	**31,803**	**30,415**
Corporate customers	62	71	19,145	16,338	23,528	23,247
Retail customers and others	11,141	15,498	10,620	9,759	6,073	5,814
Public sector	35	35	452	398	2,202	1,354
Foreign customers	**1,194**	**1,288**	**10,972**	**9,987**	**17,422**	**21,275**
Corporate and retail customers	1,193	1,287	10,585	9,854	16,279	20,753
Public sector	1	1	387	133	1,143	522
Total	**12,432**	**16,892**	**41,189**	**36,482**	**49,225**	**51,690**

Savings deposits break down as follows:

	31.12.2005 € m	**31.12.2004** € m	Change in %
Savings deposits with agreed period of notice of three months	11,549	15,797	–26.9
Savings deposits with agreed period of notice of more than three months	883	1,095	–19.4
Total	**12,432**	**16,892**	**–26.4**

(58) Securitized liabilities

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

	total		of which: issued by mortgage banks	
	31.12.2005 € m	**31.12.2004** € m	**31.12.2005** € m	**31.12.2004** € m
Bonds and notes issued	85,235	76,478	65,162	55,650
Money-market instruments issued	11,608	10,677	3,685	3,046
Own acceptances and promissory notes outstanding	77	95	–	–
Total	**96,920**	**87,250**	**68,847**	**58,696**

The nominal interest paid on money-market paper ranges from 2.00% to 26.07% (previous year: 1.167% to 25.0%); for bonds and notes, from 0.0619% to 17.00% (previous year: 0.049% to 17.67%). The original maturity periods for money-market paper are up to one year. €55bn (previous year: €52bn) of the bonds and notes have an original lifetime of more than four years.

The following table presents the most important bonds and notes issued in 2005:

Equivalent in € m	Currency	Issuer	Interest rate %	Maturity date
2,000	EUR	Hypothekenbank in Essen AG	2.750	2009
2,000	EUR	Hypothekenbank in Essen AG	2.000	2006
1,500	EUR	Hypothekenbank in Essen AG	2.750	2008
1,500	EUR	Hypothekenbank in Essen AG	3.000	2010
1,466	EUR	Kaiserplatz Funding Limited	2.500	2006
1,250	EUR	Hypothekenbank in Essen AG	2.500	2010
1,000	EUR	Hypothekenbank in Essen AG	2.450	2008
1,000	EUR	Hypothekenbank in Essen AG	1.850	2009
1,000	EUR	Hypothekenbank in Essen AG	2.750	2011
1,000	EUR	Hypothekenbank in Essen AG	2.362	2007
1,000	EUR	Hypothekenbank in Essen AG	2.589	2007
1,000	EUR	Hypothekenbank in Essen AG	2.875	2010
848	USD	Hypothekenbank in Essen AG	4.250	2008
848	USD	Hypothekenbank in Essen AG	4.750	2010
600	EUR	Hypothekenbank in Essen AG	2.129	2006
500	EUR	Hypothekenbank in Essen AG	2.220	2006
500	EUR	Hypothekenbank in Essen AG	2.219	2007
461	EUR	Commerzbank AG (reverse convertible bonds)	12.000	2006
461	EUR	Commerzbank AG (reverse convertible bonds)	12.000	2006
458	EUR	Hypothekenbank in Essen AG	2.505	2006
424	USD	Erste Europäische Pfandbrief- und Kommunalkreditbank AG	4.000	2009

(59) Negative fair values attributable to derivative hedging instruments

Derivative instruments not serving trading purposes but used for effective hedging and showing a negative fair value appear under this item in the balance sheet.

These financial instruments are measured at their fair value.

For the most part, interest-rate and interest-rate/currency swaps are used as hedging instruments.

	31.12.2005 € m	**31.12.2004** € m	Change in %
Negative fair values from related effective fair value hedges	5,447	4,049	34.5
Negative fair values from related effective cash flow hedges	4,392	4,604	–4.6
Total	**9,839**	**8,653**	**13.7**

(60) Liabilities from dealing activities

Liabilities from dealing activities shows the negative fair values of derivative financial instruments not employed as hedging instruments in connection with hedge accounting. Delivery commitments arising from short sales of securities are also included under Liabilities from dealing activities.

	31.12.2005 € m	31.12.2004 € m	Change in %
Currency-based transactions	4,070	9,204	–55.8
Interest-based transactions	60,767	60,886	–0.2
Delivery commitments arising from short sales of securities	3,299	5,600	–41.1
Sundry transactions	6,863	4,316	59.0
Total	**74,999**	**80,006**	**–6.3**

(61) Provisions

Provisions break down as follows:

	31.12.2005 € m	31.12.2004[1)] € m	Change in %
Provisions for pensions and similar commitments	1,587	1,495	6.2
Other provisions	1,934	1,907	1.4
Total	**3,521**	**3,402**	**3.5**

The changes in provisions for pensions were as follows:

€ m	as of **1.1.2005**	Pension payments	Additions	Change in plan assets	Transfers/ changes in consolidated companies	as of **31.12.2005**
Pension expectancies of active and former employees and also pensioners	1,472	83	172	7	5	1,559
Early retirement	19	10	5	–	1	15
Part-time scheme for older staff	4	22	10	–14	7	13
Total	**1,495**	**115**	**187**	**–7**	**13**	**1,587**

For the most part, provisions for pensions and similar commitments represent provisions for obligations 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 (including pension guidelines, pension scheme, contribution-based pension plan, individual pension commitments), which mainly depends upon when the employee joined the Bank. On this basis, pensions are paid to employees reaching retirement age, or earlier in the case of invalidity or death (see also Note 22).

1) The year-ago figures have been adjusted to the changed rules (see Note 2)

The changes in the assets held in trust at Commerzbank Pension Trust e.V., which count as plan assets pursuant to IAS 19, were as follows:

	2005 € m	2004 € m
Fair value as of January 1	147	139
Allocation/withdrawal	–9	3
Income from plan assets	2	5
Benefits paid	–	–
Fair value as of December 31	**140**	**147**

The pension obligations are worked out annually by an independent actuary, applying the projected unit credit method.

The projected unit credit for pension commitments as of December 31, 2005, was €2,078m (previous year: €1,797m). The difference between this figure and the pension provisions is the result of changes in the actuarial parameters and the bases of calculation amounting to €351m (previous year: €155m) and of changes in the fair value of the plan assets of €140m (previous year: €147m).

Changes in pension obligations:

	2005 € m	2004 € m
Provisions for pensions, including plan assets, as of January 1	1,642	1,571
Service cost	32	29
Interest cost	81	71
Cost of early retirement and part-time scheme for older staff	29	16
Amortization of actuarial assets	45	33
Pension benefits	–115	–110
Other changes	13	32
Actuarial loss	351	155
Pension obligations as of December 31	**2,078**	**1,797**

We have recognized pension costs of altogether €206m (previous year: €157m) in the income statement, €187m of which relates to the allocation to provisions for pensions (previous year: €149m).

Changes in Other provisions:

€ m	As of 1.1.2005[1]	Utilized	Reversals	Allocation/changes in consolidated companies	as of 31.12.2005
Personnel area	578	399	32	645	792
Restructuring measures	169	106	1	37	99
Lending risks	373	16	200	148	305
Bonuses for special savings schemes	95	39	–	24	80
Legal proceedings and recourse claims	114	11	36	58	125
Sundry items	578	161	32	148	533
Total	**1,907**	**732**	**301**	**1,060**	**1,934**

The provisions in the personnel area basically relate to provisions for various types of bonuses, to be paid to employees of the Group in the first half of 2006. In principle, all the other provisions fall due on a short-term basis.

(62) Tax liabilities

	31.12.2005 € m	31.12.2004 € m	Change in %
Current income-tax liabilities	**229**	**432**	**–47.0**
Income-tax liabilities to tax authorities	4	7	–42.9
Provisions for income taxes	225	425	–47.1
Deferred income-tax liabilities	**3,477**	**3,461**	**0.5**
Deferred taxes carried as liabilities	3,477	3,461	0.5
Total	**3,706**	**3,893**	**–4.8**

Provisions for taxes on income are possible tax liabilities for which no final formal assessment note has been received. The liabilities to tax authorities represent payment obligations from current taxes towards German and foreign tax authorities. Deferred taxes on the liabilities side represent the potential income-tax burden from temporary differences between the values assigned to assets and liabilities in the consolidated balance sheet in accordance with IAS/IFRS and their values for tax-accounting purposes in accordance with the local tax regulations for consolidated companies.

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

	31.12.2005 € m	31.12.2004 € m	Change in %
Assets held for dealing purposes and liabilities from dealing activities	1,043	703	48.4
Fair values of derivative hedging instruments	1,018	1,290	–21.1
Investments and securities portfolio	490	852	–42.5
Claims on banks and customers	340	67	·
Liabilities to banks and customers	44	196	–77.6
Sundry balance-sheet items	542	353	53.5
Total	**3,477**	**3,461**	**0.5**

1) The year-ago figures have been adjusted to the changed rules (see Note 2)

(63) Other liabilities

Other liabilities of €1,337m (previous year: €1,280m) include obligations arising from still outstanding invoices, deductions from salaries to be passed on and deferred liabilities.

(64) Subordinated capital

Subordinated capital breaks down as follows:

	31.12.2005 € m	31.12.2004 € m	Change in %
Subordinated liabilities	**5,410**	**5,673**	**–4.6**
of which: Tier-III capital as defined in Art. 10, (7), KWG	–	–	·
of which: maturing within two years	829	835	–0.7
Profit-sharing certificates outstanding	**1,895**	**2,111**	**–10.2**
of which: maturing within two years	673	630	6.8
Deferred interest, incl. discounts	159	273	–41.8
Measurement effects (IAS 39)	679	819	–17.1
Total	**8,143**	**8,876**	**–8.3**

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

The issuer cannot be obliged to make premature repayment. In the event of insolvency or winding-up, subordinated liabilities may only be repaid after the claims of all senior creditors have been met.

At end-2005, the following major subordinated liabilities were outstanding:

Start of maturity	€ m	Currency in m	Issuer	Interest rate	Maturity date
2000	590	590 EUR	Commerzbank AG	6.500	2010
1999	550	550 EUR	Commerzbank AG	4.750	2009
2001	490	490 EUR	Commerzbank AG	6.125	2011
1999	300	300 EUR	Commerzbank AG	6.250	2009
1997	292	200 GBP	Commerzbank AG	7.875	2007
2002	275	275 EUR	Commerzbank AG	5.500	2008
2001	250	250 EUR	Commerzbank AG	5.400	2011
1999	219	150 GBP	Commerzbank AG	6.625	2019

In the year under review, the interest paid by the Group for subordinated liabilities totalled €347m (previous year: €349m). Deferred interest expenses for interest due but not yet paid are shown at €128m (previous year: €131m).

Profit-sharing certificates outstanding form part of the Bank's liable equity capital in accordance with the provisions of the German Banking Act (Art. 10, (5), KWG). They are directly affected by current losses. Interest payments are made solely if the issuing institution achieves a distributable profit. The claims of holders of profit-sharing certificates to a repayment of principal are subordinate to those of other creditors.

At end-2005, the following major profit-sharing certificates were outstanding:

Start of maturity	€ m	Issuer	Interest rate	Maturity date
1993	392	Commerzbank AG	7.250	2005
2000	320	Commerzbank AG	6.375	2010
1994	256	Commerzbank AG	2.775	2006
1996	256	Commerzbank AG	7.900	2008

Interest to be paid for the 2005 financial year on the profit-sharing certificates outstanding amounts to €134m (previous year: €156m). Deferred interest expenses for interest due but not yet paid are shown at €122m (previous year: €142m).

(65) Hybrid capital

As in previous years, the Commerzbank Group raised no hybrid capital in the 2005 financial year.

(66) Equity structure

	31.12.2005	31.12.2004[1]
	€ m	€ m
a) Subscribed capital	1,705	1,546
b) Capital reserve	5,686	4,481
c) Retained earnings	4,165	3,383
d) Revaluation reserve	1,995	1,600
e) Measurement of cash flow hedges	–1,069	–1,214
f) Reserve from currency translation	–107	–192
g) Consolidated profit	328	150
Total before minority interests	**12,703**	**9,754**
Minority interests	947	1,269
Equity	**13,650**	**11,023**

a) Subscribed capital

The subscribed capital (share capital) of Commerzbank Aktiengesellschaft consists of no-par-value shares, each with an accounting par value of €2.60. The shares are issued in the form of bearer shares.

	1,000 units
Number of shares outstanding on 1.1.2005	**594,484**
plus: treasury shares on 31.12. of the previous year	4,103
Issue of new shares (including shares issued to employees)	58,226
Number of shares issued on 31.12.2005	**656,813**
less: treasury shares on balance-sheet date	1,113
Number of shares outstanding on 31.12.2005	**655,700**

Before treasury shares are deducted, the subscribed capital stands at €1,708m.

No preferential rights exist or restrictions on the payment of dividends at Commerzbank Aktiengesellschaft. All the issued shares have been fully paid in.

1) The year-ago figures have been adjusted to the changed rules (see Note 2)

The value of issued, outstanding and authorized shares is as follows:

	31.12.2005		31.12.2004	
	€ m	1,000 units	€ m	1,000 units
Shares issued	1,708	656,813	1,556	598,587
– Treasury shares	3	1,113	10	4,103
= Shares outstanding (subscribed capital)	1,705	655,700	1,546	594,484
+ Shares not yet issued from authorized capital	471	181,036	622	239,262
Total	**2,176**	**836,736**	**2,168**	**833,746**

The number of authorized shares is 837,849 thousand units (previous year: 837,849 thousand units). The accounting par value of the authorized shares is €2,179m (previous year: €2,179m).

As of December 31, 2005, 3,627 thousand shares (previous year: 5,324 thousand shares) had been pledged with the Group as security. This represents 0.6% (previous year: 0.9%) of the shares outstanding on the balance-sheet date.

Securities transactions in treasury shares pursuant to Art. 71, (1), no. 1 and no. 7, AktG

	Number of shares in units	Accounting*) par value in €1,000	Percentage of share capital
Portfolio on 31.12.2005	1,113,296	2,895	0.17
Largest total acquired during the financial year	17,619,857	45,812	2.69
Total shares pledged by customers as collateral on 31.12.2005	3,627,292	9,431	0.55
Shares acquired during the financial year	210,745,115	547,937	–
Shares disposed of during the financial year	213,735,108	555,711	–

*) Accounting par value per share €2.60

b) Capital reserve

In the capital reserve, premiums from the issue of shares are shown. In addition, the capital reserve contains amounts realized for conversion and option rights entitling holders to purchase shares when bonds and notes were issued.

c) Retained earnings

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; in the individual financial statements, the amounts assigned to this reserve may not be distributed. The overall amount of retained earnings shown in the balance sheet consists of €3m of legal reserves (previous year: €3m) and €4,162m (previous year: €3,380m[1)]) of other revenue reserves.

d) Revaluation reserve

The results of measuring the investments and securities portfolio – consisting of interest-bearing and dividend-based instruments – at fair value, with deferred taxes taken into consideration, are assigned to the revaluation reserve. Gains or losses appear in the income statement only when the asset has been disposed of or written off.

e) Measurement of cash flow hedges

The result of measuring effective hedges used in cash flow hedges appears, after deferred taxes have been taken into consideration, under this equity item.

f) Reserve from currency translation

The reserve from currency translation relates to translation gains and losses arising through the consolidation of capital accounts. Here exchange-rate differences are included that arise through the consolidation of subsidiaries and associated companies.

1) The year-ago figures have been adjusted to the changed rules (see Note 2)

(67) Conditional capital

Conditional capital is intended to be used for the issue of convertible bonds or bonds with warrants and also of profit-sharing certificates with conversion or option rights.

Changes in the Bank's conditional capital:

€m	Conditional capital **1.1.2005**	Additions	Expiring/ Used	Conditional capital **31.12.2005**	of which: used conditional capital	avai-lable lines
Convertible bonds/bonds with warrants/ profit-sharing rights	403	–	–	403	–	403
Total	**403**	**–**	**–**	**403**	**–**	**403**

As resolved by the AGM of May 30, 2003, the Bank's share capital has been conditionally increased by up to €403,000,000. Such conditional capital increase will only be effected to the extent that the holders or creditors of the convertible bonds, bonds with warrants or profit-sharing rights – carrying conversion or option rights – to be issued by May 30, 2008, by either Commerzbank Aktiengesellschaft or companies in which Commerzbank Aktiengesellschaft directly or indirectly holds a majority interest (group companies as defined in Art. 18, (1), AktG) exercise their conversion or option rights, or the holders or creditors of the convertible bonds or convertible profit-sharing rights to be issued by May 30, 2008 by either Commerzbank Aktiengesellschaft or companies in which Commerzbank Aktiengesellschaft directly or indirectly holds a majority interest (group companies as defined in Art. 18, (1), AktG) meet their obligation to exercise their conversion rights.

(68) Authorized capital

Date of AGM resolution	Original amount € m	Used in previous years for capital increases € m	Used in 2005 for capital increases € m	Authorization expired € m	Remaining amount € m	Date of expiry
31.05.2002	30	8	1	–	21	30.04.2007
12.05.2004	225	–	–	–	225	30.04.2009
12.05.2004	225	–	–	–	225	30.04.2009
12.05.2004	150	–	150	–	0	30.04.2009
Total	**630**	**8**	**151**	**–**	**471**	

The Board of Managing Directors is authorized to increase, with the approval of the Supervisory Board, the share capital of the Bank by April 30, 2007, through the issue of new no-par-value shares against cash, in either one or several tranches, by a maximum amount of altogether €20,694,262, thereby excluding the subscription rights of shareholders for the purpose of issuing these shares to the Bank's staff.

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

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

Furthermore, the Board of Managing Directors may, with the approval of the Supervisory Board, exclude shareholders' subscription rights insofar as the capital increase is made against contributions in kind for the purpose of acquiring companies or interests in companies.

The Board of Managing Directors is authorized, with the approval of the Supervisory Board, to increase the Company's share capital by April 30, 2009, through the issue of new no-par-value shares against cash, in either one or several tranches, but by a maximum amount of €1.80 (authorized capital 2004/III). The Board of Managing Directors may, with the approval of the Supervisory Board, exclude shareholders' subscription rights if the issue price of the new shares is not substantially lower than that of already listed shares offering the same conditions.

(69) The Bank's foreign-currency position

On December 31, 2005, the Commerzbank Group had the following foreign-currency assets and liabilities (excluding fair values of derivatives):

			31.12.2005			31.12.2004[1]	Change
			€ m			€ m	in %
	USD	PLN	GBP	Others	**Total**	**Total**	
Cash reserve	33	540	10	1,167	1,750	693	.
Claims on banks	10,589	694	1,840	2,992	16,115	21,095	–23.6
Claims on customers	20,791	2,471	2,434	7,151	32,847	31,074	5.7
Assets held for dealing purposes	3,681	1,641	1,241	1,220	7,783	8,597	–9.5
Investments and securities portfolio	9,132	178	857	2,413	12,580	8,430	49.2
Other balance-sheet items	2,662	169	771	1,817	5,419	5,353	1.2
Foreign-currency assets	**46,888**	**5,693**	**7,153**	**16,760**	**76,494**	**75,242**	**1.7**
Liabilities to banks	18,848	520	5,618	7,908	32,894	28,648	14.8
Liabilities to customers	9,616	4,314	2,120	4,092	20,142	24,988	–19.4
Securitized liabilities	9,879	346	1,201	3,080	14,506	10,828	34.0
Liabilities from dealing activities	3	298	–	89	390	1,253	–68.9
Other balance-sheet items	3,504	151	1,440	775	5,870	5,954	–1.4
Foreign-currency liabilities	**41,850**	**5,629**	**10,379**	**15,944**	**73,802**	**71,671**	**3.0**

Due to exchange-rate movements in the 2005 financial year, the consolidated balance-sheet total expanded by roughly €7bn (previous year: –€4bn). Total lending rose by €7bn (previous year: –€3bn).

1) The year-ago figures have been adjusted to the changed rules (see Note 2)

Notes to financial instruments

(70) Derivative transactions

A derivative is a financial instrument whose value is determined by a so-called underlying asset. The latter may be, for example, an interest rate, a commodity price, a share price, a currency rate or a bond price.

Most derivatives transactions involve OTC derivatives, whose nominal amount, maturity and price are agreed individually between the Bank and its counterparties. However, the Bank also concludes derivatives contracts on regulated stock exchanges. These are standardized contracts with standardized nominal amounts and settlement dates.

The nominal amount specifies the business volume traded by the Bank. On the other hand, the positive or negative fair values appearing in the tables are the costs which would be incurred by the Bank or the counterparty in order to replace the transactions.

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

For both regulatory reports and the internal measurement and monitoring of our credit commitments, we use such risk-reducing techniques only if we consider them enforceable under the respective legal system, should the business associate become insolvent. In order to check enforceability, we avail ourselves of legal opinions from various international law firms.

Similar to the master agreements are the collateral agreements (e.g. collateralization annex for financial futures contracts, Credit Support Annex), which we conclude with our business associates to secure the net claim or liability remaining after netting (receiving or furnishing of security). As a rule, this collateral management reduces credit risk by means of prompt – mostly daily or weekly – measurement and adjustment of the customer commitment.

On average, we achieve a credit-risk mitigation of 74.51% of the exposure for the derivatives contracts and collateral covered by the process of risk-reducing techniques.

In the credit derivatives area, we registered 15.64% higher volume than in the previous year. We employ these products which serve to transfer credit risk in both trading for arbitrage purposes and in the investment area for diversifying our loan portfolios. The following table illustrates our risk structure in terms of the various risk assets that have been hedged.

Breakdown, by reference assets

	31.12.2005 Nominal amounts		31.12.2004 Nominal amounts	
€ m	Protection bought	Protection sold	Protection bought	Protection sold
OECD central governments	2,511	2,674	2,663	2,705
OECD banks	5,922	6,111	4,570	5,217
OECD financial institutions	9,881	10,005	8,153	8,483
Other companies, private individuals	56,525	54,803	47,774	48,902
Non-OECD banks	95	37	9	–
Total	**74,934**	**73,630**	**63,169**	**65,307**

31.12.2005	Nominal amount				Fair value	
	Remaining lifetimes					
€ m	under 1 year	1-5 years	more than 5 years	total	positive	negative
Foreign-currency-based forward transactions						
OTC products	244,699	127,298	65,671	437,668	4,385	4,494
Foreign-exchange spot and forward contracts	146,531	9,970	160	156,661	1,674	1,692
Interest-rate and currency swaps	56,683	101,236	62,055	219,974	2,101	2,200
Currency call options	20,874	8,353	1,725	30,952	610	–
Currency put options	20,611	7,739	1,731	30,081	–	602
Other foreign-exchange contracts	–	–	–	–	–	–
Products traded on a stock exchange	489	19	–	508	–	–
Currency futures	489	19	–	508	–	–
Currency options	–	–	–	–	–	–
Total	**245,188**	**127,317**	**65,671**	**438,176**	**4,385**	**4,494**
Interest-based forward transactions						
OTC products	1,540,940	1,442,884	1,264,422	4,248,246	62,837	70,152
Forward-rate agreements	149,781	4,547	6	154,334	57	67
Interest-rate swaps	1,351,071	1,329,439	1,178,897	3,859,407	59,281	65,955
Call options on interest-rate futures	17,121	47,732	32,825	97,678	2,849	–
Put options on interest-rate futures	18,779	51,625	40,091	110,495	–	3,235
Other interest-rate contracts	4,188	9,541	12,603	26,332	650	895
Products traded on a stock exchange	59,170	21,211	–	80,381	–	–
Interest-rate futures	49,760	21,211	–	70,971	–	–
Interest-rate options	9,410	–	–	9,410	–	–
Total	**1,600,110**	**1,464,095**	**1,264,422**	**4,328,627**	**62,837**	**70,152**
Other forward transactions						
OTC products	47,183	162,409	14,407	223,999	6,049	6,893
Structured equity/index products	6,070	13,606	4,775	24,451	1,072	1,726
Equity call options	7,785	13,689	804	22,278	3,434	–
Equity put options	8,216	14,298	532	23,046	–	3,602
Credit derivatives	20,290	119,978	8,296	148,564	1,263	1,360
Precious metal contracts	4,822	838	–	5,660	280	205
Other transactions	–	–	–	–	–	–
Products traded on a stock exchange	50,458	44,186	3,139	97,783	–	–
Equity futures	5,077	–	–	5,077	–	–
Equity options	45,381	44,186	3,139	92,706	–	–
Other futures	–	–	–	–	–	–
Other options	–	–	–	–	–	–
Total	**97,641**	**206,595**	**17,546**	**321,782**	**6,049**	**6,893**
Total immatured forward transactions						
OTC products	1,832,822	1,732,591	1,344,500	4,909,913	73,271	81,539
Products traded on a stock exchange	110,117	65,416	3,139	178,672	–	–
Total	**1,942,939**	**1,798,007**	**1,347,639**	**5,088,585**	**73,271**	**81,539**

As of December 31, 2004, the figures were as follows:

31.12.2004	Nominal amount				Fair value	
	Remaining lifetimes					
€ m	under 1 year	1-5 years	more than 5 years	total	positive	negative
Foreign-currency-based forward transactions						
OTC products	268,282	119,157	61,901	449,340	9,578	9,878
Foreign-exchange spot and forward contracts	145,469	9,710	109	155,288	4,133	4,756
Interest-rate and currency swaps	70,117	96,329	58,577	225,023	4,644	4,294
Currency call options	26,605	7,386	1,612	35,603	801	–
Currency put options	26,091	5,732	1,603	33,426	–	828
Other foreign-exchange contracts	–	–	–	–	–	–
Products traded on a stock exchange	670	107	–	777	–	–
Currency futures	670	107	–	777	–	–
Currency options	–	–	–	–	–	–
Total	**268,952**	**119,264**	**61,901**	**450,117**	**9,578**	**9,878**
Interest-based forward transactions						
OTC products	1,273,623	1,236,339	1,014,175	3,524,137	61,408	68,737
Forward-rate agreements	135,079	2,673	–	137,752	87	77
Interest-rate swaps	1,094,167	1,116,192	927,596	3,137,955	58,120	64,985
Call options on interest-rate futures	17,549	43,085	32,095	92,729	2,558	–
Put options on interest-rate futures	22,275	49,001	38,165	109,441	–	2,786
Other interest-rate contracts	4,553	25,388	16,319	46,260	643	889
Products traded on a stock exchange	125,257	7,685	8,277	141,219	–	–
Interest-rate futures	52,889	3,864	2,495	59,248	–	–
Interest-rate options	72,368	3,821	5,782	81,971	–	–
Total	**1,398,880**	**1,244,024**	**1,022,452**	**3,665,356**	**61,408**	**68,737**
Other forward transactions						
OTC products	37,556	145,482	10,837	193,875	3,742	4,444
Structured equity/index products	4,238	11,988	1,086	17,312	758	1,162
Equity call options	9,202	9,567	508	19,277	1,238	–
Equity put options	11,157	10,800	774	22,731	–	1,534
Credit derivatives	8,553	111,713	8,210	128,476	1,451	1,501
Precious metal contracts	4,406	1,414	259	6,079	295	247
Other transactions	–	–	–	–	–	–
Products traded on a stock exchange	33,813	8,887	155	42,855	–	–
Equity futures	4,734	–	–	4,734	–	–
Equity options	29,079	8,887	155	38,121	–	–
Other futures	–	–	–	–	–	–
Other options	–	–	–	–	–	–
Total	**71,369**	**154,369**	**10,992**	**236,730**	**3,742**	**4,444**
Total immatured forward transactions						
OTC products	1,579,461	1,500,978	1,086,913	4,167,352	74,728	83,059
Products traded on a stock exchange	159,740	16,679	8,432	184,851	–	–
Total	**1,739,201**	**1,517,657**	**1,095,345**	**4,352,203**	**74,728**	**83,059**

Breakdown of derivatives business, by borrower group:

	31.12.2005 Fair value		31.12.2004 Fair value	
€ m	positive	negative	positive	negative
OECD central governments	695	414	1,137	380
OECD banks	46,474	54,672	50,259	57,708
OECD financial institutions	23,815	24,635	20,360	21,352
Other companies, private individuals	1,946	1,547	2,488	3,233
Non-OECD banks	341	271	484	386
Total	**73,271**	**81,539**	**74,728**	**83,059**

Fair values appear as the sum totals of the positive and negative amounts per contract, from which no pledged security has been deducted and no possible netting agreements have been taken into consideration. By definition, no positive fair values exist for put options.

(71) Use made of derivative financial instruments

	31.12.2005 Fair value		31.12.2004 Fair value	
€ m	positive	negative	positive	negative
Derivative financial instruments used for trading purposes	66,630	69,369	67,982	71,195
Hedging derivatives which cannot be employed in hedge accounting	1,907	2,331	2,826	3,211
Derivatives used as hedging instruments	4,734	9,839	3,920	8,653
for fair value hedge accounting	3,011	5,447	2,111	4,049
for cash flow hedge accounting	1,723	4,392	1,809	4,604
Total	**73,271**	**81,539**	**74,728**	**83,059**

In the above table, we show the use made of our derivative financial instruments. We use derivatives for both trading and hedging purposes. In Notes 6, 13, 14, 20 and 21, we have described the above-mentioned criteria.

(72) Market risk arising from trading activities

For the daily quantification and monitoring of market risk, especially that arising in proprietary trading, mathematical-statistical methods are used to calculate the value-at-risk. The underlying statistical parameters are based on an observation period of the past 255 trading days, a 10-day holding period and a confidence level of 99%. The value-at-risk models are constantly being adapted to the changing environment.

On the basis of the risk data, the Group manages the market risk for all operational units by a system of risk limits, primarily by means of limits for the potential risk (value-at-risk) and stress scenarios, as well as loss-review triggers.

The risk position of the Group's trading portfolio at year-end shows the value-at-risk, broken down by the various business lines engaged in proprietary trading. The value-at-risk shows the potential losses which will not be exceeded with a 99% degree of probability.

Risk position of the trading portfolio (Principle I risks):

Portfolio	Holding period Confidence level 99%	**31.12.2005** € m	**31.12.2004** € m
Group	10 days	39.2 *)	54.7 *)
Corporates & Markets (Securities)	10 days	26.1	50.7
Treasury department	10 days	22.1	12.4

*) The relatively low value-at-risk at Group level is the result of strong portfolio effects between the Corporates & Markets and Treasury departments.

(73) Interest-rate risk

The interest-rate risk of the Commerzbank Group results from items in both the trading book and the banking book. In the latter, interest-rate risk mainly arises through maturity mismatches between the Bank's interest-bearing assets and liabilities – for instance, through the short-term funding of long-dated loans. The interest-rate items shown in the balance sheet as well as the derivatives employed to steer them are included in the measurement of interest-rate risk.

The interest-rate risk of the banking book is measured on the basis of a net present value approach, applying the historical simulation method:

31.12.2005 **Portfolio**	Holding period	Banking book € m	Trading book Confidence level: 99% € m	Overall interest-rate risk € m
Group	10 days	103.78	30.15	101.19

31.12.2004 **Portfolio**	Holding period	Banking book € m	Trading book Confidence level: 99% € m	Overall interest-rate risk € m
Group	10 days	118.04	19.55	106.62

(74) Concentration of credit risk

Concentrations of credit risk may arise through business relations with individual borrowers or groups of borrowers who share a number of features and whose individual ability to service debt is influenced to the same extent by changes in certain overall economic conditions. These risks are managed by the Global Credit Operations department. Credit risk throughout the Group is monitored by the use of limits for each individual borrower and borrower unit, through the furnishing of the appropriate security and through the application of a uniform lending policy. In order to minimize credit risk, the Bank has entered into a number of master netting agreements ensuring the right to set off the claims on and liabilities to a client in the case of default by the latter or insolvency. In addition, the 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 financial instruments in the balance sheet were as follows on December 31, 2005:

	Claims	
€ m	**31.12.2005**	**31.12.2004**[1]
Customers in Germany	**112,607**	**109,613**
Companies and self-employed	43,906	45,253
Manufacturing	9,593	10,633
Construction	785	809
Distributive trades	4,849	5,140
Services, incl. professions and others	28,679	28,671
Public sector	29,744	26,980
Other retail customers	38,957	37,380
Customers abroad	**41,067**	**40,664**
Corporate and retail customers	37,332	36,211
Public sector	3,735	4,453
Sub-total	**153,674**	**150,277**
less valuation allowances	–5,161	–5,292
Total	**148,513**	**144,985**

1) The year-ago figures have been adjusted to the changed rules (see Note 2)

(75) Assets pledged as security

Assets in the amounts shown below were pledged as security for the following liabilities:

	31.12.2005	**31.12.2004**	Change
	€ m	€ m	in %
Liabilities to banks	76,850	60,973	26.0
Liabilities to customers	12,996	7,267	78.8
Liabilities from dealing activities	3,292	2,802	17.5
Total	**93,138**	**71,042**	**31.1**

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

	31.12.2005	**31.12.2004**	Change
	€ m	€ m	in %
Claims on banks and customers	15,871	12,994	22.1
Assets held for dealing purposes and investments and securities portfolio	77,498	58,460	32.6
Total	**93,369**	**71,454**	**30.7**

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

(76) Maturities, by remaining lifetime

€ m	Remaining lifetimes as of 31.12.2005 due on demand and unlimited lifetime	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years
Claims on banks	16,813	35,004	19,529	7,129	7,728
Claims on customers	14,646	28,858	14,052	40,286	55,832
Bonds and notes from the assets held for dealing purposes	–	1,995	1,641	9,453	8,991
Bonds, notes and other fixed-income securities held in investments and securities portfolio	14	3,809	5,327	24,823	43,566
Total	**31,473**	**69,666**	**40,549**	**81,691**	**116,117**
Liabilities to banks	15,191	84,680	13,318	4,747	11,964
Liabilities to customers	41,189	48,019	3,609	3,187	6,842
Securitized liabilities	4	18,877	17,295	49,638	11,106
Subordinated capital*)	–	548	637	4,146	1,974
Total	**56,384**	**152,124**	**34,859**	**61,718**	**31,886**

*) excl. deferred interest and discounts (€159m) and IAS measurement effects (€679m)

€ m	Remaining lifetimes as of 31.12.2004[1] due on demand and unlimited lifetime	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years
Claims on banks	20,877	38,316	13,356	6,661	7,509
Claims on customers	15,424	27,046	15,398	36,865	55,544
Bonds and notes from the assets held for dealing purposes	86	1,897	2,396	9,054	6,704
Bonds, notes and other fixed-income securities held in investments and securities portfolio	33	2,891	4,379	17,694	39,323
Total	**36,420**	**70,150**	**35,529**	**70,274**	**109,080**
Liabilities to banks	17,808	65,821	14,271	5,311	12,219
Liabilities to customers	36,482	55,645	3,094	3,308	6,535
Securitized liabilities	48	16,733	15,643	42,279	12,547
Subordinated capital*)	–	239	736	3,515	3,294
Total	**54,338**	**138,438**	**33,744**	**54,413**	**34,595**

*) excl. deferred interest (€273m) and IAS measurement effects (€819m)

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 recognized for each partial amount.

1) The year-ago figures have been adjusted to the changed rules (see Note 2)

(77) Fair value of financial instruments

The table below compares the fair values of the balance-sheet items with their book values. 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 for measurement purposes. For a large number of financial instruments, internal measurement models involving current market parameters were used in the absence of market prices. In particular, the net present-value method and option-price models were applied. Wherever claims on and liabilities to banks and customers had a remaining lifetime of less than a year, the fair value was considered for simplicity's sake to be that shown in the balance sheet.

	Fair value		Book value		Difference	
€ bn	**31.12.2005**	**31.12.2004** [1]	**31.12.2005**	**31.12.2004** [1]	**31.12.2005**	**31.12.2004** [1]
Assets						
Cash reserve	8.6	4.9	8.6	4.9	–	–
Claims on banks	86.2	86.7	86.2	86.7	0	0
Claims on customers	155.8	152.7	153.7	150.3	2.1	2.4
Hedging instruments	4.7	3.9	4.7	3.9	–	–
Assets held for dealing purposes	100.3	102.1	100.3	102.1	–	–
Investments and securities portfolio	86.2	72.2	86.2	72.2	–	–
Liabilities						
Liabilities to banks	129.9	115.4	129.9	115.4	0	0
Liabilities to customers	102.9	105.2	102.8	105.1	0.1	0.1
Securitized liabilities	97.5	87.8	96.9	87.3	0.6	0.5
Hedging instruments	9.8	8.7	9.8	8.7	–	–
Liabilities from dealing activities	75.0	80.0	75.0	80.0	–	–
Subordinated capital	8.1	8.9	8.1	8.9	–	–

In net terms, the difference between the book value and fair value, which can be seen as unrealized appreciation, amounted for all items to €1.4bn (previous year: €1.8bn) as of December 31, 2005. For covering these items, cash flow hedges are used for the most part. As of December 31, 2005, the measurement of cash flow hedges yielded a figure of –€1.1bn (previous year: –€1.2bn). As of both December 31, 2005 and December 31, 2004, the unrealized appreciation in interest-bearing assets and liabilities exceeded the negative measurement of cash flow hedges.

1) The year-ago figures have been adjusted to the changed rules (see Note 2)

(78) Information on financial assets and financial liabilities in fair value option category

The fair value option was used:

- to avoid or reduce accounting mismatches arising from securities and credits which were hedged with interest-rate or credit derivatives;
- for financial instruments (funds, securities and securitized liabilities, together with their related hedging instruments), whose management and performance is measured on a fair value basis in accordance with a documented risk-management or investment strategy.

As of December 31, 2005, the fair value of the financial assets assigned to the fair value option category was €1,258m (previous year: €417m) and that of the financial liabilities €294m (with a repayment amount of €289m). All told, the result of measurement was €21m (previous year: €0m).

The aggregate volume of claims assigned to the fair value option was €155m on December 31, 2005, €95m of which was hedged by derivatives. As of December 31, 2004, no claims were assigned to the fair value option.

For liabilities assigned to the fair value option, the change in fair value for credit-risk reasons was –€8m. As of December 31, 2004, no liabilities were assigned to the fair value option.

Other notes

(79) Subordinated assets

The following subordinated assets are included in the assets shown in the balance sheet:

	31.12.2005	31.12.2004	Change
	€ m	€ m	in %
Claims on banks	8	–	·
Claims on customers	127	127	0.0
Bonds and notes	230	205	12.2
Other variable-yield securities	245	344	–28.8
Total	**610**	**676**	**–9.8**
including: banks in which an equity investment exists	222	318	–30.2

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

(80) Off-balance-sheet commitments

	31.12.2005	31.12.2004	Change
	€ m	€ m	in %
Contingent liabilities	**27,521**	**24,541**	**12.1**
from rediscounted bills of exchange credited to borrowers	1	2	–50.0
from guarantees and indemnity agreements	27,520	24,539	12.1
Credit guarantees	3,490	3,869	–9.8
Other guarantees	15,110	12,653	19.4
Letters of credit	7,164	6,256	14.5
Other warranties	1,756	1,761	–0.3
Irrevocable lending commitments	**36,695**	**36,977**	**–0.8**
Book credits to banks	2,079	3,844	–45.9
Book credits to customers	33,383	29,813	12.0
Credits by way of guarantee	569	1,195	–52.4
Letters of credit	664	2,125	–68.8
Other commitments	**52**	**11**	**·**

In this table, provision for risks arising from off-balance-sheet commitments has been deducted from the respective items.

(81) Volume of managed funds

By type of managed fund, the assets which we manage break down as follows:

	31.12.2005		31.12.2004	
	Number of funds	Fund assets € bn	Number of funds	Fund assets € bn
Retail investment funds	438	53.7	479	48.1
Equity-based and mixed funds	240	28.5	313	26.0
Bond-based funds	109	9.9	123	10.3
Money-market funds	21	11.0	22	10.8
Other*)	68	4.3	21	1.0
Non-publicly-offered funds	1,480	28.5	1,377	25.8
Property-based funds	4	9.9	3	11.8
Total	**1,922**	**92.1**	**1,859**	**85.7**

*) includes fund-of-funds and retirement funds

The regional breakdown of the funds launched is shown in the following chart:

	31.12.2005		31.12.2004	
	Number of funds	Fund assets € bn	Number of funds	Fund assets € bn
Germany	371	43.7	397	43.7
United Kingdom	1,116	18.3	1,084	14.1
Other European countries	300	26.6	244	22.0
America	10	0.7	11	1.1
Other countries	125	2.8	123	4.8
Total	**1,922**	**92.1**	**1,859**	**85.7**

(82) Genuine repurchase agreements (repo and reverse repo transactions)

Under its genuine repurchase agreements, the Commerzbank Group sells or purchases securities with the obligation to repurchase or return them. The money equivalent deriving from repurchase agreements in which the Commerzbank Group is a borrower (obligation to take the securities back) is shown in the balance sheet as a liability to banks or customers.

The genuine repurchase agreements concluded up to the balance-sheet date break down as follows:

	31.12.2005 € m	31.12.2004 € m	Change in %
Genuine repurchase agreements as a borrower (repo agreements)			
Liabilities to banks	41,820	36,695	14.0
Liabilities to customers	12,674	15,764	–19.6
Total	**54,494**	**52,459**	**3.9**
Genuine repurchase agreements as a lender (reverse repo agreements)			
Claims on banks	42,329	35,436	19.5
Claims on customers	8,377	10,744	–22.0
Total	**50,706**	**46,180**	**9.8**

(83) Securities-lending transactions

Securities-lending transactions are conducted with other banks and customers in order to cover our need to meet delivery commitments or to enable us to effect securities repurchase agreements in the money market. We show lent securities in our balance sheet under our Trading portfolio or under Investments and securities portfolio, whereas borrowed securities do not appear in the balance sheet. The expenses and income from securities-lending transactions, insofar as they relate to the past financial year, were recognized under interest paid or received in the income statement and reflect the respective maturities.

	31.12.2005 € m	31.12.2004 € m	Change in %
Lent securities	7,173	10,618	–32.4
Borrowed securities	7,789	7,638	2.0

(84) Trust transactions at third-party risk

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

	31.12.2005 € m	31.12.2004 € m	Change in %
Claims on banks	8	4	·
Claims on customers	330	393	–16.0
Other assets	608	602	1.0
Assets on a trust basis at third-party risk	**946**	**999**	**–5.3**
Liabilities to banks	319	382	–16.5
Liabilities to customers	627	617	1.6
Liabilities on a trust basis at third-party risk	**946**	**999**	**–5.3**

(85) Risk-weighted assets and capital ratios as defined by the Basel capital accord (BIS)

Like other internationally active banks, the Commerzbank Group has committed itself to meeting the capital adequacy requirements contained in the currently valid version of the Basel accord. This imposes on banks a minimum requirement of 8% of own funds to risk-weighted assets (own funds ratio). A minimum requirement of 4% applies universally for the ratio between core capital and risk-weighted assets (core capital ratio).

Own funds are defined as liable capital that is made up of core and supplementary capital, plus Tier III capital. Core capital mainly consists of subscribed capital plus reserves and minority interests, less goodwill. Supplementary capital comprises outstanding profit-sharing certificates and subordinated long-term liabilities. Tier III capital consists of short-term subordinated liabilities.

The structure of the Commerzbank Group's capital in accordance with the Basel capital accord yields the following picture:

	31.12.2005 € m	31.12.2004 € m	Change in %
Core capital (Tier I)			
Subscribed capital	1,705	1,546	10.3
Reserves, minority interests, treasury shares	10,456	8,938	17.0
Hybrid capital	–	–	·
Other	–	–	·
Total	**12,161**	**10,484**	**16.0**
Supplementary capital (Tier II)			
Profit-sharing rights	1,870	2,073	–9.8
Reserves in securities (amount reported: 45%)	1,003	623	61.0
Subordinated liabilities	3,574	4,214	–15.2
Other	109	229	–52.4
Total	**6,556**	**7,139**	**–8.2**
Tier III capital	**–**	**–**	·
Eligible own funds according to BIS	**18,717**	**17,623**	**6.2**

as of 31.12.2005			Capital charges in %				**Total**
€ m	100	50	25	20	10	4	
Balance-sheet business	96,894	7,001	–	12,246	–	–	116,141
Traditional off-balance-sheet business	4,224	17,844	189	623	349	74	23,303
Derivatives business in investment portfolio	–	2,141	–	4,493	–	–	6,634
Risk-weighted assets, total	**101,118**	**26,986**	**189**	**17,362**	**349**	**74**	**146,078**
Risk-weighted market-risk position multiplied by 12.5							3,638
Total items to be risk-weighted							149,716
Eligible own funds							18,717
Core capital ratio (excluding market-risk position)							8.3
Core capital ratio (including market-risk position)							8.1
Own funds ratio (including market-risk position)							12.5

as of 31.12.2004			Capital charges in %				**Total**
€ m	100	50	25	20	10	4	
Balance-sheet business	89,855	6,787	–	11,253	–	–	107,895
Traditional off-balance-sheet business	3,776	15,474	84	755	286	55	20,430
Derivatives business in investment portfolio	–	2,467	–	4,115	–	–	6,582
Risk-weighted assets, total	**93,631**	**24,728**	**84**	**16,123**	**286**	**55**	**134,907**
Risk-weighted market-risk position multiplied by 12.5							4,838
Total items to be risk-weighted							139,745
Eligible own funds							17,623
Core capital ratio (excluding market-risk position)							7.8
Core capital ratio (including market-risk position)							7.5
Own funds ratio (including market-risk position)							12.6

Reconciliation of reported capital with eligible equity in accordance with BIS

31.12.2005 € m	Core capital/ Equity	Supplementary/ subordinated capital (excl. IAS effects and deferred interest)	Tier III capital	**Total**
Reported in balance sheet	13,650	7,305		20,955
Revaluation reserve	–1,995			–1,995
Measurement of cash flow hedges	1,069			1,069
Consolidated profit	–328			–328
Minority interests not to be shown in core capital (incl. revaluation reserve, measurement of cash flow hedges) and changes in consolidated companies and goodwill	–226			–226
Parts of subordinated capital not eligible due to limited remaining lifetime		–1,819		–1,819
Latent revaluation reserves for securities		1,003		1,003
General provisions/reserves for defaults		339		339
Other differences	–9	–272		–281
Eligible equity	**12,161**	**6,556**	**–**	**18,717**

(86) Liquidity ratio of Commerzbank Aktiengesellschaft (Principle II)

Pursuant to Art. 11, KWG, banks are obliged to invest their funds such that adequate liquidity for payment purposes is guaranteed at all times. They have to demonstrate that they have adequate liquidity in the form of a liquidity analysis (Principle II). Liquidity-weighted assets (claims, securities, etc.), structured to reflect their respective maturity brackets, are set off against certain liquidity-weighted balance-sheet and off-balance-sheet liabilities (liabilities, lending commitments), broken down by remaining lifetime. Every day, the ratio between the funds in the first maturity bracket (remaining life of up to one month) and the payment obligations which may fall due during this period has to reach a value of one. If the ratio registers this value, liquidity is considered to be adequate. As of December 31, 2005, the liquidity ratio worked out by Commerzbank Aktiengesellschaft was 1.13 (previous year: 1.14). Excess liquidity reached €17.2bn (previous year: €18.5bn).

Liquidity ratios of Commerzbank Aktiengesellschaft in 2005:

	Month-end level		Month-end level
January	1.16	July	1.17
February	1.17	August	1.17
March	1.10	September	1.17
April	1.12	October	1.15
May	1.16	November	1.16
June	1.20	December	1.13

(87) Securitization of credits

The use of credit derivatives (such as credit default swaps, total return swaps, and credit-linked notes) can reduce the risk weighting of a loan portfolio, whereby the hedging effect of a credit derivative may relate both to individual credits or securities and to entire portfolios of loans or securities. As a rule, security is furnished by means of a synthetic securitization (credit default swap) and/or by credit-linked notes. The hedging programmes launched by the Commerzbank Group are intended to ease the strain on regulatory capital.

By the end of the 2005 financial year, Commerzbank Aktiengesellschaft had launched six securitization programmes as the buyer of protection. The PanEuropean CLO securitization transaction was cancelled by Commerzbank Aktiengesellschaft per August 20, 2005, and Kaiserplatz K263 expired in the course of 2005 according to plan.

The time band (legal maturity date) stretches from eight to 33 years. All told, credits to customers of €7.1bn had been covered by end-December 2005. This eased the burden on the Bank's risk-weighted assets by €4.5bn.

Name of transaction	Year of conclusion	Duration of transaction in years (legal maturity date)	Type of claim	Size of credit €m	Reduction of risk-weighted assets €m	Buyer of protection
Residence 2000-1	2000	32	Private home loans	575	344	Commerzbank AG (CLN)
Residence 2000-1	2000	32	Private home loans	750	305	Commerzbank AG (CDS)
Residence 2001-1	2001	30	Private home loans	1,023	392	Commerzbank AG
Residence 2002-1	2002	33	Private home loans	1,058	1,027	Commerzbank AG
Residence 2002-2	2002	33	Private home loans	1,051	629	Commerzbank AG
Residence 2003-1	2003	33	Private home loans	1,125	682	Commerzbank AG
Promise C 2002-1	2002	8	Corporate loans	1,470	1,170	Commerzbank AG
				7,052	**4,549**	

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

	2005			2004		
	Total	male	female	total	male	female
Group	31,542	16,979	14,563	31,400	16,946	14,454
in Germany	24,014	11,935	12,079	24,055	11,965	12,090
abroad	7,528	5,044	2,484	7,345	4,981	2,364

The above figures include both full-time and part-time personnel. Not included in the figures is the average number of employees undergoing training within the Group. The average time worked by part-time staff is 60% (previous year: 55%) of the standard working time.

	Total		male		female	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
Trainees	1,173	1,292	467	502	706	790

(89) Remuneration and loans to board members

Apart from the fixed salary, the remuneration of the members of the Board of Managing Directors also comprises variable, performance-related components and those with a long-term incentive effect. All the remuneration components are determined by the Presiding Committee of the Supervisory Board. With effect from July 1, 2004, the Presiding Committee altered the remuneration structure of the members of the Board of Managing Directors.

With German commercial law and accounting provisions taken into consideration, €15,851 thousand has to be shown as overall remuneration for the members of the Board of Managing Directors in the 2005 financial year. This includes €651 thousand of remuneration in kind, which in tax terms has to be treated as benefits in money's worth. In the appropriate cases, the stated overall remuneration of the individual members of the Board of Managing Directors includes the fees paid with respect to the financial year for serving on the boards of consolidated subsidiaries (€483 thousand).

The following table presents the remuneration (fixed salary and variable remuneration) of the individual members of the Board of Managing Directors, subject to the annual financial statements of Commerzbank Aktiengesellschaft for the 2005 financial year being established in their present form and the Presiding Committee adopting the relevant resolution on variable remuneration for 2005.

2005 Name	Fixed salary in €1,000	Variable remuneration[2)] in €1,000	Overall amount for 2005 in €1,000
Klaus-Peter Müller	760	2,280	3,040
Martin Blessing	480	1,500	1,980
Wolfgang Hartmann	480	1,500	1,980
Dr. Achim Kassow	480	1,500	1,980
Andreas de Maizière[1)]	280	–	280
Klaus M. Patig	480	1,500	1,980
Dr. Eric Strutz	480	1,500	1,980
Nicholas Teller	480	1,500	1,980
Total	**3,920**	**11,280**	**15,200**

1) p.r.t. for the time up to resignation; 2) payable in 2006; less the already received fees paid for serving on the boards of subsidiaries (€483m).

The active members of the Board of Managing Directors have participated in the 2001-2005 long-term performance plans (LTPs) which are described in detail in Note 28 and represent a share-based form of compensation. In order to take part in the various plans, the members of the Board of Managing Directors have invested on the basis of individual decisions in up to 2,500 Commerzbank Aktiengesellschaft shares, the chairman in up to 5,000 Commerzbank Aktiengesellschaft shares per plan at current market prices.

The following table shows the number of shares (corresponding per share to a "virtual" option) per individual active member of the Board and per respective LTP as well as the fair values at the time the share-based payment was granted. The information relates to the participation of members of the Board of Managing Directors in their function as officers of the Bank. No payments under these plans were made in the 2005 financial year.

Long-term performance plans

	2001		**2002**		**2003**	
Name	Number of shares purchased	Fair value €	Number of shares purchased	Fair value €	Number of shares purchased	Fair value €
Klaus-Peter Müller	2,500	96,350	5,000	175,150	5,000	142,700
Martin Blessing	–		2,500	87,575	2,500	71,350
Wolfgang Hartmann	2,500	96,350	2,500	87,575	2,500	71,350
Dr. Achim Kassow	–		–		–	
Klaus M. Patig	1,000	38,540	–		–	
Dr. Eric Strutz	–		–		–	
Nicholas Teller	–		–		2,500	71,350

	2004		**2005**	
Name	Number of shares purchased	Fair value €	Number of shares purchased	Fair value €
Klaus-Peter Müller	5,000	120,900	5,000	137,300
Martin Blessing	2,500	60,450	2,500	68,650
Wolfgang Hartmann	2,500	60,450	2,500	68,650
Dr. Achim Kassow	–		2,500	68,650
Klaus M. Patig	–		–	
Dr. Eric Strutz	2,500	60,450	2,500	68,650
Nicholas Teller	2,500	60,450	2,500	68,650

Payments to former members of the Board of Managing Directors and their surviving dependents amounted to €7,756 thousand in the 2005 financial year. In the previous year, they had totalled €6,479 thousand. The figure for 2005 includes severance payments of €2,140 thousand in connection with a resignation from the Board of Managing Directors.

For present and former members of the Board of Managing Directors or their surviving dependents, the Bank has established a provision for old age, which was partially invested with Commerzbank Pension Trust e.V. in the 2005 financial year. The subsequently remaining provisions for pension commitments as of December 31, 2005, amounted to €4.2m for active members and €11.1m for former members of the Board of Managing Directors or their surviving dependents.

The pension obligations (defined-benefit obligations) for active and former members of the Board of Managing Directors or their surviving dependents amounted to €90.2m on December 31, 2005.

The transparency provisions of the German Corporate Governance Code (in the version of June 2, 2005) and the legal provisions of Art. 15a, of the German Securities Trading Act – WpHG require that transactions by the members of the Board of Managing Directors in Commerzbank shares and options be disclosed. Pursuant to both sets of regulations, purchases and disposals by members of the Board of Managing Directors have to be reported if they exceed €5,000 with a calendar year. The Bank publishes such information on its internet site. In the following table, the transactions subject to such disclosure requirements are presented in tabular form; see also the presentation in the Corporate Governance report.

Name	Day of trade **2005**	Description of securities	Type of transaction	Number of units	Price €
Klaus-Peter Müller	16.2.	Commerzbank AG shares	Buy	2,047	16.77
	16.2.	Commerzbank AG shares	Buy	2,953	16.78
	9.5.	Commerzbank AG shares	Buy	5,000	16.41
Martin Blessing	16.2.	Commerzbank AG shares	Buy	3,000	16.82
	3.5.	Commerzbank AG shares	Buy	3,000	16.34
	23.5.	Commerzbank AG shares	Buy	7,500	16.41
Dr. Achim Kassow	16.2.	Commerzbank AG shares	Buy	2,000	16.84
	3.5.	Commerzbank AG shares	Buy	2,000	16.28
	17.11.	Commerzbank AG shares	Buy	2,500	23.66
Dr. Eric Strutz	16.2.	Commerzbank AG shares	Buy	2,000	16.79
Nicholas Teller	25.5.	Commerzbank AG shares	Buy	2,500	16.35

The members of our Supervisory Board will receive remuneration of €1,394 thousand for the 2005 financial year (previous year: €1,054 thousand), provided that the AGM of Commerzbank Aktiengesellschaft resolves that a dividend of €0.50 be paid per no par-value share.

The remuneration of the members of the Supervisory Board is regulated by Art. 15 of the articles of association of Commerzbank Aktiengesellschaft and, in addition to attendance fees, is divided as follows between the individual members:

2005 Supervisory Board members	Basic remuneration[1)] in €1,000	Committee remuneration in €1,000	Total in €1,000
Dr. h.c. Martin Kohlhaussen	108	72	180
Uwe Tschäge	72	18	90
Hans-Hermann Altenschmidt	36	18	54
Dott. Sergio Balbinot	36	18	54
Herbert Bludau-Hoffmann	36	–	36
Astrid Evers	36	–	36
Uwe Foullong	36	–	36
Daniel Hampel	36	–	36
Dr.-Ing. Otto Happel	36	18	54
Dr. jur. Heiner Hasford	36	18	54
Sonja Kasischke	36	–	36
Wolfgang Kirsch	36	18	54
Werner Malkhoff	36	18	54
Klaus Müller-Gebel	36	54	90
Dr. Sabine Reiner	36	–	36
Dr. Erhard Schipporeit	36	–	36
Dr.-Ing. Ekkehard D. Schulz	36	–	36
Prof. Dr. Jürgen F. Strube	36	18	54
Dr. Klaus Sturany	36	–	36
Dr.-Ing. E.h. Heinrich Weiss	36	18	54
Total	**828**	**288**	**1,116**

1) This basic remuneration consists of a fixed portion (roughly 55.6%) and a variable portion dependent on the dividend payment (roughly 44.4%)

Altogether €277 thousand was paid in attendance fees for participation in the meetings of the Supervisory Board and its four committees (Presiding, Audit, Risk and Social Welfare Committees) which met in the year under review; this represents €1,500 per meeting attended. The turnover tax of €223 thousand to be paid on the overall remuneration of the members of the Supervisory Board is refunded by Commerzbank Aktiengesellschaft.

Purchases and disposals of Commerzbank shares and options by members of the Supervisory Board in excess of €5,000 overall during a calendar year have to be disclosed pursuant to Art. 15a, German Securities Trading Act – WpHG and the German Corporate Governance Code. In the 2005 financial year, this applied to the following transactions:

Name	Day of trade **2005**	Description of securities	Type of transaction	Number of units	Price €
Sonja Kasischke	12.4.	Commerzbank AG shares	Sell	300	17.88
Hans-Hermann Altenschmidt	9.9.	Commerzbank AG shares	Sell	530	22.50
Daniel Hampel	21.10.	Commerzbank AG shares	Buy	250	20.80

All told, the Board of Managing Directors and Supervisory Board held no more than 1% of the issued shares and option rights of Commerzbank Aktiengesellschaft on December 31, 2005.

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

	31.12.2005	31.12.2004
	€1,000	€1,000
Board of Managing Directors	3,591	4,141
Supervisory Board	1,601	1,703

Members of the Board of Managing Directors have been granted cash advances and loans with lifetimes ranging between until further notice and a due date of 2030 and at interest rates ranging between 2.89% and 11.00%. Collateral security is provided on a normal market scale, wherever necessary through land charges and pledging of security holdings. The overall figure (€3,591 thousand) includes rental guarantees of €23 thousand, provided without a commission fee being charged; this is in line with the Bank's general terms and conditions for members of staff.

The loans and advances to members of the Supervisory Board – including those to employee representatives on this body – were granted with lifetimes ranging between until further notice and a due date of 2031 and at interest rates ranging between 3.04% and 6.57%. In line with market conditions, some loans were granted without collateral security, against land charges or against the assignment of credit balances and life insurances.

(90) Share-based payments plans

In accordance with the transitional provisions of IFRS 2, we have applied the Standard retrospectively to all equity-settled plans after November 7, 2002, that were unvested as of January 1, 2005, and to all cash-settled plans existing on January 1, 2005.

For 2004, the change in accounting policy resulted in a net decrease in the net profit for the year of €31m. The balance sheet as of December 31, 2004, has been restated to reflect recognition of a provision of €45m for cash-settled plans and a share-based payments reserve (appearing under Equity) of €6m for equity-settled plans.

For 2005, total expenses of €77m were recognized for employee services received during the year. The portion of these expenses arising from equity-settled plans is €4m, while for cash-settled plans it is €73m. As of December 31, 2005, the share-based payments reserve in Equity amounted to €7m and the provision that was formed €109m.

In the following, more information is provided on the long-term performance plans (LTPs) and the staff remuneration plans/stock option programmes within the Jupiter International Group plc (JIG). In addition to the LTPs and the plans at JIG, further subsidiaries of the Commerzbank Group offer their staff share-based remuneration plans. The overall expenditure for these plans was €6m in 2005. As of December 31, 2005, provisions of €8m and a reserve of €2m were recognized in Equity.

Long-term performance plans

As of January 1, 2005, there were five plans outstanding. The terms and conditions of the LTPs are described in Note 28 of this annual report. Three of these LTP awards were made prior to November 7, 2002, and in accordance with the transitional provisions in IFRS 2, the accounting principles have not been applied to the portions of the plans 50% of which are equity-settled. A further grant on similar terms was made to the eligible employee groups on April 1, 2005.

For the equity-settled portion of the LTPs (50%), the estimated fair values (per option right) at the respective grant dates are as follows:

Type	Date of grant	Fair value per award at grant date in euros
LTP2003	April 1, 2003	28.54
LTP2004	April 1, 2004	24.18
LTP2005	April 1, 2005	27.46

For the cash-settled portion of the LTPs (50%), the estimated fair values as of December 31, 2005, are as follows:

Type	Date of grant	Fair value per option right on 31.12.2005 in euros	31.12.2004 in euros
LTP2001	April 1, 2001	0.01	0.07
LTP2002	April 1, 2002	44.54	10.22
LTP2003	April 1, 2003	99.35	93.11
LTP2004	April 1, 2004	76.10	25.67
LTP2005	April 1, 2005	62.36	–

Further details on the long-term performance plans – both the equity-settled and the cash-settled plans – outstanding during the year:

	2005	**2004**
	Number of awards	Number of awards
Outstanding at beginning of year	**771,600**	**631,000**
Granted during the year	222,350	198,550
Forfeited during the year	38,250	57,950
Vested during the year	–	–
Expired during the year	62,050	–
Outstanding at year-end	**893,650**	**771,600**

No awards expired during the year. The remaining expected lives of the awards outstanding at year-end vary from 0.3 years to 2.3 years.

The fair values of the LTP awards are calculated using the Monte Carlo model. The inputs into the model were as follows:

	Equity-settled portion Parameters at grant date			Cash-settled portion Parameters at balance-sheet date	
	1.4.2005	**1.4.2004**	**1.4.2003**	**31.12.2005**	**31.12.2004**
Volatility of the Commerzbank share price	43%	49%	47%	23%-29%	14%-43%
Volatility of the Euro Stoxx Banks Index	22%	28%	28%	10%-12%	6%-21%
Correlation of Commerzbank share price to Index	81%	83%	80%	57%-68%	40%-80%
Commerzbank dividend yield	3.7%	2.6%	2.0%	1.9%-2.4%	1.6%-3.3%
Dividend yield of DJ Euro Stoxx Banks Index	2.2%	2.2%	3.3%	2.3%	2.3%
Risk-free interest rate	2.7%	2.7%	2.8%	2.7%-2.8%	2.0%-2.6%

The volatility and the correlation were determined by calculating the historical volatility of Commerzbank's share price and the Dow Jones Stoxx Banks Index and their correlation over the period up to the date of measurement, taking into account the remaining expected life of the awards. A rate of 5% p.a. was assumed for staff turnover.

For 2005, the expenses recognized for the services performed by staff amounted to €15m. The portion of the expenses related to equity-settled plans is €3m and that related to cash-settled plans €12m. As of December 31, 2005, the reserve (in Equity) for equity-based plans was €5m and the provision which had been formed €20m.

Staff remuneration/share option plans of Jupiter International Group

As of January 1, 2005, there were four plans outstanding. The terms and conditions of these are described in Note 28 of this annual report. Two further plans on similar terms were offered to the eligible employee groups on May 6, 2005. In accordance with IFRS 2, all the plans are recognized as cash-settled.

Details of the plans outstanding during the year:

	2005		2004	
	Number of awards	Weighted average exercise price in euros	Number of awards	Weighted average exercise price in euros
Outstanding at beginning of year	**21,057,999**	**3.57**	**16,011,019**	**3.13**
Granted during the year	5,679,235	7.66	5,046,980	5.00
Forfeited during the year	940,264	5.14	–	–
Exercised during the year	4,574,384	2.02	–	–
Expired during the year	–	–	–	–
Outstanding at year-end	**21,222,586**	**4.93**	**21,057,999**	**3.58**
Exercisable at year-end	4,503,147	2.02	4,616,416	2.02

The weighted average fair value of D and E options/awards granted during the year was €4.95 (2004: €3.73). The share value on the exercise date for the C shares exercised in 2005 was €7.12.

The following table provides details on the awards outstanding at year-end, dependent upon the respective exercise prices for the awards/options:

Exercise price in euros	2.02	4.99	7.66
Number of outstanding awards	5,370,969	10,342,382	5,509,235
Weighted average fair value in euros	7.83	6.45	4.95
Weighted average remaining contractual life	1 year	2.1 years	3.7 years

The fair values of the plans are calculated at each balance-sheet date, using an actuarial binominal model. The inputs into the model were as follows:

	2005	2004
C share value (in euros)	10.30	7.12
D and E share value (in euros)	11.10	7.68
Expected volatility (in %)	33.0	44.0
Risk-free interest rate (in %)	4.2	4.3-4.5

As Jupiter is not a listed company, no historical volatility is available. Volatility has been assumed, therefore, on the basis of an average historical volatility of comparable listed shares and for the expected remaining life of the options.

In 2005, the expenses recognized for the services performed by staff amounted to €56m. As of December 31, 2005, the provision which had been formed was €81m.

(91) Other commitments

Commitments towards companies both outside the Group and not included in the consolidation for uncalled payments on shares in private limited-liability companies issued but not fully paid amount to €2m (previous year: €4m).

The Bank is responsible for the payment of assessments of up to €173m to Liquiditäts-Konsortialbank (Liko) GmbH, Frankfurt am Main, the "lifeboat" institution of the German banking industry. The individual banking associations have also declared themselves responsible for the payment of assessments to Liko. To cover such assessments, Group companies have pledged to Liko that they will meet any payment in favour of their respective associations.

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

Obligations towards futures and options exchanges and also towards clearing centres, for which securities have been deposited as collateral, amount to €802m (previous year: €1,235m).

Our subsidiaries Caisse Centrale de Réescompte S.A., Paris, and COMINVEST Asset Management S.A., Luxembourg, have provided performance guarantees for selected funds.

The Group's existing obligations arising from rental and leasing agreements – buildings, office furniture and equipment – will lead to expenses of €261m in 2006, €187m per year in 2007-2009, and €179m as from 2010.

(92) Letter of comfort

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

Name	Seat
BRE Bank Hipoteczny SA	Warsaw
BRE Bank SA	Warsaw
BRE Leasing Sp. z o.o.	Warsaw
Caisse Centrale de Réescompte, S.A.	Paris
CCR Actions	Paris
CCR Chevrillon-Philippe	Paris
CCR Gestion	Paris
comdirect bank Aktiengesellschaft	Quickborn
COMINVEST Asset Management GmbH	Frankfurt am Main
COMINVEST Asset Management Ltd.	Dublin
COMINVEST Asset Management S.A.	Luxembourg
Commerz (East Asia) Ltd.	Hong Kong
Commerz Advisory Management Co. Ltd.	British Virgin Islands
Commerz Asset Management (UK) plc	London
Commerz Asset Management Asia Pacific Pte Ltd.	Singapore
Commerz Equity Investments Ltd.	London
Commerz International Capital Management (Japan) Ltd.	Tokyo
Commerzbank (Eurasija) SAO	Moscow
Commerzbank (South East Asia) Ltd.	Singapore
Commerzbank (Switzerland) Ltd	Zurich
Commerzbank Asset Management Asia Ltd.	Singapore
Commerzbank Belgium S.A./N.V.	Brussels
Commerzbank Capital Markets Corporation	New York
Commerzbank Europe (Ireland)	Dublin
Commerzbank Europe Finance (Ireland) plc	Dublin
Commerzbank International S.A.	Luxembourg
Commerzbank Overseas Finance N.V.	Curaçao
Commerzbank Rt.*)	Budapest
CommerzLeasing und Immobilien AG	Düsseldorf
Erste Europäische Pfandbrief- und Kommunalkreditbank Aktiengesellschaft in Luxemburg	Luxembourg
European Bank for Fund Services GmbH (ebase)	Haar near Munich
Gracechurch TL Ltd.	London
Hypothekenbank in Essen AG	Essen
Intermarket Bank AG	Vienna
Jupiter Administration Services Limited	London
Jupiter Asset Management (Asia) Limited	Hong Kong
Jupiter Asset Management (Bermuda) Limited	Bermuda
Jupiter Asset Management Limited	London
Jupiter Asset Managers (Jersey) Limited	Jersey
Jupiter International Group plc	London
Jupiter Unit Trust Managers Limited	London

*) renamed Commerzbank Zrt. as from January 2, 2006

Name	Seat
OLEANDRA Grundstücks-Vermietungsgesellschaft mbH&Co., Objekt Jupiter KG	Düsseldorf
OLEANDRA Grundstücks-Vermietungsgesellschaft mbH&Co., Objekt Luna KG	Düsseldorf
OLEANDRA Grundstücks-Vermietungsgesellschaft mbH&Co., Objekt Neptun KG	Düsseldorf
OLEANDRA Grundstücks-Vermietungsgesellschaft mbH&Co., Objekt Pluto KG	Düsseldorf
OLEANDRA Grundstücks-Vermietungsgesellschaft mbH&Co., Objekt Uranus KG	Düsseldorf
OLEANDRA Grundstücks-Vermietungsgesellschaft mbH&Co., Objekt Venus KG	Düsseldorf
P.T. Bank Finconesia	Jakarta
Stampen S.A.	Brussels
Transfinance a.s.	Prague
Tyndall Holdings Limited	London
Tyndall International Holdings Limited	Bermuda
Tyndall Investments Limited	London
Tyndall Trust International I.O.M. Limited	Isle of Man

(93) Corporate Governance Code

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

Boards of Commerzbank Aktiengesellschaft

Supervisory Board

Dr. Walter Seipp
Honorary Chairman

Dr. h.c. Martin Kohlhaussen
Chairman

Uwe Tschäge*)
Deputy Chairman

Hans-Hermann Altenschmidt*)

Dott. Sergio Balbinot

Herbert Bludau-Hoffmann*)

Astrid Evers*)

Uwe Foullong*)

Daniel Hampel*)

Dr.-Ing. Otto Happel

Dr. jur. Heiner Hasford

Sonja Kasischke*)

Wolfgang Kirsch*)

Werner Malkhoff*)

Klaus Müller-Gebel

Dr. Sabine Reiner*)

Dr. Erhard Schipporeit

Dr.-Ing. Ekkehard D. Schulz

Prof. Dr. Jürgen F. Strube

Dr. Klaus Sturany

Dr.-Ing. E.h. Heinrich Weiss

Board of Managing Directors

Klaus-Peter Müller
Chairman

Martin Blessing

Wolfgang Hartmann

Dr. Achim Kassow

Andreas de Maizière
(until July 15, 2005)

Klaus M. Patig

Dr. Eric Strutz

Nicholas Teller

*) elected by the Bank's employees

Holdings in affiliated and other companies

Affiliated companies included in the consolidation

Name	Seat	Share of capital held in %	of which: indirectly in %		Equity in 1,000
Atlas-Vermögensverwaltungs-Gesellschaft mbH	Bad Homburg v.d.H.	100.0		€	1,006,924
ATBRECOM Limited	London	100.0	100.0	€	758
BRE Bank Hipoteczny SA	Warsaw	100.0	100.0	Zl	165,395
TOMO Vermögensverwaltungs-gesellschaft mbH	Frankfurt am Main	100.0	100.0	€	22,778
Zweite Umbra Vermögensverwaltungs-gesellschaft mbH	Frankfurt am Main	100.0	100.0	€	51
CB Building Kirchberg GmbH*)	Düsseldorf	100.0	6.0	€	–647
Commerz (East Asia) Ltd.	Hong Kong	100.0		€	45,245
Commerz Asset Management (UK) plc	London	100.0		£	180,495
Jupiter International Group plc (sub-group)	London	100.0	100.0	£	190,613
Jupiter Asset Management Limited	London	100.0	100.0		
Jupiter Unit Trust Managers Limited	London	100.0	100.0		
Tyndall Holdings Limited	London	100.0	100.0		
Jupiter Administration Services Limited	London	100.0	100.0		
Tyndall Investments Limited	London	100.0	100.0		
Tyndall International Holdings Limited	Bermuda	100.0	100.0		
Jupiter Asset Management (Asia) Limited	Hong Kong	100.0	100.0		
Jupiter Asset Management (Bermuda) Limited	Bermuda	100.0	100.0		
Jupiter Asset Managers (Jersey) Limited	Jersey	100.0	100.0		
Tyndall Trust International I.O.M. Limited	Isle of Man	100.0	100.0		
Real Estate Holdings Limited**)	Bermuda	100.0	100.0		
Lanesborough Limited	Bermuda	55.7	55.7		
NALF Holdings Limited	Bermuda	100.0	100.0		
The New Asian Property Fund Limited	Bermuda	99.4	99.4		
Commerz Asset Management Holding GmbH	Frankfurt am Main	100.0		€	415,000
COMINVEST Asset Management GmbH	Frankfurt am Main	100.0	100.0	€	47,001
COMINVEST Asset Management Ltd.	Dublin	100.0	100.0	€	3,827
COMINVEST Asset Management S.A.	Luxembourg	100.0	100.0	€	73,205
Commerz Asset Management Asia Pacific Pte Ltd.	Singapore	100.0	100.0	S$	22,733
Commerz Advisory Management Co. Ltd.	British Virgin Islands	100.0	100.0	TWD	615,730
Commerzbank Asset Management Asia Ltd.	Singapore	100.0	100.0	S$	43,658
Commerz International Capital Management (Japan) Ltd.	Tokyo	100.0	100.0	¥	567,434
European Bank for Fund Services GmbH (ebase)	Haar near Munich	100.0	100.0	€	22,231
CBG Commerz Beteiligungsgesellschaft Holding mbH	Bad Homburg v.d.H.	100.0		€	6,137
CBG Commerz Beteiligungsgesellschaft mbH	Frankfurt am Main	100.0	100.0	€	13,318
CBG Commerz Beteiligungskapital GmbH*)	Frankfurt am Main	100.0	100.0	€	1,138
Commerz Business Consulting AG	Frankfurt am Main	100.0		€	2,375
Commerz Equity Investments Ltd.	London	100.0		£	1,120

Affiliated companies included in the consolidation

Name	Seat	Share of capital held in %	of which: indirectly in %		Equity in 1,000
Commerz Grundbesitzgesellschaft mbH	Wiesbaden	100.0		€	138,344
Commerz Grundbesitz-Investmentgesellschaft mbH	Wiesbaden	75.0	75.0	€	34,705
Commerz Grundbesitz-Spezialfondsgesellschaft mbH	Wiesbaden	100.0	100.0	€	7,486
Commerz Securities (Japan) Company Ltd. i.L.	Hong Kong/Tokyo	100.0		¥	5,281,265
Commerz Service Gesellschaft für Kundenbetreuung mbH	Quickborn	100.0		€	26
Commerzbank (Eurasija) SAO	Moscow	100.0		Rbl	4,385,634
Commerzbank (Nederland) N.V.	Amsterdam	100.0		€	180,153
Commerzbank (South East Asia) Ltd.	Singapore	100.0		€	56,372
Commerzbank Auslandsbanken Holding AG	Frankfurt am Main	100.0		€	2,505,125
BRE Bank SA (sub-group)	Warsaw	71.5	71.5	Zl	2,108,470
BRE Finance France SA*)	Levallois Perret	100.0	100.0		
BRE Leasing Sp. z o.o.	Warsaw	100.0	100.0		
Dom Inwestycyjny BRE Banku SA*)	Warsaw	100.0	100.0		
Intermarket Bank AG	Vienna	56.2	56.2		
Magyar Factor Rt.*)	Budapest	100.0	100.0		
Polfactor SA*)	Warsaw	100.0	100.0		
PTE Skarbiec – Emerytura SA	Warsaw	100.0	100.0		
Skarbiec Asset Management Holding SA (sub-group)	Warsaw	100.0	100.0		
BRE Agent Transferowy Sp. z o.o.*)	Warsaw	100.0	100.0		
SKARBIEC Towarzystwo Funduszy Inwestycyjnych S.A.*)	Warsaw	100.0	100.0		
SKARBIEC Investment Management SA*)	Warsaw	100.0	100.0		
SKARBIEC Serwis Finansowy Sp. z o.o.*)	Warsaw	100.0	100.0		
Transfinance a.s.	Prague	100.0	100.0		
Caisse Centrale de Réescompte, S.A.	Paris	99.4	99.4	€	172,879
CCR Actions	Paris	92.6	92.6	€	6,342
CCR Chevrillon-Philippe	Paris	87.0	87.0	€	4,141
CCR Gestion	Paris	100.0	100.0	€	7,898
Commerzbank (Switzerland) Ltd	Zurich	100.0	100.0	Sfr.	203,441
Commerzbank International S.A.	Luxembourg	100.0	100.0	€	754,739
Max Lease S.a.r.l. & Cie. Secs*)	Luxembourg	100.0	100.0	€	154
Commerzbank Belgium S.A./N.V.	Brussels	100.0		€	8,238
Commerzbank Capital Markets Corporation	New York	100.0		US$	181,129
Commerzbank Europe (Ireland)	Dublin	61.0	41.0	€	532,325
Commerzbank Europe Finance (Ireland) plc	Dublin	100.0	100.0	€	49
Commerzbank Immobilien- und Vermögens-verwaltungsgesellschaft mbH	Frankfurt am Main	100.0		€	10,030
Commerzbank Inlandsbanken Holding AG	Frankfurt am Main	100.0		€	3,843,258
comdirect bank Aktiengesellschaft	Quickborn	79.9	79.9	€	578,145
comdirect private finance AG	Quickborn	100.0	100.0		
Commerzbank Overseas Finance N.V.	Curaçao	100.0		€	1,050
Commerzbank Rt.***)	Budapest	100.0		Ft.	17,846,930
Commerzbank U.S. Finance, Inc.*)	Wilmington/Delaware	100.0		US$	783

Affiliated companies included in the consolidation

Name	Seat	Share of capital held in %	of which: indirectly in %		Equity in 1,000
CommerzLeasing und Immobilien AG	Düsseldorf	100.0	94.5	€	86,823
ALMURUS Grundstücks-Vermietungsgesellschaft mbH*)	Düsseldorf	100.0	100.0	€	9,004
ASTRIFA Mobilien-Vermietungsgesellschaft mbH	Düsseldorf	100.0	100.0	€	25
CFB Commerz Fonds Beteiligungsgesellschaft mbH	Düsseldorf	100.0	100.0	€	26
CFB Verwaltung und Treuhand GmbH	Düsseldorf	100.0	100.0	€	26
COBA Vermögensverwaltungsgesellschaft mbH	Düsseldorf	100.0	100.0	€	26
CommerzImmobilien GmbH	Düsseldorf	100.0	100.0	€	12,936
CommerzBaucontract GmbH	Düsseldorf	100.0	100.0	€	52
CommerzBaumanagement GmbH	Düsseldorf	100.0	100.0	€	52
CommerzBaumanagement GmbH und CommerzImmobilienGmbH GbR – Neubau Molegra	Düsseldorf	100.0	100.0	€	414
CommerzLeasing Mobilien GmbH	Düsseldorf	100.0	100.0	€	8,349
CommerzLeasing Auto GmbH	Düsseldorf	100.0	100.0	€	281
CommerzLeasing Mietkauf GmbH	Düsseldorf	100.0	100.0	€	26
Hansa Automobil Leasing GmbH	Hamburg	100.0	100.0	€	7,488
ComSystems GmbH	Düsseldorf	98.0	98.0	€	–2,317
FABA Vermietungsgesellschaft mbH	Düsseldorf	95.0	95.0	€	–567
NESTOR GVG mbH & Co. Objekt ITTAE Frankfurt KG	Düsseldorf	100.0	95.0	€	–2,933
NORA GVG mbH & Co. Objekt Lampertheim KG*)	Düsseldorf	95.0	95.0	€	–765
NORA GVG mbH & Co. Objekte Plön und Preetz KG*)	Düsseldorf	90.0	90.0	€	–850
NOVELLA GVG mbH	Düsseldorf	100.0	100.0	€	8,960
SECUNDO GVG mbH	Düsseldorf	100.0	100.0	€	3,144
CORECD Commerz Real Estate Consulting and Development GmbH	Berlin	100.0		€	1,000
Erste Europäische Pfandbrief- und Kommunal-kreditbank Aktiengesellschaft in Luxemburg	Luxembourg	75.0		€	69,962
Gracechurch TL Ltd.	London	100.0		€	772
Hibernia Eta Beteiligungsgesellschaft mbH*)	Frankfurt am Main	85.0		€	51,172
Hibernia Gamma Beteiligungsgesellschaft mbH*)	Frankfurt am Main	100.0		€	169,030
Hypothekenbank in Essen AG	Essen	51.0		€	801,651
TIGNATO Beteiligungsgesellschaft mbH & Co. KölnTurm MediaPark KG*)	Düsseldorf	100.0	100.0	€	1,617
OLEANDRA Grundstücks-Vermietungsgesellschaft mbH&Co., Objekt Jupiter KG	Düsseldorf	100.0		€	17,400
OLEANDRA Grundstücks-Vermietungsgesellschaft mbH&Co., Objekt Luna KG	Düsseldorf	100.0		€	2,582
OLEANDRA Grundstücks-Vermietungsgesellschaft mbH&Co., Objekt Neptun KG	Düsseldorf	100.0		€	9,319
OLEANDRA Grundstücks-Vermietungsgesellschaft mbH&Co., Objekt Pluto KG	Düsseldorf	100.0		€	16,551
OLEANDRA Grundstücks-Vermietungsgesellschaft mbH&Co., Objekt Uranus KG	Düsseldorf	100.0		€	26,578
OLEANDRA Grundstücks-Vermietungsgesellschaft mbH&Co., Objekt Venus KG	Düsseldorf	100.0		€	13,675
P.T. Bank Finconesia	Jakarta	51.0		Rp.	212,649,238
Service-Center Inkasso GmbH Düsseldorf	Düsseldorf	100.0		€	128
Stampen S.A.	Brussels	99.4		€	11,248

*) first consolidated in 2005; **) renamed: "Tyndall International Group Limited" has been transformed into "Real Estate Holdings Limited"; ***) renamed Commerzbank Zrt. as from January 2, 2006

Associated companies included in the consolidation at equity

Name	Seat	Share of capital held in &	of which: indirectly in %		Equity in 1,000
Alon Technology Ventures Limited	British Virgin Islands	40.1	40.1	€	9,857
Capital Investment Trust Corporation	Taipei/Taiwan	24.0	4.8	TWD	1,520,838
Commerz Unternehmensbeteiligungs-Aktiengesellschaft	Frankfurt am Main	40.0		€	116,761
COMUNITHY Immobilien AG	Düsseldorf	49.9	49.9	€	–8,780
Deutsche Schiffsbank Aktiengesellschaft	Bremen/Hamburg	40.0	40.0	€	413,905
Eurohypo Aktiengesellschaft	Eschborn	48.9	48.9	€	5,592,292
ILV Immobilien-Leasing Verwaltungs-gesellschaft Düsseldorf mbH	Düsseldorf	50.0	47.0	€	29,983
Prospect Poland UK, L.P.	St. Helier/Jersey	39.5	1.6	US$	1,423
Reederei MS „E.R. INDIA" Beteiligungsgesellschaft mbH & Co.KG*)	Hamburg	26.1	26.1	€	15,557
Tele-Tech Investment Sp. z o.o.*)	Warsaw	24.0	24.0	Zl	994

*) first included in 2005

Special-purpose entities and non-publicly-offered funds included in the consolidation pursuant to IAS 27 and SIC-12

Name	Seat/ seat of management company	Share of capital held or share of investor in fund in %		Equity or fund's assets in 1,000
Special-purpose entities				
Al Shorouq 1 Limited*)	St. Helier/Jersey	0.0	£	1
CB MezzCAP Limited Partnership*)	St. Helier/Jersey	0.0	€	0
Comas Strategy Fund Limited*)	Grand Cayman	0.0	US$	0
Four Winds Funding Corporation	Wilmington/Delaware	0.0	US$	326
Hanging Gardens 1 Limited	Grand Cayman	0.0	€	7
Kaiserplatz Gesellschaften		0.0	€	4,054
Kaiserplatz Holdings Incorporated*)	Wilmington/Delaware			
Kaiserplatz Funding (Delaware) LLC*)	Wilmington/Delaware			
Kaiserplatz Holdings Limited*)	St. Helier/Jersey			
Kaiserplatz Funding Limited*)	St. Helier/Jersey			
Kaiserplatz Sub-Holdings Limited*)	St. Helier/Jersey			
Kaiserplatz Purchaser No. 2 Limited*)	St. Helier/Jersey			
Kaiserplatz Purchaser No. 3 Limited*)	St. Helier/Jersey			
Kaiserplatz Purchaser No. 4 Limited*)	St. Helier/Jersey			
Kaiserplatz Purchaser No. 5 Limited*)	St. Helier/Jersey			
Kaiserplatz Purchaser No. 6 Limited*)	St. Helier/Jersey			
Kaiserplatz Purchaser No. 9 Limited*)	St. Helier/Jersey			
Kaiserplatz Purchaser No. 10 Limited*)	St. Helier/Jersey			
Kaiserplatz Purchaser No. 11 Limited*)	St. Helier/Jersey			
Kaiserplatz Purchaser No. 13 Limited*)	St. Helier/Jersey			

*) first consolidated in 2005

Special-purpose entities and non-publicly-offered funds included in the consolidation pursuant to IAS 27 and SIC-12

Name	Seat/ seat of management company	Share of capital held or share of investor in fund in %		Equity or fund's assets in 1,000
MidCABS Limited*)	St. Helier/Jersey			
Premium Receivables Intermediate Securisation Entity Funding Limited*)	London			
Mainz Holdings Limited*)	St. Helier/Jersey			
Sword Funding No. 1 Limited*)	St. Helier/Jersey			
KREATIV 1 Limited*)	St. Helier/Jersey	0.0	€	0
Plymouth Capital Limited	St. Helier/Jersey	0.0	€	45
Portland Capital Limited*)	St. Helier/Jersey	0.0	£	10
Ryder Square Limited*)	St. Helier/Jersey	0.0	£	1
Shannon Capital plc*)	Dublin	0.0	€	0
Non-publicly-offered funds				
Activest Grugafonds	Munich	100.0	€	106,463
CDBS-Cofonds	Frankfurt am Main	100.0	€	106,703
CDBS-Cofonds II	Frankfurt am Main	100.0	€	99,988
CDBS-Cofonds III*)	Frankfurt am Main	100.0	€	102,038
CDBS-Cofonds IV*)	Frankfurt am Main	100.0	€	89,905
OP-Fonds CDBS V*)	Frankfurt am Main	100.0	€	90,363
CICO-Fonds I	Frankfurt am Main	100.0	€	186,880
CICO-Fonds II	Frankfurt am Main	100.0	€	250,521
Commerzbank Alternative Strategies-Global Hedge	Luxembourg	100.0	€	59,278
DBI-Fonds HIE 1	Frankfurt am Main	100.0	€	116,588
DBI-Fonds HIE 2*)	Frankfurt am Main	100.0	€	109,915
DBI-Fonds HIE 3*)	Frankfurt am Main	100.0	€	109,851
DEGEF-Fonds HIE 1	Frankfurt am Main	100.0	€	116,407
DEGEF-Fonds HIE 2*)	Frankfurt am Main	100.0	€	100,000
DEVIF-Fonds Nr. 533	Frankfurt am Main	100.0	€	110,267
DEVIF-Fonds Nr. 606*)	Frankfurt am Main	100.0	€	109,000
HIE-Cofonds I	Frankfurt am Main	100.0	€	115,993
HIE-Cofonds II	Frankfurt am Main	100.0	€	118,482
HIE-Cofonds III-N*)	Frankfurt am Main	100.0	€	111,376
HIE-Cofonds IV-N*)	Frankfurt am Main	100.0	€	111,380
HIE-Cofonds V-N*)	Frankfurt am Main	100.0	€	111,396

*) first consolidated in 2005

Other major companies not included in the consolidation

Name	Seat	Share of capital held in %	of which: indirectly in %		Equity in 1,000
ALNO Aktiengesellschaft	Pfullendorf	20.6		€	31,068

Currency translation rates
(in units for €1)

Ft.	252.87000	Sfr.	1.55510
¥	138.90000	S$	1.96280
£	0.68530	TWD	38.86000
Rbl	33.92000	US$	1.17970
Rp.	11,596.45000	Zl	3.86000

Frankfurt am Main, March 7, 2006
The Board of Managing Directors

group auditors' report

We have audited the consolidated financial statements prepared by Commerzbank Aktiengesellschaft, Frankfurt am Main, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2005. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the Parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, March 8, 2006

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Rausch	Steinrück
(Wirtschaftsprüfer)	(Wirtschaftsprüfer)
(German public auditor)	(German public auditor)

Financial statements of the Commerzbank Group 2004 (audited)

financial statements in accordance with international accounting standards (ias) / international financial reporting standards (ifrs) for the commerzbank group as of december 31, 2004

Notes

Notes

income statement

	Notes	1.1.–31.12.2004 € m	1.1.–31.12.2003 € m	Change in %
Interest received		11,352	11,767	–3.5
Interest paid		8,361	8,991	–7.0
Net interest income	(29)	2,991	2,776	7.7
Provision for possible loan losses	(11, 30, 49)	–836	–1,084	–22.9
Net interest income after provisioning		2,155	1,692	27.4
Commissions received		2,587	2,505	3.3
Commissions paid		337	369	–8.7
Net commission income	(31)	2,250	2,136	5.3
Net result on hedge accounting	(32)	6	40	–85.0
Trading profit	(33)	539	737	–26.9
Net result on investments and securities portfolio (available for sale)	(34)	361	291	24.1
Operating expenses	(35)	4,461	4,511	–1.1
Other operating result	(36)	193	174	10.9
Operating profit		**1,043**	**559**	**86.6**
Regular amortization of goodwill	(37)	83	110	–24.5
Profit from ordinary activities before restructuring expenses and expenses arising from special factors		**960**	**449**	·
Restructuring expenses	(38)	132	104	26.9
Expenses arising from special factors	(39)	–	2,325	·
Profit from ordinary activities after restructuring expenses and expenses arising from special factors		**828**	**–1,980**	·
Extraordinary profit		–	–	–
Pre-tax profit		**828**	**–1,980**	·
Taxes on income	(40)	353	249	41.8
After-tax profit		**475**	**–2,229**	·
Profit/loss attributable to minority interests		–82	–91	–9.9
Net profit/net loss	(41)	**393**	**–2,320**	·

Appropriation of profit	2004	2003	Change
	€ m	€ m	in %
Net profit/net loss	393	–2,320	·
Allocation to retained earnings/ Transfer from capital reserve	–243	2,320	·
Consolidated profit	**150**	**0**	·

The consolidated profit represents the distributable profit of Commerzbank Aktiengesellschaft. The proposal will be made to the AGM that a dividend of €0.25 per share be paid from the net profit. With 598,586,929 shares issued, this translates into an overall payout of €150m. Last year, no dividend payment was made.

Basic earnings per share		2004	2003	Change
	Notes	€	€	in %
Earnings/loss per share	(41)	0.66	–4.26	·

The calculation of the earnings/loss per share according to IAS is based on the net profit or the net loss, with minority interests not taken into consideration. There were no diluted earnings per share since – as in the previous year – no conversion or option rights were outstanding.

balance sheet

Assets	Notes	31.12.2004 €m	31.12.2003 €m	Change in %
Cash reserve	(9, 44)	4,888	7,429	–34.2
Claims on banks	(10, 45, 47, 48)	79,359	51,657	53.6
Claims on customers	(10, 46, 47, 48)	135,625	138,438	–2.0
Provision for possible loan losses	(11, 49)	–5,305	–5,510	–3.7
Positive fair values from derivative hedging instruments	(13, 50)	3,920	2,552	53.6
Assets held for dealing purposes	(14, 51)	102,081	87,628	16.5
Investments and securities portfolio	(15, 48, 52, 55)	94,207	87,842	7.2
Intangible assets	(16, 53, 55)	801	802	–0.1
Fixed assets	(17, 18, 54, 55)	1,766	2,063	–14.4
Tax assets	(24, 56)	5,811	6,038	–3.8
Other assets	(57)	1,726	2,646	–34.8
Total		**424,879**	**381,585**	**11.3**

Liabilities and equity	Notes	31.12.2004 €m	31.12.2003 €m	Change in %
Liabilities to banks	(19, 47, 58)	115,430	95,249	21.2
Liabilities to customers	(19, 47, 59)	105,064	100,000	5.1
Securitized liabilities	(19, 60)	87,250	83,992	3.9
Negative fair values from derivative hedging instruments	(20, 61)	8,653	5,932	45.9
Liabilities from dealing activities	(21, 62)	80,006	67,014	19.4
Provisions	(22, 23, 63)	3,357	3,307	1.5
Tax liabilities	(24, 64)	3,893	4,495	–13.4
Other liabilities	(65)	1,280	1,881	–32.0
Subordinated capital	(25, 66)	8,876	9,411	–5.7
Minority interests		1,269	1,213	4.6
Equity	(27, 68, 69, 70)	9,801	9,091	7.8
Subscribed capital	(68)	1,546	1,545	0.1
Capital reserve	(68)	4,475	4,475	0.0
Retained earnings	(68)	3,433	3,286	4.5
Revaluation reserve	(15, 68)	1,603	1,240	29.3
Measurement of cash flow hedges	(6, 68)	–1,214	–1,236	–1.8
Reserve from currency translation	(7, 68)	–192	–219	–12.3
Consolidated profit		150	0	.
Total		**424,879**	**381,585**	**11.3**

statement of changes in equity

€ m	Sub-scribed capital	Capital reserve	Retained earnings	Reval-uation reserve	Valuation of cash flow hedges	Reserve from currency translation	Consoli-dated profit/ loss	**Total**
Equity as of 1.1.2003	**1,378**	**6,131**	**3,268**	**–769**	**–1,248**	**–6**	**54**	**8,808**
Capital increase	139	603						742
Issue of shares to employees	6	8						14
Transfer from capital reserve		–2,320						–2,320
Dividend payment							–54	–54
Net changes in revaluation reserve				2,009				2,009
Net changes arising from cash flow hedges					12			12
Changes in treasury shares	22	53						75
Changes in companies included in consolidation and other changes			18			–213		–195
Equity as of 31.12.2003	**1,545**	**4,475**	**3,286**	**1,240**	**–1,236**	**–219**	**0**	**9,091**
Issue of shares to employees	2	8						10
Consolidated profit							150	150
Allocation to retained earnings			243					243
Net changes in revaluation reserve				363				363
Net changes arising from cash flow hedges					22			22
Changes in treasury shares	–1	–8						–9
Changes in companies included in consolidation and other changes			–96			27		–69
Equity as of 31.12.2004	**1,546**	**4,475**	**3,433**	**1,603**	**–1,214**	**–192**	**150**	**9,801**

As of December 31, 2004, the subscribed capital of Commerzbank Aktiengesellschaft stood at €1,556m pursuant to the Bank's articles of association; it is divided into 598,586,929 no-par-value shares (notional value per share: €2.60). After the 4,103,289 treasury shares held by the Bank on December 31, 2004, are deducted, its subscribed capital amounts to €1,546m.

The Bank made use of the authorization resolved by the Annual General Meeting of May 12, 2004 to purchase its own shares for the purpose of securities trading, pursuant to Art. 71, (1), no. 7, German Stock Corporation Act – AktG. Gains and losses from trading in the Bank's own shares do not appear in the income statement.

No use was made in the 2004 financial year of the resolution of the Annual General Meeting of May 12, 2004, authorizing the Bank to repurchase its own shares pursuant to Art. 71, (1), no. 8, AktG, for purposes other than securities trading.

Other changes in retained earnings, the revaluation reserve and the valuation of cash flow hedges relate to changes in equity at associated companies which, in accordance with IAS 28, have to be shown on a pro-rata basis with no effect on the income statement.

Changes in minority interests

€ m	Minority interests	Reval-uation reserve	Valuation of cash flow hedges	Reserve from currency translation	Gains/ losses	**Total**
Minority interests as of 1.1.2003	**1,043**	**334**	**–132**	**–12**	**29**	**1,262**
Capital increases	17					17
Allocation of profit/ offsetting of loss from net result for the year	–21				21	0
Takeover of minority interests by the Group	–85	2		–5		–88
Distributions					–50	–50
Profits/losses 2003					91	91
Net changes in revaluation reserve		–23				–23
Net changes arising from cash flow hedges			9			9
Changes in companies included in consolidation and other changes	24			–29		–5
Minority interests as of 31.12.2003	**978**	**313**	**–123**	**–46**	**91**	**1,213**
Capital increases	72					72
Allocation of profit/ offsetting of loss from net result for the year	6				–6	0
Distributions					–85	–85
Profits/losses 2004					82	82
Net changes in revaluation reserve		53				53
Net changes arising from cash flow hedges			–74			–74
Changes in companies included in consolidation and other changes	–29			37		8
Minority interests as of 31.12.2004	**1,027**	**366**	**–197**	**–9**	**82**	**1,269**

cash flow statement

	2004 € m	2003 € m
Net profit	**393**	**–2,320**
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 to fixed and other assets, changes in provisions and net changes due to hedge accounting	1,551	929
Change in other non-cash positions:		
Positive and negative fair values from derivative financial instruments (trading and hedging derivatives)	2,997	1,248
Profit from the sale of assets	–361	–291
Profit from the sale of fixed assets	–15	4
Other adjustments (mainly net interest income)	–3,308	–2,299
Sub-total	**1,257**	**–2,729**
Change in assets and liabilities from operating activities after correction for non-cash components:		
Claims on banks	–27,702	2,686
Claims on customers	2,813	10,076
Securities held for dealing purposes	–2,931	12,519
Other assets from operating activities	203	–2,603
Liabilities to banks	20,181	–19,735
Liabilities to customers	5,064	4,300
Securitized liabilities	3,258	–8,740
Other liabilities from operating activities	–358	4,272
Interest and dividends received	11,352	11,767
Interest paid	–8,361	–8,991
Income tax paid	–483	–145
Net cash provided by operating activities	**4,293**	**2,677**
Proceeds from the sale of:		
Investments and securities portfolio	39,742	48,593
Fixed assets	285	424
Payments for the acquisition of:		
Investments and securities portfolio	–45,806	–52,351
Fixed assets	–505	–317
Effects of changes in the group of companies included in the consolidation		
Payments from the acquisition of subsidiaries	–3	68
Net cash used by investing activities	**–6,287**	**–3,583**
Proceeds from capital increases	1	831
Dividends paid	0	–54
Other financing activities (net)	–535	–856
Net cash provided by financing activities	**–534**	**–79**
Cash and cash equivalents at end of previous period	**7,429**	**8,466**
Net cash provided by operating activities	4,293	2,677
Net cash used by investing activities	–6,287	–3,583
Net cash provided by financing activities	–534	–79
Effects of exchange-rate changes on cash and cash equivalents	–13	–52
Cash and cash equivalents at end of period	**4,888**	**7,429**

The cash flow statement shows the structure of and changes in cash and cash equivalents during the financial year. It is broken down into operating activities, investing activities and financing activities.

Under net cash provided by operating activities, payments (inflows and outflows) from claims on banks and customers and also securities from the trading portfolio and other assets are shown. Additions to and disposals from liabilities to banks and customers, securitized liabilities and other liabilities also belong to operating activities. The interest and dividend payments resulting from operating activities are similarly reflected in the net cash provided by operating activities.

The net cash used by investing activities shows payments for the investments and securities portfolio as well as for fixed assets and payments for the acquisition of subsidiaries. The effects of changes in the list of consolidated companies are also recognized under this item.

The net cash provided by financing activities covers the proceeds from capital increases as well as payments received and made with regard to subordinated capital. Distributed dividends are also shown here.

We consider cash and cash equivalents to be the Cash reserve, consisting of 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 far as banks are concerned, the cash flow statement can be considered not very informative. For us, the cash flow statement replaces neither liquidity planning nor financial planning, nor do we look upon it as a steering instrument.

notes

Consolidated accounting principles

Our consolidated financial statements as of December 31, 2004 were prepared in accordance with the directives 83/349/EEC (directive on consolidated financial statements) and 86/635/EEC (directive on annual accounts of banks) on the basis of the International Accounting Standards (IAS) – or the International Financial Reporting Standards (IFRS) – approved and published by the International Accounting Standards Board (IASB) and with their interpretation by the Standing Interpretations Committee (SIC), or International Financial Reporting Interpretation Committee (IFRIC). A summary of the regulations that have been applied can be found on pages 101-102. The necessary compliance with the directive on the annual accounts of banks was achieved through the appropriate structuring of the items balance sheet, income statement and the notes. Pursuant to Art. 292a, German Commercial Code (HGB), these consolidated financial statements prepared in accordance with the IAS/IFRS exempt the Bank from the need to prepare financial statements according to German accounting principles. We have presented the main differences between IAS/IFRS financial statements and those prepared in accordance with German accounting rules on pages 115 to 116 of this report.

The consolidated financial statements also reflect the standards approved by the German Accounting Standards Board (GASB) and published by the German Federal Ministry of Justice pursuant to Art. 342, (2), HGB.

In addition to the consolidated balance sheet and the consolidated income statement, the consolidated financial statements also include a statement of changes in equity and in minority interests, a cash flow statement and the notes. Segment reporting appears in the notes on pages 124-132.

The separate report on the risks related to future developments (Risk report pursuant to Art. 315, (1), HGB) appears on pages 54-87.

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

Accounting and measurement methods

(1) Basic principles

The consolidated financial statements are based on the going concern principle. Income and expenses are recognized on a pro-rata temporis basis; they are shown for the period to which they may be assigned in economic terms.

As in previous years, we applied IAS 39 (2000), together with the different classification and measurement principles prescribed by this standard, in our accounting in the 2004 financial year. In order to reflect the different rules of this standard, financial assets and financial liabilities have been assigned to the following categories:

1. Loans and claims originated by the Bank.
2. Financial assets held to maturity.
3. Financial assets held for trading (Assets held for dealing purposes) and certain financial liabilities (Liabilities from dealing activities).
4. Available-for-sale financial assets.
5. Other financial liabilities.

The detailed rules for hedge accounting are applied in the case of derivative hedging instruments (further details may be found in note 6).

All the companies included in the consolidation prepared their financial statements as of December 31, 2004.

Uniform accounting and measurement methods are applied throughout the Commerzbank Group in preparing the financial statements.

(2) Changes in the method of disclosure
In the past financial year, we maintained the recognition, measurement and disclosure methods in accordance with F39 of the IAS/IFRS framework. This had no effect on the recognition and measurement methods of previous periods.

(3) IAS, SIC, GASB rules applied
As a matter of principle, we apply all the valid standards in our accounting and measurement. The amended IAS 32 and 39 as well as the changes to 13 standards initiated by the improvement project, valid as from 2005, have not been taken into consideration in the present financial statements. We have also ignored IFRS 2, 4 and 5, as they do not have to be applied before January 1, 2005. We have applied IFRS 3 since April 1, 2004, insofar as it affected the treatment of new goodwill.

Pursuant to the regulation (EC) No 1606/2002 of the European Parliament and of the Council of July 19, 2002, the IAS/IFRS must be applied by all publicly traded companies in the European Union from January 1, 2005 onwards. However, the Commission did not take over IAS 39 with the current wording of the IASB. Certain provisions relating to the application of the unrestricted fair value option and hedge accounting were excluded.

The 2004 consolidated financial statements are based on the IASB framework and the following relevant IAS/IFRS:

IAS 1	Presentation of financial statements
IAS 7	Cash flow statements
IAS 8	Net profit or loss for the period, fundamental errors and changes in accounting policies
IAS 10	Events after the balance-sheet date
IAS 12	Income taxes
IAS 14	Segment reporting
IAS 16	Property, plant and equipment
IAS 17	Leases
IAS 18	Revenue
IAS 19	Employee benefits
IAS 21	The effects of changes in foreign-exchange rates
IAS 22	Business combinations
IAS 23	Borrowing costs
IAS 24	Related party disclosures
IAS 27	Consolidated financial statements and accounting for investments in subsidiaries
IAS 28	Accounting for investments in associates
IAS 30	Disclosures in the financial statements of banks and similar financial institutions
IAS 31	Financial reporting of interests in joint ventures
IAS 32	Financial instruments: disclosure and presentation
IAS 33	Earnings per share
IAS 36	Impairment of assets
IAS 37	Provisions, contingent liabilities and contingent assets
IAS 38	Intangible assets
IAS 39	Financial instruments: recognition and measurement
IAS 40	Investment property
IFRS 3	Business combinations[1)]

1) complete application for acquired companies as from April 1, 2004

We have not taken into consideration IFRS 1 and IAS 2, 11, 15, 20, 26, 29, 34, 35 and 41, as they are either not relevant for our institution or did not have to be applied in the consolidated financial statements.

For IAS 40, recognition has been made at cost, as is permitted under this rule.

In addition to the standards mentioned, we have also taken into consideration in our consolidated financial statements the following interpretations of SIC or IFRIC that are relevant for us:

		relates to
SIC-2	Consistency – capitalization of borrowing costs	IAS 23
SIC-3	Elimination of unrealized profits and losses on transactions with associates	IAS 28
SIC-5	Classification of financial instruments – contingent settlement provisions	IAS 32
SIC-6	Costs of modifying existing software	IASC framework
SIC-7	Introduction of the euro	IAS 21
SIC-9	Business combinations – classification either as acquisitions or unitings of interests	IAS 22
SIC-12	Consolidation – special-purpose entities	IAS 27
SIC-15	Operating leases – incentives	IAS 17
SIC-16	Share capital – reacquired own equity instruments (treasury shares)	IAS 32
SIC-17	Equity – costs of an equity transaction	IAS 32
SIC-18	Consistency – alternative methods	IAS 1
SIC-20	Equity accounting method – recognition of losses	IAS 28
SIC-21	Income taxes – recovery of revalued non-depreciable assets	IAS 12
SIC-24	Earnings per share – financial instruments and other contracts that may be settled in shares	IAS 33
SIC-25	Income taxes – changes in the tax status of an enterprise or its shareholders	IAS 12
SIC-27	Evaluating the substance of transactions in the legal form of a lease	IAS 1, 17, 18
SIC-28	Business combinations – "date of exchange" and fair value of equity instruments	IAS 22
SIC-30	Reporting currency – translation from measurement currency to presentation currency	IAS 21, 29
SIC-32	Intangible assets – web site costs	IAS 38
SIC-33	Consolidation and equity method – potential voting rights and allocation of ownership interests	IAS 27, 28, 39

The SIC, or IFRIC, interpretations 1, 10, 11, 13, 14, 19, 22, 23, 29 and 31 were irrelevant for our consolidated financial statements and did not, therefore, have to be taken into consideration.

In addition, in the present consolidated financial statements, the following German Accounting Standards (GAS) have been taken into consideration, which had to be applied and had been approved by the German Accounting Standards Board (GASB) and announced by the German Federal Ministry of Justice up to December 31, 2004, in accordance with Art. 342, (2), HGB:

GAS 1	Exempting consolidated financial statements in accordance with §292a, HGB
GAS 1a	Exempting consolidated financial statements in accordance with §292a, HGB – goodwill and other non-current intangible assets
GAS 2	Cash flow statements
GAS 2-10	Cash flow statements of financial institutions
GAS 3	Segment reporting
GAS 3-10	Segment reporting of banks
GAS 4	Purchase accounting in consolidated financial statements
GAS 5	Risk reporting
GAS 5-10	Risk reporting by financial enterprises
GAS 7	Presenting equity in consolidated financial statements
GAS 8	Accounting for investments in associates
GAS 9	Financial reporting of interests in joint ventures
GAS 10	Deferred taxes and consolidated financial statements
GAS 11	Related-party disclosure
GAS 12	Non-current intangible assets
GAS 13	Consistency principle and correction of errors
GAS 14	Currency translation

Changes in accounting rules in the 2005 financial year

As of January 1, 2005, several changes in accounting rules become effective, which we will already apply in our report as of March 31, 2005. Our financial statements will then be based on the IAS/IFRS rules which were taken over by the EU Commission in the course of the endorsement process (EU-IFRS financial statements). The changes include all the accounting rules altered by the IASB improvement project (13 existing International Accounting Standards) insofar as they affect the financial statements within our Group and also the revised versions of IAS 32 and IAS 39. In addition, we will apply in full IFRS 2, 4 and 5 for the first time and IFRS 3 as well as IAS 36 and 38, which have been revised on the basis of IFRS 3.

Insofar as they were recognized by the EU Commission, we will apply the changes to IAS 39 approved by the IASB in March 2004 in preparing our financial statements.

(4) Consolidated companies

The consolidated financial statements include in addition to the Parent Bank 98 subsidiaries (102 in 2003), in which Commerzbank AG holds more than 50% of the capital directly or indirectly, or exerts control over them. Of these, 46 have their legal seat in Germany (45 in 2003) and 52 (57 in 2003) elsewhere.

162 subsidiaries and associated companies (156 in 2003) of minor significance for the Group's asset and financial position and earnings performance have not been included; instead, they have been shown under Investments and securities portfolio as holdings in subsidiaries or investments. These companies account for less than 0.3% (0.1% in 2003) of the Group's overall balance-sheet total.

The Commerzbank Group has five sub-groups:

- CommerzLeasing und Immobilien AG, Düsseldorf
- Jupiter International Group plc, London
- comdirect bank AG, Quickborn
- Commerz Asset Management Holding GmbH, Frankfurt
- Commerz Grundbesitzgesellschaft mbH, Wiesbaden

which have presented sub-group financial statements.

The following four subsidiaries – two of them based in Germany – were included in the consolidation for the first time in the year under review:

- ComSystems GmbH, Düsseldorf
- Commerz Grundbesitz-Spezialfondsgesellschaft mbH, Wiesbaden
- PTE Skarbiec-Emerytura SA, Warsaw
- Skarbiec Asset Management Holding SA, Warsaw

In addition to the 98 (102 in 2003) subsidiaries, we included in the 2004 financial year the following four (2003: four) special-purpose entities and 14 (2003: 13) non-publicly-offered funds in our consolidated financial statements in accordance with IAS 27 and SIC-12.

The inclusion of these special-purpose entities has no major effects on the presentation of the Group's asset and financial position or earnings performance.

The following companies have been removed from the list of consolidated companies:

- CCR Gestion Internationale, Paris[1)]
- comdirect ltd., London
- CommerzProjektconsult GmbH, Frankfurt am Main
- Jupiter Asset Management (Jersey) Limited i.L., Jersey
- Montgomery Asset Management, LLC, San Francisco/Wilmington
- Commerz Futures, LLC, Wilmington/Delaware
- Commerz Capital Markets (Eastern Europe) a.s., Prague
- Commerz Europe (Ireland) Inc., Wilmington/Delaware

Nine major associated companies (eleven in 2003) – five of them based in Germany (2003: eight) – are measured using the equity method. As a major associated company, our equity holding in Eurohypo Aktiengesellschaft, Eschborn, is included in the consolidated financial statements, as it was in previous years.

The following companies have been removed from the list of associated companies:

- ComSystems GmbH, Düsseldorf
- IMMOPOL GmbH & Co. KG, Munich
- Second Interoceanic GmbH, Hamburg

ComSystems GmbH, Düsseldorf, shown at equity last year has been fully consolidated in the CommerzLeasing und Immobilien GmbH, Düsseldorf sub-group since December 31, 2004.

A complete list of the subsidiaries, associated companies and special-purpose entities and non-publicly-offered funds included in our consolidated financial statements can be found on pages 178-181.

(5) Principles of consolidation

For the consolidation of the capital accounts, we evaluate the assets and liabilities of the subsidiary completely afresh, regardless of the percentage share of its equity which we held at the time of acquisition. With deferred taxes taken into consideration, the revalued assets and liabilities are included in the consolidated balance sheet; the realized hidden reserves are treated in accordance with the standards which have to be applied in subsequent reporting periods. If a positive difference remains after revaluation, this is shown as goodwill and amortized in a way that reflects its probable useful economic life. Goodwill was amortized for the last time as of December 31, 2004. As from January 1, 2005, the new rules of IFRS 3 apply.

Claims and liabilities deriving from business relations between Group companies, as well as expenses and income, are eliminated as part of the consolidation of earnings; intra-Group book gains or losses registered during the financial year are eliminated unless they are of minor importance.

Associated companies are measured according to the equity method and are shown as investments in associated companies under Investments and securities portfolio. The purchase cost of these investments and the goodwill are determined at the time of their first inclusion in the consolidated financial statements, applying the same rules as for subsidiaries. The equity book value which is carried and either appears or does not appear in the income statement is based on the financial statements of associated companies that are prepared in accordance with local accounting rules or on auxiliary calculations of the associated company, prepared and audited in accordance with our instructions pursuant to IAS/IFRS rules.

1) CCR Gestion Internationale, Paris has been merged with CCR Gestion, Paris.

Holdings in subsidiaries not consolidated because of their marginal significance and investments are shown at their fair value, or if this cannot be reliably established, at cost under Investments and securities portfolio.

(6) Financial instruments: recognition and measurement (IAS 39)

In accordance with IAS 39, all financial assets and liabilities – which also includes derivative financial instruments – have to be shown in the balance sheet. For this purpose, the entire portfolio has to be broken down into various groups and measured in accordance with the respective classification.

The following remarks present an overview of how we have applied the rules of this standard within our Group:

a) Categorization of financial assets and liabilities and their measurement

- Loans and claims originated by the Bank:
  Loans granted directly to the borrower and claims due directly from the borrower are assigned to this category. They are measured at amortized cost. Premiums and discounts appear under Net interest income over the entire lifetime.

- Held-to-maturity financial assets:
  Non-derivative financial assets with a fixed maturity may be included in this category if they cannot be assigned to the "Loans and claims originated by the Bank" category and if both the intent and the ability exist to hold them to final maturity. They are measured at amortized cost, with premiums and discounts being recognized under Net interest income over the entire lifetime to maturity. The Commerzbank Group has not used the "Held-to-maturity financial assets" category with respect to the 2004 financial year either.

- Assets held for dealing purposes and Liabilities from dealing activities:
  All financial assets which are held for dealing purposes are assigned to this class. These include original financial instruments (especially interest-bearing securities, equities and promissory notes), precious metals and derivative financial instruments with a positive fair value.

  All financial liabilities from dealing activities are assigned to this class. These include derivative financial instruments insofar as they have a negative fair value and delivery obligations arising from short sales of securities.

  In accordance with IAS 39, derivative financial instruments are classified as part of the trading portfolio insofar as they do not qualify as hedging derivatives used in hedge accounting.

  Assets held for dealing purposes and liabilities from dealing activities are measured at their fair value on the balance-sheet date. Measurement gains and losses appear under Trading profit in the income statement.

- Available-for-sale financial assets:
  All non-derivative financial assets not covered by one of the above classes are assigned to this category. Primarily, these are interest-bearing securities, equities, promissory notes and investments. This group is also referred to as the available-for-sale portfolio.

  They are initially measured at cost and subsequently at their fair value. After deferred taxes have been taken into consideration, measured gains and losses are recognized with no effect on the income statement in a separate equity item (revaluation reserve). If the financial asset is sold, the cumulative valuation previously recognized in the revaluation reserve is released and shown in the income statement. Should the asset's value be permanently impaired, the revaluation reserve has to be reduced by the amount of the impairment, and this amount has to be reflected in the income statement. If the fair value cannot be reliably ascertained, measurement is made at amortized cost. Premiums and discounts are recognized under Net interest income over the entire lifetime.

- Other financial liabilities:
  These include all original financial liabilities, especially liabilities to banks and customers and also securitized liabilities. Measurement is made at amortized cost. Premiums and discounts are recognized under Net interest income over the entire lifetime.

b) Embedded derivatives

IAS 39 also regulates the treatment of embedded derivatives. These are derivatives which are part of an original financial instrument and are inseparably linked to it. Such financial instruments are also referred to as hybrid financial instruments in IAS 39. Hybrid financial instruments include reverse convertible bonds (bonds whose repayment may take the form of equities) or bonds with indexed interest payments. In accordance with IAS 39, the embedded derivative should be separated from the original host contract under certain conditions and accounted for and measured separately at fair value as a stand-alone derivative. Such separation has to be made if the characteristics and risks of the embedded derivative are not closely related to those of the host contract. In this case, the embedded derivative has to be regarded as part of the trading portfolio and recognized at its fair value. Changes in the fair value have to be shown in the income statement. The host contract is accounted for and measured applying the rules of the relevant category of the financial instrument. However, if the characteristics and risks of the embedded derivative are closely linked to those of the host contract, the embedded derivative is not separated from the latter and the hybrid financial instrument is measured in accordance with the general provisions.

c) Hedge accounting

IAS 39 entails extensive and quite complicated regulations concerning accounting for hedging instruments, which are superimposed upon the general accounting rules for derivatives described above and also for the underlying hedged transactions. In line with general regulations, derivatives are classified as trading transactions (assets held for dealing purposes or liabilities from dealing activities) and are measured at their fair value. The result of such measurement is shown in the income statement under Trading profit.

If derivatives are used to hedge risks from non-trading transactions, IAS 39 permits, under certain conditions, the application of special regulations in hedge accounting. For the most part, two forms of hedge accounting are distinguished:

- Fair value hedge accounting:
  For derivatives which serve to hedge the fair value of recognized assets or liabilities (so-called fair value hedges), IAS 39 prescribes the use of fair value hedge accounting. The risk of a change in fair value exists above all for loans, securities and liabilities with a fixed interest rate.

  In line with the regulations for fair value hedge accounting, the hedging derivative is shown at fair value, with changes in its fair value appearing in the income statement. Any changes in the fair value of the hedged asset or hedged liability resulting from the hedged risk also have to be recognized in the income statement. Given a perfect hedge, the changes in measurement recognized in the income statement for the hedge and the hedged transaction will largely balance one another.

  If the asset or liability is recognized at amortized cost according to the general regulations (e.g. an extended loan or an outstanding bond), the book value has to be adjusted for the accumulated changes in fair value resulting from the hedged risk. However, if the asset is recognized at fair value (e.g. an available-for-sale security), the changes in fair value resulting from the hedged risk have to be recognized, contrary to the general rule, in the income statement.

- Cash flow hedge accounting:
  For derivatives which serve to hedge future cash flows (cash flow hedges), IAS 39 prescribes the use of cash flow hedge accounting. A risk relating to the size of future cash flows exists in particular for floating-interest-rate loans, securities and liabilities as well as forecasted transactions (e.g. forecasted fund-raising or financial investments). At the same time, IAS 39 also prescribes the application of cash flow hedge accounting rules for the hedging of future cash flows from pending business.

Derivative financial instruments used in cash flow hedge accounting are carried at fair value. Reporting of the gain or loss has to be divided into an effective and an ineffective part. The effective portion is that which represents an effective hedge of the cash flow risk. After deferred taxes have been taken into consideration, this is recognized directly in a separate item under equity (Measurement of cash flow hedges). By contrast, the ineffective portion is shown in the income statement. For the underlying transactions of cash flow hedges, there is no change in the general accounting rules described above.

The application of hedge accounting rules is tied to a number of additional conditions. These relate above all to the documentation of the hedge and also to its effectiveness.

The hedge has to be documented at the time of its conclusion. Documentation extends above all to an identification of the hedging derivative and the hedged transaction and also details of the hedged risk and the method employed to determine the effectiveness of the hedge. Documentation for a transaction hedged with a derivative may relate to either an individual asset, liability, pending business or forecasted transaction or to a portfolio of such items which are given similar accounting treatment. However, it is not sufficient to document a net risk position to be hedged.

In addition to such disclosure, IAS 39 calls for evidence of an effective hedge for the application of hedge accounting rules. Effectiveness in this connection means the relationship between the change in fair value or the cash flow resulting from the hedged underlying transaction and the change in fair value or the cash flow resulting from the hedge. If these changes almost entirely balance one another, a high degree of effectiveness exists. Proof of effectiveness requires, on the one hand, that a high degree of effectiveness can be expected from a hedge in the future (prospective effectiveness). On the other hand, when a hedge exists, it must be regularly demonstrated that this was highly effective during the period under review (retrospective effectiveness). A high degree of retrospective effectiveness exists if the ratio of changes in the fair value or the cash flow lies between 0.8 and 1.25. Here, the methods used for determining effectiveness have to be disclosed.

By means of a fair value hedge, the Bank hedges the fair value of a financial instrument against the risks resulting from the change in the reference interest rate, share price and/or the exchange rate. In order to hedge these risks, above all interest-rate and interest/currency swaps are employed. This primarily relates to the Group's new issues business and the securities portfolio used for liquidity management, insofar as interest-bearing securities are involved. Equities from these portfolios are hedged by derivatives with option character. The same holds true for the other price risks of structured issues.

Interest-rate risks resulting from open interest-rate positions in asset/liability management are mainly hedged at the Commerzbank Group by means of cash flow hedges using interest-rate swaps.

(7) Currency translation

Assets and liabilities denominated in foreign currencies, as well as immatured spot foreign-exchange transactions, are translated at the spot rates, and foreign-exchange forward contracts at the forward rate of the balance-sheet date. Expenses and income are translated at market rates. Currency translation for investments and holdings in subsidiaries that are denominated in foreign currencies is effected at historical cost. Translation gains and losses from the consolidation of the capital accounts appear in the balance sheet under Equity.

As a result of their economically independent business activity, the financial statements of our units abroad that are prepared in foreign currencies are translated at the spot rates of the balance-sheet date.

The expenses and income generated by the translation of balance-sheet items are recognized in the income statement. Hedged expenses and income are translated at the hedging rate.

The following translation rates apply for the currencies that are most important to the Commerzbank Group (amount per €1 in the respective currency):

	2004	2003
USD	1.3621	1.2630
JPY	139.65	135.05
GBP	0.70505	0.7048
CHF	1.5429	1.5579

(8) Offsetting

We set liabilities off against claims if these are on the same account-holder, are due at call, and agreement has been reached with the business associate that interest and commissions be calculated as if only a single account existed.

(9) Cash reserve

With the exception of debt issued by public-sector borrowers, which is shown at its fair value, all the items appear at their nominal value.

(10) Claims

Claims on banks and customers originated by the Commerzbank Group, which are not held for trading, are shown at either their nominal value or at amortized cost. Premiums and discounts appear under Net interest income over the entire lifetime. The book values of claims which qualify for hedge accounting are adjusted for the gain or loss attributable to the hedged risk.

Claims not originated by Commerzbank – mainly promissory notes – which do not form part of the trading portfolio are included in the Investments and securities portfolio.

(11) Provision for possible loan losses

We fully provide for the particular risks associated with banking business by forming specific valuation allowances, country valuation allowances and global valuation allowances.

In order to cover the lending risks represented by claims on customers and banks, we have formed specific valuation allowances according to uniform Group standards. Valuation allowances have to be formed for a loan if it is probable that not all the interest payments and repayments of principal can be made according to the agreement. The size of the valuation allowance corresponds to the difference between the book value of the loan after valuable security has been taken into consideration and the cash value of the expected future cash flow, discounted by the original effective interest rate.

In the case of loans to borrowers in countries involving an enhanced transfer risk (country risk), an assessment of the economic situation is made, based on the appropriate economic data. The findings are weighted by the respective internal country rating. Wherever necessary, country valuation allowances are formed.

We cover latent credit risks by means of global valuation allowances. Past loan losses serve as a yardstick for the scale on which such valuation allowances 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 from Claims on banks and Claims on customers. However, provision for risks in off-balance-sheet business – guarantees, endorsement liabilities, lending commitments – is shown as a provision for lending risks.

Unrecoverable accounts are written down immediately. Amounts received on written-down claims appear in the income statement.

(12) Genuine repurchase agreements and securities-lending transactions

Repo transactions 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, and are measured, in the 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. The agreed interest payments are booked as interest paid, reflecting the various maturities.

The outflows of liquidity caused by reverse repos appear as claims on banks or customers and are measured accordingly. The securities bought under repurchase agreements and on which the financial transaction is based (spot purchase) are not carried in the balance sheet, nor are they measured. The agreed interest from reverse repos is counted as interest income, reflecting the various maturities. Claims arising from reverse repos are not netted against liabilities from repos involving the same counterparty.

We show securities-lending transactions in a similar manner to securities in genuine repurchase agreements. Lent securities remain in our securities portfolio and are measured according to the rules of IAS 39. Borrowed securities – insofar as they remain in our portfolio – do not appear in our balance sheet, nor are they measured. We show cash security furnished by us for securities-lending transactions as a claim and received security as a liability.

(13) Positive fair values from derivative hedging instruments

Derivative financial instruments used for hedging which qualify for hedge accounting and have a positive value appear under this item. The instruments are measured at fair value.

Listed instruments are measured at market prices; for non-listed products, internal price models (net present-value or option-price models) are used. The hedge accounting results for fair value hedges appear in the income statement under Net result on hedge accounting. By contrast, effective portions of the gains and losses on cash flow hedges are recognized under Measurement of cash flow hedges in Equity.

(14) Assets held for dealing purposes

Securities held for dealing purposes, promissory notes and precious metals appear in the balance sheet at their fair value on the balance-sheet date. Also shown at fair value are all derivative financial instruments which are not used as hedging instruments in hedge accounting and have a positive fair value. For listed products, market prices are used; non-listed products are measured on the basis of the net present-value method or other suitable measurement models (e.g. option-price models). All the realized gains and losses and also the net changes which are not realized appear as part of the Trading profit in the income statement. Under this item, interest and dividend income from trading portfolios are also shown, less the expenses required to finance them.

Spot transactions are recognized immediately they are concluded; they appear in the balance sheet at the time of performance.

(15) Investments and securities portfolio

Our investments and securities portfolio comprises all the bonds, notes and other fixed-income securities, shares and other variable-yield securities and all the investments and investments in associated companies, as well as holdings in non-consolidated subsidiaries which are not held for dealing purposes. In addition, in accordance with IAS 39, we include here all the claims on banks and customers not originated by the Bank, in particular promissory notes.

These portfolios are recognized and measured at fair value, or according to the equity method in the case of investments in associated companies. If the fair value cannot be reliably calculated, the item is shown at cost; this primarily holds true for non-listed assets. Net changes are shown – after deferred taxes have been taken into consideration – under the Revaluation reserve in Equity. Realized gains and losses only affect the income statement when the holdings are sold. Premiums and discounts are recognized in Net interest income over the lifetime of the investment or security. If, however, an effective hedge with a derivative financial instrument exists for investments, securities or claims not originated by the Bank, that part of the change in fair value attributable to the hedged risk is shown under the Net result on hedge accounting in the income statement. In the case of permanent impairment, the recoverable amount is shown; the required write-down is charged to the income statement.

(16) Intangible assets

Apart from special software produced in-house and stock-exchange seats acquired by the Bank, we include above all acquired goodwill under Intangible assets. On each balance-sheet date, all goodwill is examined with a view to its future economic utility on the basis of cash-generating units. If it appears that the expected utility will not materialize, an extraordinary depreciation is made. Otherwise, goodwill is amortized over the assumed useful economic life of 15 years, using the straight-line method. We depreciate software over a period of two to five years.

Goodwill was amortized for the last time as of December 31, 2004. As from January 1, 2005, we use the new IFRS 3 for goodwill in our accounting, which no longer provides for amortization.

	Probable useful life in years
Goodwill	15
Software	2 – 5
Other	2 – 10

(17) Fixed assets

The land and buildings, and also office furniture and equipment, shown under this item are capitalized at cost, less regular depreciation. Extraordinary depreciation and write-offs are made in the case of permanently impaired value.

In determining the useful life, the likely physical wear and tear, 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
Purchased IT equipment	2 – 8

In line with the materiality principle, purchases of low-value fixed assets in the past financial year are recognized immediately as operating expenses. Profits realized on the disposal of fixed assets appear under Other operating income, losses are shown under Other operating expenses.

(18) Leasing

In accordance with IAS 17, a lease is classified as an operating lease if it does not substantially transfer to the lessee all the risks and rewards that are incident to ownership. By contrast, finance leases are considered to be those agreements which substantially transfer all the risks and rewards to the lessee.

– The Group as lessor –

Insofar as the leasing companies within the Commerzbank Group are involved in operating lease business, economic ownership of the object of the agreement remains with the Group company. Leased objects appear in the consolidated balance sheet under Fixed assets. Leased objects are shown at cost or production cost, less regular depreciation over their useful economic lives or extraordinary depreciation necessary on account of permanent impairment of value. Unless a different distribution suggests itself in individual cases, the proceeds from leasing transactions are recognized on a straight-line basis over the lifetime of the agreement and are shown under Net interest income.

If virtually all the risks and rewards relating to the leased property are transferred to the lessee (finance leases), the Commerzbank Group recognizes a claim on the lessee. The claim is shown at its net investment value at the inception of the agreement. Leasing payments received are divided into an interest portion, which appears as interest income, and a repayment portion. The income is recognized as interest income for the respective period.

– The Group as lessee –

The payments made under operating lease agreements are included under Operating expenses. The costs are computed like a rental payment on a regular basis corresponding to the useful life of the leased object. No contractual obligations existed in the 2004 financial year which require classification as finance leases.

(19) Liabilities to banks and customers and also Securitized liabilities

Financial liabilities are recognized at amortized cost. The derivatives embedded in liabilities (embedded derivatives) have been separated from their host debt instrument, measured at fair value and shown under either Assets held for dealing purposes or Liabilities from dealing activities. As part of hedge accounting, hedged liabilities were adjusted for the book gain or loss attributable to the hedged risk.

(20) Negative fair values from derivative hedging instruments

Under this item, we show derivative hedging instruments with a negative fair value which do not serve dealing purposes. The financial instruments are measured at fair value, with market prices used as a basis for measuring listed instruments; internal price models (net present-value or option-price models) are applied in the case of non-listed products. The net results from hedge accounting for instruments classified as fair value hedges appear in the income statement. We show the effective portions of the gains or losses on cash flow hedges under Measurement of cash flow hedges in Equity.

(21) Liabilities from dealing activities
Derivative financial instruments which have a negative fair value, and delivery obligations from short sales of securities, are shown as Liabilities from dealing activities. Such liabilities are measured at their fair value.

(22) Provisions for pensions and similar commitments
Virtually all employees at the Parent Bank as well as staff at some subsidiaries in Germany acquire rights to a company pension under at least two different implementation forms of company provision for old age.

In the first case, employees are given an indirect – contribution-based – commitment (defined-contribution plan), for which the Group, with the involvement of employees as well, pays a fixed amount for old-age provision to external providers, including Versicherungsverein des Bankgewerbes a.G. (BVV), Berlin, and to Versorgungskasse des Bankgewerbes e.V., Berlin.

The size of future pension benefits is determined here by the amounts paid in and – for the non-guaranteed portion of the benefits – by the accrued income on the assets. The classification of this provision as an indirect commitment means that the contributions to BVV and Versorgungskasse are recognized as current expenses, eliminating the need to form provisions.

In the second case, employees are given a direct commitment, under which the size of the benefit is established, being determined by such factors as age, salary and length of service (defined-benefit plan).

In order to meet promised pension benefits, we accumulate the assets required to meet the pension commitment for the most part internally and show the corresponding provision under Liabilities. A small part of these assets is invested in a trust to provide additional protection against insolvency. The trustee of these assets held in trust is Commerzbank Pension-Trust e.V.

The pension expenses for direct commitments, which have to appear in the income statement, consist of several components. First and foremost, the service cost has to be considered. In addition, there is the interest cost on the cash value of the commitment, as the time at which the commitment must be met has moved one period closer. The net earnings achieved on the separate plan assets (assets held in trust) are deducted from expenses. If amortization amounts arise for actuarial gains and losses due to the 10% fluctuation-band rule, the expenses for the period rise or fall accordingly.

The size of the provisions formed is initially determined by the cash value of the commitment to be met. The portion which is covered by the separate assets held in trust has to be netted with the commitment. On account of the fluctuation-band rule, the amount of provision to be formed each year is as follows:

Cash value of commitment for direct commitments
less separate pension assets
less/plus not recognized actuarial losses or gains
= size of provision for pensions

The pension commitment is calculated annually by an independent actuary, using the projected-unit-credit method. This calculation is based not only on biometric assumptions but above all on a current market interest rate for prime-quality long-dated bonds as well as the rates of increase for salaries and pensions to be expected in the future. We only recognize higher or lower commitments as a result of actuarial calculations if they lie outside a 10% fluctuation band of the actuarial value of the commitment. The assumptions on which the actuarial calculations have been based are:

	31.12.2004	**31.12.2003**
Calculatory interest rate	5.00%	5.50%
Change in salaries	2.50%	2.50%
Adjustment to pensions	1.40%	1.25%

The internal agreements on the granting of direct pension benefits were cancelled as of December 31, 2004 and were replaced by a new one: the Commerzbank modular plan for company pension benefits (CBA). In future, staff entitled to benefits will receive benefits under CBA, which will be made up of an initial module for the period up to December 31, 2004, and benefit modules – possibly augmented by a dynamic module – for each contributory year from 2005 onwards. Staff joining the Bank after January 1, 2005, will be entitled to benefits under the Commerzbank capital plan for company old-age pensions (CKA).

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

(23) Other provisions

We form Other provisions on the scale deemed necessary for liabilities of uncertain amount towards third parties and for anticipated losses related to immatured contracts. We are not permitted by IAS rules to form provisions for expenses not related to an external commitment.

As of December 31, 2004, we showed provisions of €169m for restructuring measures. Of the total, €105m relates to the restructuring of Investment Banking, resolved in the past financial year, and €64m to measures resolved in previous years, in particular the second cost-cutting offensive. In each case, the formation of these provisions was based on detailed overall plans for concrete individual measures, coordinated with the boards and bodies of the companies affected.

(24) Taxes on income

Current tax assets and liabilities were calculated by applying the valid tax rates at which a refund from, or a payment to, the relevant 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 assigned value in tax terms. In the future, these will probably either increase or reduce taxes on income (temporary differences). They were measured at the specific income-tax rates 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 at the same unit. Tax assets and liabilities are not netted against one another; no discounting is practised. Deferred tax assets and liabilities are formed and carried such that – depending on the treatment of the underlying item – they are recognized either under Taxes on income in the income statement or under the respective equity item with no effect on the income statement.

Income-tax expenses or income which are attributable to the Profit from ordinary activities after restructuring expenses and Expenses arising from special factors are shown under Taxes on income in the consolidated income statement and divided in the notes into current and deferred tax claims and liabilities in the financial year. Other taxes which are independent of income are subsumed under Other operating result. Current and deferred tax assets and tax liabilities appear as separate asset or liability items in the balance sheet. No taxes on income were incurred in the past financial year in connection with extraordinary business developments.

(25) Subordinated capital

Under Subordinated capital, we carry issues of profit-sharing certificates as well as securitized and non-securitized subordinated liabilities. After their initial recognition at cost, they are shown at amortized cost. Premiums and discounts are recognized under Net interest income over the entire lifetime.

(26) Trust business

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

(27) Treasury shares

Treasury shares held by the Parent Bank in its portfolio on the balance-sheet date are deducted directly from Equity. Gains and losses resulting from the Bank's own shares are set off against one another, with no effect on net profit.

(28) Staff remuneration plans

For its executives and selected other members of staff, the Group has approved five "long-term performance plans" (LTP). These plans (LTP 2000-2004) permit a remuneration in cash geared to the performance of the share price or a stock index; under the currently valid classification, they are considered to be "virtual" stock option plans. The programmes entail a payment commitment if the Commerzbank share outperforms the Dow Jones Euro Stoxx® Bank index and/or the absolute performance of the Commerzbank share is at least 25%.

In order to participate in the LTP, those eligible have to invest in Commerzbank shares. The scale of such an investment for staff who are not members of the Board of Managing Directors depends on their function group (possible investment: between 100 and 1,200 shares). Payments under these plans will be determined by two criteria:

For 50% of the shares:

- the Commerzbank share outperforms the Dow Jones Euro Stoxx® Bank index (payment guaranteed by outperformance of at least 1 percentage point to a maximum of 10 percentage points).

For 50% of the shares:

- an absolute rise in the price of the Commerzbank share (payment guaranteed by a rise of at least 25% to a maximum of 52%).

Given achievement of the two criteria, eligible participants will receive a maximum of €100 per share of their own participation, whereby Commerzbank shares will be delivered to the participant's custody account for 50% of this gross amount.

Payment and the delivery of shares is dependent upon the Parent Bank paying a dividend for the financial year.

The first comparison of the base prices of the first quarter of 2000 (LTP 2000), the first quarter of 2001 (LTP 2001), the first quarter of 2002 (LTP 2002), the first quarter of 2003 (LTP 2003), or the first quarter of 2004 (LTP 2004) with the data for the comparable period will be made after three years in each case, or as soon as a first hurdle to exercising is reached or exceeded. Should none of the exercising criteria have been met after this time has elapsed, comparison will be made with the base data at annual intervals. If none of the performance targets have been achieved after five years, the plans will be terminated. The first and second comparisons for LTP 2000 with the prices for the first quarter of 2003 and 2004, respectively, and the first comparison for LTP 2001 with the prices for the first quarter of 2004 revealed that none of the exercise criteria had been fulfilled.

For the commitments arising from the LTPs described, we calculate annually, in accordance with the relevant GASB standard model, the pro-rata overall value of the LTP; wherever necessary, we form a provision and charge it to Operating expenses. Given the high base prices for LTPs 2000 to 2002 and the still not reached base prices for LTP 2004, there was no need to form a provision for the 2004 financial year. For LTP 2003, where utilization on the basis of the share price level on December 31, 2004 seems likely, the necessary provisions of €14.5m have been formed within the Group.

Within the Jupiter International Group plc (JIG), four staff remuneration/stock-option plans existed as of December 31, 2004. Under the terms of the so-called B shares or Profit Shares Plan, eligible members of staff receive a contractually assured payment, linked to possession of virtual shares and to the Jupiter Group's respective net profit at the end of the years 2002 to 2004. Each payment will be made in three annual instalments, the size of the payment being geared to the 2000 profit. Insofar as the net profit in subsequent years falls below this base value, payments will also be reduced. Since 2003, no new B shares have been issued, as this plan is being terminated. In previous years, the necessary allocations to provisions were made to the required extent and charged to operating expenses.

The so-called C shares or Growth Shares Plan gives those eligible – a group of senior staff – the right to subscribe to shares of Commerz Asset Management (UK) plc, which are also subject to an obligation to purchase on the part of the Parent Bank. The value of these shares is oriented to the typified change in value of the JIG Group. Those eligible do not receive a guaranteed payment, as the reference figure may alter either positively or negatively. Here, limits have been established for the payment of minimum amounts (corresponding to the costs to employees when rights are granted; i.e. personal income tax and social security charges) and maximum amounts. Employees have the right to tender delivery of shares annually, within certain limits, but they also have the possibility of disposing of their entire portfolio after four years. In addition, certain rights also exist in connection with a change-of-control clause. The reference base for this plan was altered in 2003, with the adjusted profit for 2000 being replaced by that for 2002. No more new rights were granted under this plan in 2004. In the 2004 financial year, Commerzbank AG purchased shares from this plan to an overall value of €13.1m.

At the same time, an ongoing "options programme" was launched in 2003 in favour of the employees of JIG, which entails a cash compensation based on the performance of JIG and can be considered to be a virtual stock option plan. Internally, this plan is known as the "D options plan" and entitles all those to participate who had joined Jupiter by December 31, 2003, and were already entitled under the C Shares Plan. Under this plan, a payment falls due if the adjusted profit in the year prior to the exercising of the option is higher than the level of the base year. For the options granted in 2003, the 2003 adjusted profit was established as the reference figure. A third of the options may be exercised three years after they are granted and a further third after four years, while all options must be exercised five years after they are granted, otherwise they expire. In addition, certain rights also exist in connection with a change-of-control clause. In 2004, further adjusted option rights were assigned to these in the described manner, as were rights under the E Options Plan, which differs only in terms of the rights conferred by the change-of-control clause and extends entitlement to staff who joined after December 31, 2003. No rights were exercised under these plans during the 2004 financial year.

In addition, it is possible at other subsidiaries, including in Asset Management, for selected employees to participate through private equity models in the performance of the respective company. Payment in such cases depends on the extent to which fixed performance targets are attained. These models include direct investment in shares of the respective company. Frequently, these are offered at reduced prices and in combination with call or put options. In addition, warrants and share subscription rights are issued. Premiums are also granted which may similarly be used to subscribe to shares. The observance of blocking periods and agreements for later repurchase determine whether additional income is received. For such models, we calculate the need for provisions annually, using suitable methods, and show this where necessary under Operating expenses.

Major differences in accounting, measurement and consolidation methods: IAS/IFRS compared with HGB

The objective of financial statements based on IAS/IFRS is to provide information on the group's asset and financial position and its earnings performance and also changes in these over time. By contrast, financial statements based on the German Commercial Code (HGB) are primarily geared to investor protection and are also influenced by tax-law provisions due to their authoritative character for the balance sheet prepared for tax purposes. Given these different objectives, the following major differences in accounting and measurement methods arise between IAS/IFRS and HGB:

Provision for possible loan losses
Provision for possible loan losses is shown as a charge on the assets side. Hidden reserves pursuant to Art. 340f, HGB may not be formed in IAS/IFRS financial statements.

Trading portfolios and derivative financial instruments
In accordance with IAS 39, financial assets held for dealing purposes (Assets held for dealing purposes) and certain financial liabilities (Liabilities from dealing activities) as well as derivative financial instruments not held for trading purposes (hedging derivatives) always have to be measured at fair value. Depending on how these financial instruments are classified, all gains and losses are either shown in the income statement or under Equity with no effect on net profit, regardless of whether they are realized or not. HGB rules, however, do not provide for unrealized gains to be recognized.

Investments and securities portfolio
Investments and securities as well as available-for-sale claims not originated by the Bank are measured at fair value in accordance with IAS 39 or, insofar as this cannot be reliably ascertained, they are shown at cost. The result of measurement has no effect on income and is shown in the Revaluation reserve. Under German accounting principles, investments are part of fixed assets and have to be shown at cost. If their value is likely to be permanently impaired, they have to be written down at their lower value.

In terms of their character, securities in the available-for-sale portfolio count as part of the liquidity reserve according to HGB and have thus to be classified as current assets. Under HGB rules, the strict lower-of-cost-or-market principle applies in the measurement of such securities portfolios. In accordance with German accounting rules, claims not originated by the Bank have to be recognized at amortized cost, less write-downs.

Hedge accounting
Pursuant to IAS 39, hedges may be created between a hedged item and a derivative financial instrument for hedge accounting purposes. Hedged items may be financial assets (e.g. claims or securities) and financial commitments (e.g. liabilities or bonds issued). For both fair value hedges and cash flow hedges, detailed rules exist which call for the fair value of a derivative hedging instrument to be shown in gross form. Under German accounting principles, however, hedging transactions are taken account of by means of a netted-out lower-of-cost-or-market principle, applied in measuring the hedged items.

Intangible assets developed in-house and goodwill
Whereas intangible assets developed in-house may not be recognized under HGB rules, IAS/IFRS requires this, if certain conditions are fulfilled. Goodwill, resulting from full consolidation, which in accordance with HGB provisions may be set off directly against retained earnings in the consolidated financial statements, has to be recognized as an asset and amortized under IAS rules.

Pension commitments
In accordance with IAS/IFRS, pension commitments are calculated using the projected-unit-credit method. The calculation takes account of future commitments, reflecting future increases in pay and pensions and also inflation. The discount factor under IAS/IFRS rules is related to the long-term interest rate. By contrast, HGB accounting is regularly geared to the respective valid income-tax regulations, in particular the normal entry-age method.

Other provisions

In accordance with IAS/IFRS, provisions may only be formed if they relate to an external commitment. Provisions for expenses, possible under HGB, for the purpose of recognizing future outlays as expenses in the past financial year are not permitted. IAS/IFRS rules require more concrete details than HGB as regards the formation of provisions for restructuring, covering among other things the development, adoption and announcement of a detailed plan.

Deferred tax assets and liabilities

Under IAS/IFRS rules, deferred tax assets and liabilities are calculated with reference to the balance sheet. Advantages deriving from tax loss carry-forwards have to be capitalized if it can be assumed that they will be used at a later date. The income-tax rates employed to measure the differences between the values assigned in the balance sheet and those for tax purposes are future-oriented. No netting occurs. By contrast, the HGB approach to recognizing deferred tax assets and liabilities is geared to the income statement and currently valid income-tax rates are applied. The differences in approach tend to make deferred taxes more significant under IAS/IFRS rules.

Equity

In IAS financial statements, minority interests appear as a separate balance-sheet item. In accordance with Art. 307, HGB, interests held by other shareholders have to be shown separately within equity. With the rules of IAS 39 applied, changes attributable to the investments and securities portfolio and also effective portions of the gains and losses on cash flow hedges have to be shown in equity with no effect on net income. This type of income-neutral accounting is not found in German accounting rules. Under IAS/IFRS rules, treasury shares held on the balance-sheet date are deducted from equity; the gains and losses attributable to treasury shares are set off against reserves with no effect on income. Pursuant to HGB rules, a reserve for treasury shares has to be formed equivalent in amount to the treasury shares shown on the assets side of the balance sheet, while measurement and trading results are reflected in the income statement.

Trust business

Trust business, which appears in the balance sheet in HGB accounting, does not appear there under IAS/IFRS rules.

Tax valuation

In line with the so-called reverse authority principle, valuation principles are applied under HGB rules that comply with tax-law provisions. Financial statements prepared under IAS/IFRS rules may not contain special depreciation and valuation principles that are permissible under tax regulations insofar as they deviate from valuations required by IAS/IFRS rules. As from the 2003 financial year, this ban also applies to consolidated financial statements prepared pursuant to HGB, due to the legal changes produced by the German legislation on transparency and publication of information.

Notes to the income statement

(29) Net interest income

	2004 € m	2003 € m	Change in %
Interest income from lending and money-market transactions and also from available-for-sale securities portfolio	10,904	11,396	–4.3
Dividends from securities	89	104	–14.4
Current result on investments and subsidiaries	130	91	42.9
Current result on investments in associated companies	93	85	9.4
Current income from leasing	136	91	49.5
Interest income	*11,352*	*11,767*	*–3.5*
Interest paid on subordinated capital	505	550	–8.2
Interest paid on securitized liabilities	3,159	3,262	–3.2
Interest paid on other liabilities	4,595	5,117	–10.2
Current expenses from leasing	102	62	64.5
Interest expenses	*8,361*	*8,991*	*–7.0*
Total	**2,991**	**2,776**	**7.7**

Interest margins:
The average interest margin, based on the average risk-weighted assets in balance-sheet business according to BIS, was 2.73% (previous year: 2.39%).

(30) Provision for possible loan losses

Provision for possible loan losses appears as follows in the consolidated income statement:

	2004 € m	2003 € m	Change in %
Allocation to provisions	–1,282	–1,562	–17.9
Reversals of provisions	550	597	–7.9
Direct write-downs	–124	–145	–14.5
Income received on written-down claims	20	26	–23.1
Total	**–836**	**–1,084**	**–22.9**

(31) Net commission income

	2004 € m	2003 € m	Change in %
Securities transactions	839	802	4.6
Asset management	576	509	13.2
Payment transactions and foreign commercial business	426	388	9.8
Guarantees	142	134	6.0
Income from syndicated business	99	94	5.3
Other net commission income	168	209	–19.6
Total	**2,250**	**2,136**	**5.3**

(32) Net result on hedge accounting

	2004 € m	2003 € m	Change in %
Net result on derivatives used as hedging instruments	–1,554	–358	·
Net result on hedged items	1,560	398	·
Total	**6**	**40**	**–85.0**

This item reflects the gains and losses attributable to effective hedges in connection with hedge accounting. The result deriving from hedging instruments and the related hedged items represents only the measurement effects arising from fair value hedges.

(33) Trading profit

Trading profit has been split into two components:

- Net result on proprietary trading in securities, promissory notes, precious metals and derivative instruments.
- Net result on the measurement of derivative financial instruments which do not form part of the trading book and do not qualify for hedge accounting.

All the financial instruments held for dealing purposes are measured at their fair value. We use market prices to measure listed products, while internal price models (above all, net present-value and option-price models) are used in determining the current value of non-listed trading transactions. Apart from the realized and unrealized gains and losses attributable to trading activities, the Trading profit also includes the interest and dividend income related to such transactions and also their funding costs.

	2004 € m	2003 € m	Change in %
Net result on proprietary trading	632	841	–24.9
Net result on the measurement of derivative financial instruments	–93	–104	–10.6
Total	**539**	**737**	**–26.9**

(34) Net result on investments and securities portfolio (available for sale)

Under the Net result on investments and securities portfolio, we show the disposal proceeds and the gains and losses on available-for-sale securities, claims not originated by the Bank, investments, investments in associated companies and holdings in subsidiaries which have not been consolidated.

	2004 € m	**2003** € m	Change in %
Net result on available-for-sale securities and claims not originated by the Bank	215	174	23.6
Net result on disposals and measurement of investments, investments in associated companies and holdings in subsidiaries	146	117	24.8
Total	**361**	**291**	**24.1**

(35) Operating expenses

The Group's Operating expenses consist of personnel and other expenses, and depreciation on office furniture and equipment, real property, and also on other intangible assets. The expenses break down as follows:

Personnel expenses:

	2004 € m	**2003** € m	Change in %
Wages and salaries	1,922	1,925	–0.2
Compulsory social-security contributions	293	294	–0.3
Expenses for pensions and other employee benefits	205	223	–8.1
of which:			
contributions to BVV and Versorgungskasse des Bankgewerbes	48	53	–9.4
company pension scheme	157	170	–7.6
Total	**2,420**	**2,442**	**–0.9**

Other expenses:

	2004 € m	2003 € m	Change in %
Expenses for office space	503	482	4.4
IT costs	455	467	–2.6
Compulsory contributions, other administrative and company-law expenses	244	229	6.6
Advertising, PR and promotional costs, consulting	110	91	20.9
Workplace costs	181	185	–2.2
Sundry expenses	146	140	4.3
Total	**1,639**	**1,594**	**2.8**

Depreciation of office furniture and equipment, real property and other intangible assets:

	2004 € m	2003 € m	Change in %
Office furniture and equipment	315	426	–26.1
Real property	52	19	·
Other intangible assets	35	30	16.7
Total	**402**	**475**	**–15.4**

(36) Other operating result

The Other operating result primarily comprises allocations to and reversals of provisions, as well as interim expenses and income attributable to hire-purchase agreements. Expenses and income arising from building and architects' fees occur in connection with the construction management of our sub-group CommerzLeasing und Immobilien AG. Other taxes are also included in this item.

	2004 € m	2003 € m	Change in %
Major other operating expenses	**170**	**224**	**–24.1**
Expenses arising from building and architects' services	51	45	13.3
Allocations to provisions	49	111	–55.9
Hire-purchase expenses and interim costs	70	68	2.9
Major other operating income	**284**	**214**	**32.7**
Reversals of provisions	127	73	74.0
Hire-purchase proceeds and interim income	72	70	2.9
Income from building and architects' services	57	53	7.5
Income from disposal of fixed assets	28	18	55.6
Balance of sundry other operating expenses/income	**79**	**184**	**–57.1**
Other operating result	**193**	**174**	**10.9**

(37) Regular amortization of goodwill

The regular amortization of goodwill amounted to €83m (previous year: €110m). This also includes the amortization of €9m (previous year: €19m) on goodwill in companies included at equity.

(38) Restructuring expenses

	2004 €m	**2003** €m	Change in %
Expenses for restructuring measures introduced	132	104	26.9
Total	**132**	**104**	**26.9**

In autumn 2004, we decided to restructure our investment-banking activities. One of the various concrete individual measures is to reduce the non-customer-based business lines proprietary trading, brokerage and research in particular. Restructuring expenses of €132m have been incurred for the impending staff reductions and also for other related expenses.

In the 2003 financial year, expenses related to the second cost-cutting offensive. As part of this project, procedures were streamlined and made more efficient by means of a series of concrete individual measures at both head office and various subsidiaries. In addition, it was resolved to discontinue various uneconomical activities.

(39) Expenses arising from special factors

	2004 €m	**2003** €m	Change in %
Value adjustments to the financial assets and participations portfolio, including the costs of cancelling related funding	–	2,325	·
Total	**–**	**2,325**	**·**

In the previous year, we made the value adjustments to our portfolio of financial assets and participations which we had written down in connection with an impairment test.

(40) Taxes on income

Income-tax expenses break down as follows:

	2004 € m	2003 € m	Change in %
Current taxes on income	423	197	·
Deferred taxes	–70	52	·
Total	**353**	**249**	**41.8**

Deferred taxes on the assets side include tax expenses of €73m (previous year: €26m) from the writing-back of capitalized advantages deriving from loss carry-forwards, which were used in the past financial year.

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

	2004 € m	2003 € m
Net pre-tax profit according to IAS	**828**	**–1,980**
Group's income-tax rate (%)	39.9	39.9
Calculated income-tax payments in financial year	**330**	**–790**
Effects due to differing tax rates affecting income during periods in question	–41	–28
Effects of taxes from previous years recognized in past financial year	104	49
Effects of non-deductible operating expenses and tax-exempt income	–347	741
Regular amortization of goodwill	34	43
Deferred tax assets not recognized	68	158
Other effects	205	76
Taxes on income	**353**	**249**

The Group income-tax rate selected as a basis for the transitional presentation is made up of the corporate income-tax rate of 25% applied in Germany, plus the solidarity surcharge of 5.5%, and an average rate of 18.4% for trade earnings tax. With the deductibility of trade earnings tax taken into consideration, the German income-tax rate is roughly 39.9%.

Income effects result from discrepancies between the tax rates valid for foreign units. The tax rates outside Germany ranged between 0% and 46%.

(41) Basic earnings per share

Profit/loss per share	31.12.2004	31.12.2003	Change in %
Operating profit (€ m)	1,043	559	86.6
Net profit/net loss (€ m)	393	–2,320	·
Average number of ordinary shares issued (units)	593,373,110	544,202,112	9.0
Operating profit per share (€)	1.76	1.03	70.9
Earnings/loss per share (€)	0.66	–4.26	·

The earnings/loss per share, calculated in accordance with IAS 33, is based on net profit/loss without the earnings/loss for the year attributable to minority interests.

In the past financial year and on December 31, 2004, no conversion or option rights were outstanding. The diluted earnings/loss per share, therefore, corresponds to the earnings/loss per share.

(42) Cost/income ratio

	2004	2003	Change in %
Cost/income ratio before regular amortization of goodwill, expenses arising from special factors and restructuring expenses	70.4	73.3	–4.0

(43) Segment reporting

Segment reporting reflects the results of the operating business lines included in the Commerzbank Group. Our internal management information memoranda, which are prepared monthly in line with IAS rules, serve as a basis.

Allocation to business lines is based on the Group's internal organization structure, which since January 1, 2001, has consisted of two divisions: Retail Banking and Asset Management, on the one hand, and Corporate and Investment Banking, on the other.

The Retail Banking and Asset Management division is made up of the Retail Banking, Private Banking and Asset Management departments.

The Corporate and Investment Banking division comprises our corporate activities and business involving institutions, as well as investment-banking operations.

Group Treasury is presented separately. Similarly, the mortgage banks appear as an independent business line.

Survey of the structure of the operating divisions valid in the past financial year:

Retail Banking and Asset Management division	Retail Banking department
	Private Banking department
	Asset Management department
Corporate and Investment Banking division	Corporate Banking department [1]
	Multinational Corporates department [1]
	Financial Institutions department [1]
	Real Estate department [1]
	Securities department
	Group Treasury staff department
	Mortgage banks

[1] These departments are grouped together under Corporate customers and institutions in segment reporting.

Our segment reporting breaks down into the following seven reportable segments:

- Retail banking, including business with retail customers, private banking and direct banking through our subsidiary comdirect bank Aktiengesellschaft. As of June 30, 2004, the results of SchmidtBank were consolidated for the first time.
- Asset management, comprising above all COMINVEST Asset Management GmbH, Frankfurt, COMINVEST Asset Management S.A., Luxembourg, and Jupiter International Group plc.
- Corporate customers and institutions, presenting the results of the Corporate Banking, Multinational Corporates, and Financial Institutions departments, as well as those for real-estate business and the commercial activities of corporate customers involving our domestic and foreign units.
- Securities, comprising all the equity and bond-trading activities, trading in derivative instruments, interest-rate and currency management, and also M&A business.
- Group Treasury, reporting the progress of domestic liquidity management and also of managing the Bank's capital structure.
- Mortgage banks, consisting of Eurohypo Aktiengesellschaft, Hypothekenbank in Essen AG and also Erste Europäische Pfandbrief- und Kommunalkreditbank in Luxemburg. Eurohypo Aktiengesellschaft is consolidated at equity.
- In the "Others and consolidation" segment, the profit contributions appear for which the individual banking departments are not responsible. These also include those expenses and income items that are necessary in order to reconcile the control variables of internal accounting, shown in the segment reporting of the operating departments, with the corresponding external accounting data.

The result generated by the segments is measured in terms of the operating profit and the pre-tax profit, as well as the figures for the return on equity and the cost/income ratio. Through the presentation of pre-tax profits, minority interests are included in both the result and the average equity tied up. All the revenue for which a segment is responsible is thus reflected in the pre-tax profit.

The operating return on equity or the return on equity of the pre-tax profit is calculated from the relationship between the operating profit or the pre-tax profit and the average amount of equity that is tied up; it shows the return on the equity that is invested in a given business line. The cost/income ratio in operating business reflects the cost efficiency of the various segments. It represents the quotient formed by operating expenses and income before provisioning.

Income and expenses are shown such that they reflect the originating unit and appear at market prices, with the market interest rate applied in the case of interest-rate instruments. The net interest income of the respective segment also includes return on equity and investment yield as imputed variables. Segments with equity or which have been endowed with capital are charged interest on their capital in order to ensure comparability with units which do not have equity. The investment yield achieved by the Group on its equity is assigned to various units such that it reflects the average amount of equity that is tied up. The interest rate that is applied corresponds to that of a risk-free investment in the long-term capital market. Equity is calculated in accordance with Principle I of German banking supervision on the basis of the established average amount of risk-weighted assets and the capital charges for market risk (risk-weighted asset equivalents).

Direct and indirect expenditure represent the operating expenses which are shown in the operating profit. They consist of personnel costs, other expenses and depreciation of fixed assets and other intangible assets, excluding goodwill. Regular amortization of goodwill, expenses arising from special factors and restructuring expenses appear below the operating profit in the pre-tax profit. Operating expenses are assigned to the individual segments on the basis of the causation principle. The indirect expenses arising in connection with internal services are charged to the beneficiary or credited to the segment performing the service.

Breakdown, by segment

2004 financial year € m	Retail banking	Asset manage-ment	Corporate customers and insti-tutions	Securities	Group Treasury	Mortgage banking	Others and consoli-dation	**Total**
Net interest income	1,121	–8	1,604	10	206	278	–220	2,991
Provision for possible loan losses	–213	–	–570	–2	–	–51	–	–836
Net interest income after provisioning	908	–8	1,034	8	206	227	–220	2,155
Net commission income	1,010	449	696	116	–1	–12	–8	2,250
Net result on hedge accounting	–	1	–	–	1	4	–	6
Trading profit	3	8	53	589	–4	–110	–	539
Net result on investments and securities portfolio	4	15	34	–6	27	147	140	361
Other operating result	30	23	98	–17	–	–6	65	193
Revenue	*1,955*	*488*	*1,915*	*690*	*229*	*250*	*–23*	*5,504*
Operating expenses	1,571	321	1,308	837	57	43	324	4,461
Operating profit	**384**	**167**	**607**	**–147**	**172**	**207**	**–347**	**1,043**
Regular amortization of goodwill	–	59	10	–	–	8	6	83
Restructuring expenses	–	–	–	132	–	–	–	132
Expenses arising from special factors	–	–	–	–	–	–	–	–
Pre-tax profit	**384**	**108**	**597**	**–279**	**172**	**199**	**–353**	**828**
Average equity tied up	**1,823**	**524**	**4,734**	**1,140**	**139**	**905**	**993**	**10,258**
Operating return on equity (%)	**21.1**	**31.9**	**12.8**	**–12.9**	**123.7**	**22.9**	**·**	**10.2**
Cost/income ratio in operating business (%)	**72.5**	**65.8**	**52.6**	**121.0**	**24.9**	**14.3**	**·**	**70.4**
Return on equity of pre-tax profit (%)	**21.1**	**20.6**	**12.6**	**–24.5**	**123.7**	**22.0**	**·**	**8.1**
Staff (average no.)	10,207	1,437	9,770	1,181	41	192	8,572	31,400

Breakdown, by segment

2003 financial year € m	Retail banking	Asset manage-ment	Corporate customers and insti-tutions	Securities	Group Treasury	Mortgage banking	Others and consoli-dation	**Total**
Net interest income	1,075	–17	1,596	62	238	273	–451	2,776
Provision for possible loan losses	–159	–	–885	–	–	–40	–	–1,084
Net interest income after provisioning	916	–17	711	62	238	233	–451	1,692
Net commission income	911	436	726	96	–1	–12	–20	2,136
Net result on hedge accounting	–	1	–	–	–1	40	–	40
Trading profit	4	12	30	783	8	–127	27	737
Net result on investments and securities portfolio	5	12	55	10	32	142	35	291
Other operating result	13	–9	64	–16	–	–2	124	174
Revenue	*1,849*	*435*	*1,586*	*935*	*276*	*274*	*–285*	*5,070*
Operating expenses	1,591	345	1,231	932	56	32	324	4,511
Operating profit	**258**	**90**	**355**	**3**	**220**	**242**	**–609**	**559**
Regular amortization of goodwill	–	77	9	1	–	18	5	110
Restructuring expenses	–	8	25	34	–	–	37	104
Expenses arising from special factors	–	–	–	–	–	–	2,325	2,325
Pre-tax profit	**258**	**5**	**321**	**–32**	**220**	**224**	**–2,976**	**–1,980**
Average equity tied up	**1,804**	**639**	**5,154**	**995**	**108**	**888**	**1,769**	**11,357**
Operating return on equity (%)	**14.3**	**14.1**	**6.9**	**0.3**	**203.7**	**27.3**	**•**	**4.9**
Cost/income ratio in operating business (%)	**79.2**	**79.3**	**49.8**	**99.7**	**20.3**	**10.2**	**•**	**73.3**
Return on equity of pre-tax profit (%)	**14.3**	**0.8**	**6.2**	**–3.2**	**203.7**	**25.2**	**•**	**–17.4**
Staff (average no.)	10,726	1,598	9,335	1,374	42	156	9,667	32,898

Quarterly results, by segment

1st quarter 2004 € m	Retail banking	Asset manage-ment	Corporate customers and insti-tutions	Securities	Group Treasury	Mortgage banking	Others and consoli-dation	**Total**
Net interest income	279	–2	400	4	47	52	–62	718
Provision for possible loan losses	–39	–	–194	–	–	–5	–	–238
Net interest income after provisioning	240	–2	206	4	47	47	–62	480
Net commission income	280	121	170	36	–	–2	–8	597
Net result on hedge accounting	–	1	–	–	3	–	–	4
Trading profit	1	2	13	312	–4	–5	–5	314
Net result on investments and securities portfolio	2	1	18	2	8	22	24	77
Other operating result	3	8	22	–	–	–	34	67
Revenue	*526*	*131*	*429*	*354*	*54*	*62*	*–17*	*1,539*
Operating expenses	404	79	311	234	16	8	52	1,104
Operating profit	**122**	**52**	**118**	**120**	**38**	**54**	**–69**	**435**
Regular amortization of goodwill	–	15	2	–	–	2	1	20
Restructuring expenses	–	–	–	–	–	–	–	–
Expenses arising from special factors	–	–	–	–	–	–	–	–
Pre-tax profit	**122**	**37**	**116**	**120**	**38**	**52**	**–70**	**415**

2nd quarter 2004 € m	Retail banking	Asset management	Corporate customers and institutions	Securities	Group Treasury	Mortgage banking	Others and consolidation	**Total**
Net interest income	276	–3	414	4	69	57	–12	805
Provision for possible loan losses	–46	–	–161	–2	–	–5	–	–214
Net interest income after provisioning	230	–3	253	2	69	52	–12	591
Net commission income	253	107	174	25	–	–4	2	557
Net result on hedge accounting	–	–	–	–	–5	–6	–	–11
Trading profit	1	2	–	154	22	–48	–	131
Net result on investments and securities portfolio	2	6	9	–	3	58	103	181
Other operating result	9	6	41	–	–	–	26	82
Revenue	*495*	*118*	*477*	*181*	*89*	*52*	*119*	*1,531*
Operating expenses	394	78	312	228	16	8	92	1,128
Operating profit	**101**	**40**	**165**	**–47**	**73**	**44**	**27**	**403**
Regular amortization of goodwill	–	15	3	–	–	2	1	21
Restructuring expenses	–	–	–	–	–	–	–	–
Expenses arising from special factors	–	–	–	–	–	–	–	–
Pre-tax profit	**101**	**25**	**162**	**–47**	**73**	**42**	**26**	**382**

3rd quarter 2004 € m	Retail banking	Asset manage-ment	Corporate customers and insti-tutions	Securities	Group Treasury	Mortgage banking	Others and consoli-dation	**Total**
Net interest income	284	–4	386	3	66	58	–75	718
Provision for possible loan losses	–52	–	–142	–	–	–5	–	–199
Net interest income after provisioning	232	–4	244	3	66	53	–75	519
Net commission income	225	106	180	22	–1	–3	–3	526
Net result on hedge accounting	–	–	–	–	6	8	–	14
Trading profit	–	2	15	9	–15	–25	5	–9
Net result on investments and securities portfolio	2	3	–	4	–3	17	1	24
Other operating result	1	11	27	–3	–	–2	1	35
Revenue	*460*	*118*	*466*	*35*	*53*	*48*	*–71*	*1,109*
Operating expenses	375	84	304	206	12	8	89	1,078
Operating profit	**85**	**34**	**162**	**–171**	**41**	**40**	**–160**	**31**
Regular amortization of goodwill	–	14	2	–	–	2	2	20
Restructuring expenses	–	–	–	132	–	–	–	132
Expenses arising from special factors	–	–	–	–	–	–	–	–
Pre-tax profit	**85**	**20**	**160**	**–303**	**41**	**38**	**–162**	**–121**

4th quarter 2004 € m	Retail banking	Asset management	Corporate customers and institutions	Securities	Group Treasury	Mortgage banking	Others and consolidation	Total
Net interest income	282	1	404	–1	24	111	–71	750
Provision for possible loan losses	–76	–	–73	–	–	–36	–	–185
Net interest income after provisioning	206	1	331	–1	24	75	–71	565
Net commission income	252	115	172	33	–	–3	1	570
Net result on hedge accounting	–	–	–	–	–3	2	–	–1
Trading profit	1	2	25	114	–7	–32	–	103
Net result on investments and securities portfolio	–2	5	7	–12	19	50	12	79
Other operating result	17	–2	8	–14	–	–4	4	9
Revenue	*474*	*121*	*543*	*120*	*33*	*88*	*–54*	*1,325*
Operating expenses	398	80	381	169	13	19	91	1,151
Operating profit	**76**	**41**	**162**	**–49**	**20**	**69**	**–145**	**174**
Regular amortization of goodwill	–	15	3	–	–	2	2	22
Restructuring expenses	–	–	–	–	–	–	–	–
Expenses arising from special factors	–	–	–	–	–	–	–	–
Pre-tax profit	**76**	**26**	**159**	**–49**	**20**	**67**	**–147**	**152**

Results, by geographical market

Assignment to the respective segments on the basis of the seat of the branch or consolidated company produces the following breakdown:

2004 financial year € m	Europe including Germany	America	Asia	Other countries	**Total**
Net interest income	2,748	199	35	9	2,991
Provision for possible loan losses	–843	–11	18	–	–836
Net interest income after provisioning	1,905	188	53	9	2,155
Net commission income	2,093	108	46	3	2,250
Hedging result	6	–	–	–	6
Trading profit	498	23	11	7	539
Net result on investments and securities portfolio (available for sale)	353	4	4	–	361
Operating expenses	4,216	167	72	6	4,461
Other operating result	177	1	15	–	193
Operating profit	**816**	**157**	**57**	**13**	**1,043**
Risk-weighted assets according to BIS[1)]	**122,161**	**9,640**	**2,387**	**719**	**134,907**

[1)] excluding market risk

In the previous year, we achieved the following results in the geographical markets:

2003 financial year € m	Europe including Germany	America	Asia	Other countries	**Total**
Net interest income	2,470	244	52	10	2,776
Provision for possible loan losses	–986	–94	–4	–	–1,084
Net interest income after provisioning	1,484	150	48	10	1,692
Net commission income	1,920	135	78	3	2,136
Hedging result	40	5	–6	1	40
Trading profit	715	9	12	1	737
Net result on investments and securities portfolio (available for sale)	260	31	–	–	291
Operating expenses	4,246	176	84	5	4,511
Other operating result	147	27	1	–1	174
Operating profit	**320**	**181**	**49**	**9**	**559**
Risk-weighted assets according to BIS[1)]	**123,112**	**9,316**	**2,751**	**650**	**135,829**

[1)] excluding market risk

Notes to the balance sheet

(44) Cash reserve

We include the following items in the cash reserve:

	31.12.2004	31.12.2003	Change
	€ m	€ m	in %
Cash on hand	597	917	–34.9
Balances with central banks	3,037	4,794	–36.6
Debt issued by public-sector borrowers, and bills of exchange rediscountable at central banks	1,254	1,718	–27.0
Treasury bills and discountable treasury notes, as well as similar debt issues by public-sector borrowers	945	1,383	–31.7
Bills of exchange	309	335	–7.8
Total	**4,888**	**7,429**	**–34.2**

The balances with central banks include claims on the Bundesbank totalling €2,145m (previous year: €3,744m). The minimum reserve requirement to be met at end-December 2004 amounted to €1,646m (previous year: €1,964m).

(45) Claims on banks

	total			due on demand		other claims	
	31.12.2004	31.12.2003	Change	31.12.2004	31.12.2003	31.12.2004	31.12.2003
	€ m	€ m	in %	€ m	€ m	€ m	€ m
German banks	34,619	18,868	83.5	4,288	5,437	30,331	13,431
Foreign banks	44,740	32,789	36.4	16,588	11,536	28,152	21,253
Total	**79,359**	**51,657**	**53.6**	**20,876**	**16,973**	**58,483**	**34,684**

The claims on banks include €5,275m of public-sector loans (previous year: €5,342m) extended by the mortgage banks.

(46) Claims on customers

The claims on customers break down as follows:

	31.12.2004	31.12.2003	Change
	€ m	€ m	in %
Claims on domestic customers	96,885	96,364	0.5
Claims on foreign customers	38,740	42,074	–7.9
Total	**135,625**	**138,438**	**–2.0**

The claims on customers include €26,034m (previous year: €26,855m) of loans secured by mortgages or other security interests in real property (loans of up to 60% of the collateral value) as well as €19,184m (previous year: €19, 597m) of communal loans.

(47) 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:

	31.12.2004 € m	31.12.2003 € m	Change in %
Claims on banks	**4,916**	**1,208**	·
Subsidiaries	–	14	·
Associated companies and companies in which an equity investment exists	4,916	1,194	·
Claims on customers	**253**	**288**	**–12.2**
Subsidiaries	218	239	–8.8
Associated companies and companies in which an equity investment exists	35	49	–28.6
Bonds, notes and other fixed-income securities	**1,687**	**1,620**	**4.1**
Subsidiaries	–	28	·
Associated companies and companies in which an equity investment exists	1,687	1,592	6.0
Shares and other variable-yield securities	**318**	**319**	**–0.3**
Associated companies and companies in which an equity investment exists	318	319	–0.3
Total	**7,174**	**3,435**	·
Liabilities to banks	**321**	**46**	·
Subsidiaries	–	3	·
Associated companies and companies in which an equity investment exists	321	43	·
Liabilities to customers	**731**	**840**	**–13.0**
Subsidiaries	727	826	–12.0
Associated companies and companies in which an equity investment exists	4	14	–71.4
Total	**1,052**	**886**	**18.7**

(48) Total lending

	31.12.2004 € m	31.12.2003 € m	Change in %
Loans to banks[1)]	13,344	10,759	24.0
Claims on customers[1)]	124,881	130,692	–4.4
Bills discounted	311	338	–8.0
Claims not originated by the Bank[2)]	22,024	22,918	–3.9
Total	**160,560**	**164,707**	**–2.5**

1) excluding reverse repos; 2) included in Investments and securities portfolio

We distinguish loans to banks from claims on banks such that only those claims are shown as loans to banks for which special loan agreements have been concluded with the borrowers. Therefore, interbank money-market transactions, for example, do not count as loans to banks.

(49) Provision for possible loan losses

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

	Specific valuation allowances[1]		Country valuation allowances		Global valuation allowances		Total		
	2004 € m	**2003** € m	**2004** € m	**2003** € m	**2004** € m	**2003** € m	**2004** € m	**2003** € m	Change in %
As of 1.1.	**5,506**	**5,320**	**48**	**71**	**300**	**314**	**5,854**	**5,705**	**2.6**
Allocations	1,265	1,492	5	14	12	56	1,282	1,562	–17.9
Deductions	1,405	1,217	36	34	10	45	1,451	1,296	12.0
of which: utilized	900	698	1	1	–	–	901	699	28.9
of which: reversals	505	519	35	33	10	45	550	597	–7.9
Changes in consolidated companies	–	7	–	–	–	–	–	7	.
Exchange-rate changes/transfers	–14	–96	–	–3	7	–25	–7	–124	–94.4
Provision for possible loan losses as of 31.12.	**5,352**	**5,506**	**17**	**48**	**309**	**300**	**5,678**	**5,854**	**–3.0**

[1] including provisions

With direct write-downs and income received on written-down claims taken into account, the allocations and reversals reflected in the income statement gave rise to provision of €836m (previous year: €1,084m) for lending risks.

Provision for possible risks was formed for:

	31.12.2004 € m	**31.12.2003** € m	Change in %
Claims on banks	13	39	–66.7
Claims on customers	5,292	5,471	–3.3
Provision to cover balance-sheet items	**5,305**	**5,510**	**–3.7**
Guarantees, endorsement liabilities, credit commitments	373	344	8.4
Total	**5,678**	**5,854**	**–3.0**

After conservatively valued security in an amount of €1,831m had been deducted, the value-adjusted claims producing neither interest nor income amounted to €4,463m.

The provision for credit risk by customer group breaks down as follows:

€ m	Specific valuation allowances and provisions for lending business	Loan losses[1] in 2004	Net allocation[2] to valuation allowances and provisions in lending business
German customers	**4,796**	**714**	**732**
Companies and self-employed	4,017	646	637
Manufacturing	780	137	89
Construction	303	67	70
Distributive trades	457	118	75
Services, incl. professions, and others	2,477	324	403
Other retail customers	779	68	95
Foreign customers	**556**	**310**	**28**
Banks	13	8	–
Corporate and retail customers	543	302	28
Total	**5,352**	**1,024**	**760**

1) Direct write-downs, utilized specific valuation allowances and provisions in lending business
2) Allocation less reversals

Data on provision for credit risk:

in %	2004	2003
Allocation ratio[1]	0.52	0.66
Write-off ratio[2]	0.63	0.50
Cover ratio[3]	3.54	3.55

1) Net provisioning (new provisions less reversals of valuation allowances and provision for both commercial and country loans and also general provision, plus the balance of direct write-downs and income received on previously written-down claims) as a percentage of total lending
2) Defaults (utilized valuation allowances and provision for both commercial and country loans, plus the balance of direct write-downs and income received on previously written-down claims) as a percentage of total lending
3) Existing provisions (level of valuation allowances and provisions for credit risk in commercial lending, country risk and in general provision) as a percentage of total lending
Total lending = Total lending in commercial business and country loans (Note 48)

(50) Positive fair values from derivative hedging instruments

Derivative instruments used for hedging purposes and for hedge accounting and also showing a positive fair value appear under this item in the balance sheet.

These instruments are measured at their fair value. For the most part, interest-rate and interest-rate/currency swaps are used.

	31.12.2004	31.12.2003	Change
	€ m	€ m	in %
Positive fair values from related effective fair value hedges	2,111	1,649	28.0
Positive fair values from related effective cash flow hedges	1,809	903	·
Total	**3,920**	**2,552**	**53.6**

(51) Assets held for dealing purposes

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

The positive fair values also include financial instruments which cannot be used as hedging instruments in hedge accounting.

	31.12.2004	31.12.2003	Change
	€ m	€ m	in %
Bonds, notes and other fixed-income securities	20,137	19,099	5.4
Money-market instruments	903	1,020	–11.5
issued by public-sector borrowers	504	212	·
issued by other borrowers	399	808	–50.6
Bonds and notes	19,234	18,079	6.4
issued by public-sector borrowers	6,338	5,478	15.7
issued by other borrowers	12,896	12,601	2.3
Shares and other variable-yield securities	10,338	8,510	21.5
Promissory notes held in the trading portfolio	798	559	42.8
Positive fair values attributable to derivative financial instruments	70,808	59,460	19.1
Currency-based transactions	8,824	11,142	–20.8
Interest-based transactions	58,307	44,544	30.9
Other transactions	3,677	3,774	–2.6
Total	**102,081**	**87,628**	**16.5**

€26,314m (previous year: €25,197m) of the bonds, notes and other fixed-income securities and also shares and other variable-yield securities were listed securities.

(52) Investments and securities portfolio

The Investments and securities portfolio consists of claims not originated by the Bank, all bonds, notes and other fixed-income securities, shares and other variable-yield securities not held for trading purposes, as well as investments, holdings in associated companies measured at equity and holdings in subsidiaries not included in the consolidation.

	31.12.2004 € m	**31.12.2003** € m	Change in %
Claims on banks and customers not originated by the Bank	22,024	22,918	–3.9
Bonds, notes and other fixed-income securities	64,310	56,311	14.2
Money-market instruments	821	987	–16.8
issued by public-sector borrowers	54	418	–87.1
issued by other borrowers	767	569	34.8
Bonds and notes	63,489	55,324	14.8
issued by public-sector borrowers	30,075	26,975	11.5
issued by other borrowers	33,414	28,349	17.9
Shares and other variable-yield securities	2,138	2,013	6.2
Investments	3,217	3,783	–15.0
of which: in banks	1,667	2,353	–29.2
Investments in associated companies	2,379	2,300	3.4
of which: in banks	2,322	2,163	7.4
Holdings in subsidiaries	139	517	–73.1
of which: in banks	–	7	.
Total	**94,207**	**87,842**	**7.2**
of which: measured at amortized cost	594	1,320	–55.0

Fair values of listed financial investments:

€ m	**31.12.2004** Fair value	**31.12.2003** Fair value
Bonds, notes and other fixed-income securities	56,484	50,609
Shares and other variable-yield securities	830	864
Investments	2,751	3,277
Total	**60,065**	**54,750**

Investments in large incorporated companies held by the Commerzbank Group, pursuant to Art. 313, (2), no. 4, HGB:

Name	Seat	Percentage share of capital held	
		31.12.2004	31.12.2003
Al Wataniya	Casablanca	9.0	9.0
Banque Marocaine du Commerce Extérieur, S.A.	Casablanca	–	5.0
ConCardis GmbH	Frankfurt am Main	6.0	6.0
EURO Kartensysteme GmbH	Frankfurt am Main	6.0	6.0
GZS Gesellschaft für Zahlungssysteme mbH	Frankfurt am Main	6.1	6.1
Heidelberger Druckmaschinen Aktiengesellschaft	Heidelberg	10.0	10.0
Korea Exchange Bank	Seoul	14.6	14.8
Linde Aktiengesellschaft	Wiesbaden	10.0	10.0
MAN Aktiengesellschaft	Munich	6.8*)	6.8*)
Unibanco – União de Bancos Brasileiros S.A.	São Paulo	5.1*)	5.1*)
Willy Vogel Beteiligungsgesellschaft mbH	Berlin	–	19.0

*) directly and indirectly held

(53) Intangible assets

	31.12.2004 € m	31.12.2003 € m	Change in %
Goodwill	697	690	1.0
Other intangible assets	104	112	–7.1
Total	**801**	**802**	**–0.1**

We amortized goodwill on a regular basis for the last time as of December 31, 2004. As from January 1, 2005, we are subjecting goodwill to an impairment test and will perform a write-down when the result of the test is lower.

Further goodwill arising from companies shown at equity is contained in investments in associated companies (€44m).

Of the other intangible assets, capitalized software produced in-house accounted for €82m (previous year: €100m).

(54) Fixed assets

	31.12.2004 € m	31.12.2003 € m	Change in %
Land and buildings	762	877	–13.1
Office furniture and equipment	859	1,010	–15.0
Leased equipment	145	176	–17.6
Total	**1,766**	**2,063**	**–14.4**

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

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

	Intangible assets		Fixed assets	
€ m	Goodwill	Other intangible assets	Land and buildings	Office furniture and equipment
Book value as of 1.1.2004	**690**	**112**	**877**	**1,010**
Cost of acquisition/production as of 1.1.2004	1,423	203	1,080	3,526
Additions in 2004	19	26	89	206
Disposals in 2004	9	25	160	187
Transfers/changes in consolidated companies	185	35	–19	–10
Cost of acquisition/production as of 31.12.2004	1,618	239	990	3,535
Write-ups in 2004	–	–	–	–
Cumulative write-downs as of 31.12.2003	733	91	203	2,516
Changes in exchange rates	–	1	3	11
Additions in 2004	83	35	52	315
Disposals in 2004	7	7	29	156
Transfers/changes in consolidated companies	112	15	–1	–10
Cumulative write-downs as of 31.12.2004	921	135	228	2,676
Book value as of 31.12.2004	**697**	**104**	**762**	**859**

€ m	Fixed assets Leased equipment	Investments	Investments in associated companies	Holdings in subsidiaries
Book value as of 1.1.2004	**176**	**3,783**	**2,300**	**517**
Cost of acquisition/production as of 1.1.2004	198	4,905	2,929	554
Additions in 2004	72	66	5	20
Disposals in 2004	68	1,058	104	198
Transfers/changes in consolidated companies	–2	5	–	–186
Cumulative changes arising from measurement at fair value or at equity	–	204	165	–
Cost of acquisition/production/fair value as of 31.12.2004	200	4,122	2,995	190
Write-ups in 2004	–	–	–	–
Cumulative write-downs as of 31.12.2003	22	1,122	629	37
Additions in 2004	34	29	11	14
Disposals in 2004	1	246	24	–
Transfers/changes in consolidated companies	–	–	–	–
Cumulative write-downs as of 31.12.2004	55	905	616	51
Book value as of 31.12.2004	**145**	**3,217**	**2,379**	**139**

(56) Tax assets

	31.12.2004 € m	31.12.2003 € m	Change in %
Current tax assets	**606**	**270**	**·**
Germany	544	203	·
Abroad	62	67	–7.5
Deferred tax assets	**5,205**	**5,768**	**–9.8**
Deferred tax assets	5,205	5,768	–9.8
Total	**5,811**	**6,038**	**–3.8**

Deferred taxes represent the potential income-tax relief from temporary differences between the values assigned to assets and liabilities in the consolidated balance sheet in accordance with IAS and their values for tax-accounting purposes in accordance with the local tax regulations for consolidated companies.

No deferred taxes have been recognized for loss carry-forwards of €3,428m (previous year: €3,084m), as it is uncertain at present whether they will be realized.

For the most part, there are no time limits on the use of the existing tax loss carry-forwards.

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

	31.12.2004 € m	31.12.2003 € m	Change in %
Fair values of derivative hedging instruments	2,092	2,567	–18.5
Assets held for dealing purposes and liabilities from dealing activities	2,189	2,130	2.8
Claims on banks and customers	306	103	·
Provisions	101	118	–14.4
Securitized liabilities	31	34	–8.8
Liabilities to banks and customers	16	19	–15.8
Sundry balance-sheet items	196	425	–53.9
Capitalized tax loss carry-forwards	274	372	–26.3
Total	**5,205**	**5,768**	**–9.8**

(57) Other assets

Other assets mainly comprise the following items:

	31.12.2004 € m	31.12.2003 € m	Change in %
Collection items	211	385	–45.2
Precious metals	350	464	–24.6
Sundry assets, including deferred items	1,165	1,797	–35.2
Total	**1,726**	**2,646**	**–34.8**

(58) Liabilities to banks

	total		
	31.12.2004	**31.12.2003**	Change
	€ m	€ m	in %
German banks	57,987	41,015	41.4
Foreign banks	57,443	54,234	5.9
Total	**115,430**	**95,249**	**21.2**

of which:	due on demand		other liabilities	
	31.12.2004	**31.12.2003**	**31.12.2004**	**31.12.2003**
	€ m	€ m	€ m	€ m
German banks	7,449	6,407	50,538	34,608
Foreign banks	10,359	11,034	47,084	43,200
Total	**17,808**	**17,441**	**97,622**	**77,808**

(59) Liabilities to customers

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

	total		
	31.12.2004	**31.12.2003**	Change
	€ m	€ m	in %
German customers	**72,514**	**73,601**	**–1.5**
Corporate customers	39,656	43,313	–8.4
Retail customers and others	31,071	27,243	14.1
Public sector	1,787	3,045	–41.3
Foreign customers	**32,550**	**26,399**	**23.3**
Corporate and retail customers	31,894	25,876	23.3
Public sector	656	523	25.4
Total	**105,064**	**100,000**	**5.1**

€ m	Savings deposits 31.12.2004	Savings deposits 31.12.2003	Other liabilities due on demand 31.12.2004	Other liabilities due on demand 31.12.2003	Other liabilities with agreed lifetime or period of notice 31.12.2004	Other liabilities with agreed lifetime or period of notice 31.12.2003
German customers	**15,604**	**11,180**	**26,495**	**26,932**	**30,415**	**35,489**
Corporate customers	71	44	16,338	17,444	23,247	25,825
Retail customers and others	15,498	11,130	9,759	8,927	5,814	7,186
Public sector	35	6	398	561	1,354	2,478
Foreign customers	**1,288**	**1,093**	**9,987**	**7,362**	**21,275**	**17,944**
Corporate and retail customers	1,287	1,092	9,854	7,213	20,753	17,571
Public sector	1	1	133	149	522	373
Total	**16,892**	**12,273**	**36,482**	**34,294**	**51,690**	**53,433**

Savings deposits break down as follows:

	31.12.2004 € m	**31.12.2003** € m	Change in %
Savings deposits with agreed period of notice of three months	15,797	11,556	36.7
Savings deposits with agreed period of notice of more than three months	1,095	717	52.7
Total	**16,892**	**12,273**	**37.6**

(60) Securitized liabilities

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

	total		of which: issued by mortgage banks	
	31.12.2004 € m	**31.12.2003** € m	**31.12.2004** € m	**31.12.2003** € m
Bonds and notes issued	76,478	71,100	55,650	53,433
Money-market instruments issued	10,677	12,680	3,046	5,180
Own acceptances and promissory notes outstanding	95	212	–	–
Total	**87,250**	**83,992**	**58,696**	**58,613**

The nominal interest paid on money-market paper ranges from 1.167% to 25.0% (previous year: 0.18% to 21.0%); for bonds and notes, from 0.049% to 17.67% (previous year: 0.05% to 32.0%). The original maturity periods for money-market paper may be up to one year. €52bn (previous year: €44bn) of the bonds and notes have an original lifetime of more than four years.

The following table presents the most important bonds and notes issued in 2004:

Equivalent in € m	Currency	Issuer	Interest rate %	Maturity date
2,500	EUR	Hypothekenbank in Essen AG	2.750	2006
2,000	EUR	Hypothekenbank in Essen AG	3.250	2009
2,000	EUR	Hypothekenbank in Essen AG	3.000	2008
2,000	EUR	Hypothekenbank in Essen AG	2.150	2006
1,000	EUR	Hypothekenbank in Essen AG	2.188	2006
1,000	EUR	Hypothekenbank in Essen AG	3.250	2008
600	EUR	Hypothekenbank in Essen AG	2.201	2005
500	EUR	Hypothekenbank in Essen AG	2.500	2006
500	EUR	Hypothekenbank in Essen AG	2.000	2005
350	EUR	Hypothekenbank in Essen AG	2.250	2005
300	EUR	Hypothekenbank in Essen AG	2.145	2006
231	EUR	Commerzbank AG	15.000 [1)]	2005
231	EUR	Commerzbank AG	15.000 [1)]	2005
220	USD	Commerzbank AG	2.440	2005
200	EUR	Hypothekenbank in Essen AG	2.265	2005
200	EUR	Hypothekenbank in Essen AG	2.308	2005
200	EUR	Hypothekenbank in Essen AG	2.270	2005
175	EUR	Hypothekenbank in Essen AG	2.211	2006
166	EUR	Hypothekenbank in Essen AG	0.850	2006

1) Reverse convertible bonds

(61) Negative fair values from derivative hedging instruments

Derivative instruments not serving trading purposes but used for effective hedging and showing a negative fair value appear under this item in the balance sheet.

These financial instruments are measured at their fair value. For the most part, interest-rate and interest-rate/currency swaps are used as hedging instruments.

	31.12.2004 € m	**31.12.2003** € m	Change in %
Negative fair values from related effective fair value hedges	4,049	3,211	26.1
Negative fair values from related effective cash flow hedges	4,604	2,721	69.2
Total	**8,653**	**5,932**	**45.9**

(62) Liabilities from dealing activities

In Liabilities from dealing activities, the negative fair values of financial derivative instruments not employed as hedging instruments in connection with hedge accounting are shown. Delivery commitments arising from short sales of securities are also included under Liabilities from dealing activities.

	31.12.2004 € m	31.12.2003 € m	Change in %
Currency-based transactions	9,204	11,761	–21.7
Interest-based transactions	60,886	43,058	41.4
Delivery commitments arising from short sales of securities	5,600	8,389	–33.2
Sundry transactions	4,316	3,806	13.4
Total	**80,006**	**67,014**	**19.4**

(63) Provisions

Provisions break down as follows:

	31.12.2004 € m	31.12.2003 € m	Change in %
Provisions for pensions and similar commitments	1,495	1,432	4.4
Other provisions	1,862	1,875	–0.7
Total	**3,357**	**3,307**	**1.5**

The changes in provisions for pensions were as follows:

€ m	as of 1.1.2004	Pension payments	Additions	Change in fair value and allocation to plan assets	Rebookings/ changes in consolidated companies	as of 31.12.2004
Pension expectancies of active and former employees and also pensioners	1,402	74	144	5	5	1,472
Early retirement	24	12	–	–	7	19
Part-time scheme for older staff	6	24	5	3	20	4
Total	**1,432**	**110**	**149**	**8**	**32**	**1,495**

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 (including pension guidelines, pension scheme, contribution-based pension plan, individual pension commitments), which mainly depends upon when the employee joined the Bank. On this basis, pensions are paid to employees reaching retirement age, or earlier in the case of invalidity or death (see also Note 22).

The changes in the assets held in trust at Commerzbank Pension Trust e.V., which count as plan assets pursuant to IAS 19, were as follows:

	2004 € m	2003 € m
Plan assets as of January 1	139	0
Transfer to plan assets as of November 1	0	138
Allocation/withdrawal	3	0
Income from plan assets	5	1
Benefits paid	0	0
Fair value as of December 31	**147**	**139**

The pension commitments are worked out annually by an independent actuary, applying the projected unit credit method.

The projected unit credit for pension commitments as of December 31, 2004, was €1,797m (previous year: €1,644m). The difference between this figure and the pension provisions is the result of changes in the actuarial parameters and the bases of calculation amounting to €155m (previous year: €73m) and of changes in the fair value of the plan assets of €147m (previous year: €139m).

Changes in pension commitments:

	2004 € m	2003 € m
Provisions for pensions, including plan assets, as of January 1	1,571	1,516
Service cost	33	35
Interest cost	79	90
Cost of early retirement and part-time scheme for older staff	37	24
Pension benefits	–110	–98
Other changes	32	4
Actuarial loss	155	73
Pension commitments as of December 31	**1,797**	**1,644**

Changes in Other provisions:

€ m	as of **1.1.2004**	Utilized	Reversals	Allocation/changes in consolidated companies	as of **31.12.2004**
Personnel area	552	380	44	405	533
Restructuring measures	209	130	7	97	169
Risks in lending	344	17	74	120	373
Bonuses for special savings schemes	94	38	0	39	95
Legal proceedings and recourse claims	71	10	36	89	114
Sundry items	605	135	93	201	578
Total	**1,875**	**710**	**254**	**951**	**1,862**

The provisions in the personnel area basically relate to provisions for various types of bonuses, to be paid to employees of the Group in the first quarter of 2005.

(64) Tax liabilities

	31.12.2004 € m	31.12.2003 € m	Change in %
Current income-tax liabilities	**432**	**154**	·
Income-tax liabilities to tax authorities	7	1	·
Provisions for income taxes	425	153	·
Deferred income-tax liabilities	**3,461**	**4,341**	**–20.3**
Deferred taxes carried as liabilities	3,461	4,341	–20.3
Total	**3,893**	**4,495**	**–13.4**

Provisions for taxes on income are possible tax liabilities for which no final formal assessment note has been received. The liabilities to tax authorities represent payment obligations from current taxes towards German and foreign tax authorities. Deferred taxes on the liabilities side represent the potential income-tax burden from temporary differences between the values assigned to assets and liabilities in the consolidated balance sheet in accordance with IAS and their values for tax-accounting purposes in accordance with the local tax regulations for consolidated companies.

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

	31.12.2004 € m	31.12.2003 € m	Change in %
Assets held for dealing purposes and liabilities from dealing activities	703	1,270	–44.6
Fair values of derivative hedging instruments	1,290	1,783	–27.7
Investments and securities portfolio	852	795	7.2
Claims on banks and customers	67	290	–76.9
Liabilities to banks and customers	196	21	·
Sundry balance-sheet items	353	182	94.0
Total	**3,461**	**4,341**	**–20.3**

(65) Other liabilities

Other liabilities of €1,280m (previous year: €1,181m) include obligations arising from still outstanding bills, deductions to be made from salaries and deferred liabilities.

We now show the deferred interest expenses for subordinated capital and measuring effects arising from hedge accounting (IAS 39) in separate lines under Note 66.

(66) Subordinated capital

Subordinated capital breaks down as follows:

	31.12.2004 € m	31.12.2003 € m	Change in %
Subordinated liabilities	**5,673**	**5,958**	**–4.8**
of which: tier-III capital as defined in Art. 10, (7), KWG	–	125	·
of which: maturing within two years	835	617	35.3
Profit-sharing certificates outstanding	**2,111**	**2,423**	**–12.9**
of which: maturing within two years	630	522	20.7
Deferred interest	273	295	–7.5
Measuring effects (IAS 39)	819	735	11.4
Total	**8,876**	**9,411**	**–5.7**

Subordinated liabilities are own funds as defined in Art. 10, (5a), KWG. The claims of creditors to repayment of these liabilities are subordinate to those of other creditors. The issuer cannot be obliged to make premature repayment. In the event of insolvency or winding-up, subordinated liabilities may only be repaid after the claims of all senior creditors have been met.

At end-2004, the following major subordinated liabilities were outstanding:

Start of maturity	€ m	Currency in m	Issuer	Interest rate	Maturity date
2000	590	590 EUR	Commerzbank AG	6.500	2010
1999	550	550 EUR	Commerzbank AG	4.750	2009
2001	490	490 EUR	Commerzbank AG	6.125	2011
1997	284	200 GBP	Commerzbank AG	7.875	2007
1999	300	300 EUR	Commerzbank AG	6.250	2009
2002	275	275 EUR	Commerzbank AG	5.500	2008
2001	250	250 EUR	Commerzbank AG	5.100	2011
1999	213	150 GBP	Commerzbank AG	6.625	2019

In the year under review, the interest paid by the Group for subordinated liabilities totalled €349m (previous year: €375m). Deferred interest expenses for interest due but not yet paid are shown at €131m (previous year: €138m).

Profit-sharing certificates outstanding form part of the Bank's liable equity capital in accordance with the provisions of the German Banking Act (Art. 10, (5), KWG). They are directly affected by current losses. Interest payments are made solely if the issuing institution achieves a distributable profit. The claims of holders of profit-sharing certificates to a repayment of principal are subordinate to those of other creditors.

At end-2004, the following major profit-sharing certificates were outstanding:

Start of maturity	€ m	Issuer	Interest rate	Maturity date
1993	392	Commerzbank AG	7.250	2005
2000	320	Commerzbank AG	6.375	2010
1992	213	Commerzbank AG	9.150	2004
1994	256	Commerzbank AG	2.899	2006
1996	256	Commerzbank AG	7.900	2008

Interest to be paid on the profit-sharing certificates outstanding for the 2004 financial year amounts to €156m (previous year: €175m). Deferred interest expenses for interest due but not yet paid are shown at €142m (previous year: €157m).

(67) Hybrid capital

As in previous years, the Commerzbank Group raised no hybrid capital in the 2004 financial year.

(68) Equity structure

	31.12.2004	31.12.2003
	€ m	€ m
a) Subscribed capital	1,546	1,545
b) Capital reserve	4,475	4,475
c) Retained earnings	3,433	3,286
d) Revaluation reserve	1,603	1,240
e) Measurement of cash flow hedges	–1,214	–1,236
f) Reserve from currency translation	–192	–219
g) Consolidated profit	150	0
Equity	**9,801**	**9,091**

a) Subscribed capital

The subscribed capital (share capital) of Commerzbank AG consists of no-par-value shares, each with a notional value of €2.60. The shares are issued in the form of bearer shares.

	1,000 units
Number of shares outstanding on 1.1.2004	**594,368**
plus: treasury shares on 31.12. of the previous year	3,490
Issue of shares to employees	729
Number of shares issued on 31.12.2004	**598,587**
less: treasury shares on balance-sheet date	4,103
Number of shares outstanding on 31.12.2004	**594,484**

Before treasury shares are deducted, the subscribed capital stands at €1,556m.

No preferential rights exist or restrictions on the payment of dividends at Commerzbank Aktiengesellschaft. All the issued shares have been fully paid in.

The value of issued, outstanding and authorized shares is as follows:

	31.12.2004		31.12.2003	
	€ m	1,000 units	€ m	1,000 units
Shares issued	1,556	598,587	1,554	597,858
– Treasury shares	10	4,103	9	3,490
= Shares outstanding (subscribed capital)	1,546	594,484	1,545	594,368
+ Shares not yet issued from authorized capital	622	239,262	349	134,054
Total	**2,168**	**833,746**	**1,894**	**728,422**

The number of authorized shares is 837,849 thousand units (previous year: 731,912 thousand units). The amount represented by authorized shares is €2,178m (previous year: €1,903m).

As of December 31, 2004, 5,324 thousand shares (previous year: 6,574 thousand shares) had been pledged with the Group as security. This represents 0.9% (previous year: 1.1%) of the shares outstanding on the balance-sheet date.

Securities transactions in treasury shares pursuant to Art. 71, (1), no. 1 and no. 7, AktG

	Number of shares*) in units	Notional value in €1,000	Percentage of share capital
Portfolio on 31.12.2004	4,103,289	10,669	0.69
Largest total acquired during the financial year	6,582,775	17,115	1.10
Total shares pledged by customers as collateral on 31.12.2004	5,323,868	13,842	0.89
Shares acquired during the financial year	198,893,739	517,124	–
Shares disposed of during the financial year	198,280,450	515,529	–

*) Notional value per share €2.60

b) Capital reserve

In the capital reserve, premiums from the issue of shares are shown. In addition, the capital reserve contains amounts which were realized for conversion and option rights entitling holders to purchase shares when bonds and notes were issued.

c) Retained earnings

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; in the individual financial statements, the amounts assigned to this reserve may not be distributed. The overall amount of retained earnings shown in the balance sheet consists of €3m of legal reserves (previous year: €3m) and €3,430m (previous year: €3,283m) of other revenue reserves.

d) Revaluation reserve

The results of measuring the investments and securities portfolio – consisting of interest-bearing and dividend-based instruments – at fair value, with deferred taxes taken into consideration, are assigned to the revaluation reserve. Gains or losses appear in the income statement only when the asset has been disposed of or written off.

e) Measurement of cash flow hedges

The result of measuring effective hedges used in cash flow hedges appears, after deferred taxes have been taken into consideration, under this equity item.

f) Reserve from currency translation

The reserve from currency translation relates to translation gains and losses arising through the consolidation of capital accounts. Here exchange-rate differences are included that arise through the consolidation of subsidiaries and associated companies.

(69) Conditional capital

Conditional capital is intended to be used for the issue of convertible bonds or bonds with warrants and also of profit-sharing certificates with conversion or option rights.

Changes in the Bank's conditional capital:

€ m	Conditional capital **1.1.2004**	Additions	Expiring/ Used	Conditional capital **31.12.2004**	of which: used conditional capital	of which: available lines
Convertible bonds/bonds with warrants/ profit-sharing rights	200	–	200	–	–	–
Convertible bonds/bonds with warrants/ profit-sharing rights	403	–	–	403	–	403
Total	**603**	**–**	**200**	**403**	**–**	**403**

The conditional increase in the Bank's share capital by up to €200,070,000, resolved by the AGM of May 21, 1999, expired on April 30, 2004.

As resolved by the AGM of May 30, 2003, the Bank's share capital has been conditionally increased by up to €403,000,000. Such conditional capital increase will only be effected to the extent that the holders or creditors of the convertible bonds, bonds with warrants or profit-sharing rights – carrying conversion or option rights – to be issued by May 30, 2008, by either Commerzbank Aktiengesellschaft or companies in which Commerzbank Aktiengesellschaft directly or indirectly holds a majority interest (group companies as defined in Art. 18, (1), AktG) exercise their conversion or option rights, or the holders or creditors of the convertible bonds or convertible profit-sharing rights to be issued by May 30, 2008 by either Commerzbank Aktiengesellschaft or companies in which Commerzbank Aktiengesellschaft directly or indirectly holds a majority interest (group companies as defined in Art. 18, (1), AktG) meet their obligation to exercise their conversion rights.

(70) Authorized capital

Date of AGM resolution	Original amount €m	Used in previous years for capital increases €m	Used in 2004 for capital increases €m	Expired €m	Remaining amount €m	Date of expiry
21.5.1999	175	–	–	175	–	Expired
21.5.1999	175	25	–	150	–	Expired
21.5.1999	86	86	–	–	–	Expired
31.5.2002	30	6	2	–	22	30.4.2007
12.5.2004	225	–	–	–	225	30.4.2009
12.5.2004	225	–	–	–	225	30.4.2009
12.5.2004	150	–	–	–	150	30.4.2009
Total	**1,066**	**117**	**2**	**325**	**622**	

The Board of Managing Directors is authorized to increase, with the approval of the Supervisory Board, the share capital of the Bank by April 30, 2007, through the issue of new no-par-value shares against cash, in either one or several tranches, by a maximum amount of altogether €22,080,896.60, thereby excluding the subscription rights of shareholders for the purpose of issuing these shares to the Bank's staff.

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

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

Furthermore, the Board of Managing Directors may, with the approval of the Supervisory Board, exclude shareholders' subscription rights insofar as the capital increase is made against contributions in kind for the purpose of acquiring companies or interests in companies.

The Board of Managing Directors is authorized, with the approval of the Supervisory Board, to increase the Company's share capital by April 30, 2009, through the issue of new no-par-value shares against cash, in either one or several tranches, but by a maximum amount of €150,000,000 (authorized capital 2004/III). The Board of Managing Directors may, with the approval of the Supervisory Board, exclude shareholders' subscription rights if the issue price of the new shares is not substantially lower than that of already listed shares offering the same conditions.

(71) The Bank's foreign-currency position

On December 31, 2004, the Commerzbank Group had the following foreign-currency assets and liabilities (excluding fair values of derivatives):

	31.12.2004 €m					31.12.2003 €m	Change in %
	USD	JPY	GBP	Others	**Total**	**Total**	
Cash reserve	21	344	11	317	693	1,028	–32.6
Claims on banks	10,902	5,041	1,353	3,281	20,577	24,112	–14.7
Claims on customers	20,024	1,056	2,211	6,653	29,944	35,479	–15.6
Assets held for dealing purposes	4,271	474	2,077	1,775	8,597	9,429	–8.8
Investments and securities portfolio	7,211	1,036	382	1,449	10,078	7,778	29.6
Other balance-sheet items	2,142	825	647	1,739	5,353	6,219	–13.9
Foreign-currency assets	**44,571**	**8,776**	**6,681**	**15,214**	**75,242**	**84,045**	**–10.5**
Liabilities to banks	13,402	5,294	4,612	5,340	28,648	38,634	–25.8
Liabilities to customers	16,927	170	2,739	5,152	24,988	20,084	24.4
Securitized liabilities	5,778	161	999	3,890	10,828	12,369	–12.5
Liabilities from dealing activities	319	7	10	917	1,253	2,998	–58.2
Other balance-sheet items	2,852	395	1,514	1,193	5,954	5,287	12.6
Foreign-currency liabilities	**39,278**	**6,027**	**9,874**	**16,492**	**71,671**	**79,372**	**–9.7**

Due to exchange-rate movements in the 2004 financial year, the consolidated balance-sheet total contracted by roughly €4bn (previous year: –€12bn). Total lending declined by €3bn (previous year: –€7bn).

Notes to financial instruments

(72) Derivative transactions

The following tables present the respective nominal amounts and fair values of OTC derivatives and derivatives traded on a stock exchange.

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

For both regulatory reports and the internal measurement and monitoring of our credit commitments, we use such risk-reducing techniques only if we consider them enforceable under the respective legal system, should the business associate become insolvent. In order to check enforceability, we avail ourselves of legal opinions from various international law firms.

Similar to the master agreements are the collateral agreements (e.g. collateralization annex for financial futures contracts, Credit Support Annex), which we conclude with our business associates to secure the net claim or liability remaining after netting (receiving or furnishing of security). As a rule, this collateral management reduces credit risk by means of prompt (mostly daily or weekly) measurement and adjustment of the exposure to customers.

On average, we achieve a credit-risk mitigation of 77.23% of the exposure for the derivatives contracts and security which are covered by the process of risk-reducing techniques.

In the credit derivatives area, we registered a 25.19% higher volume than a year earlier. We employ these products which serve to transfer credit risk both in trading for arbitrage purposes and in investing for diversifying our loan portfolios. The following table illustrates our risk structure in terms of the various risk assets that have been hedged.

Breakdown, by reference assets

	31.12.2004 Nominal amounts		**31.12.2003** Nominal amounts	
€ m	Protection bought	Protection sold	Protection bought	Protection sold
OECD central governments	2,663	2,705	1,925	2,111
OECD banks	4,570	5,217	4,261	3,428
OECD financial institutions	8,153	8,483	5,006	5,134
Other companies, private individuals	47,774	48,902	39,803	40,546
Non-OECD banks	9	–	261	151
Total	**63,169**	**65,307**	**51,256**	**51,370**

31.12.2004	Nominal amount Remaining lifetimes				Fair value	
€ m	under 1 year	1-5 years	more than 5 years	Total	positive	negative
Foreign-currency-based forward transactions						
OTC products	268,282	119,157	61,901	449,340	9,578	9,878
Spot and forward currency transactions	145,469	9,710	109	155,288	4,133	4,756
Interest-rate and currency swaps	70,117	96,329	58,577	225,023	4,644	4,294
Currency call options	26,605	7,386	1,612	35,603	801	–
Currency put options	26,091	5,732	1,603	33,426	–	828
Other foreign-exchange contracts	–	–	–	–	–	–
Products traded on a stock exchange	670	107	–	777	–	–
Currency futures	670	107	–	777	–	–
Currency options	–	–	–	–	–	–
Total	**268,952**	**119,264**	**61,901**	**450,117**	**9,578**	**9,878**
Interest-based futures transactions						
OTC products	1,273,623	1,236,339	1,014,175	3,524,137	61,408	68,737
Forward-rate agreements	135,079	2,673	–	137,752	87	77
Interest-rate swaps	1,094,167	1,116,192	927,596	3,137,955	58,120	64,985
Call options on interest-rate futures	17,549	43,085	32,095	92,729	2,558	–
Put options on interest-rate futures	22,275	49,001	38,165	109,441	–	2,786
Other interest-rate contracts	4,553	25,388	16,319	46,260	643	889
Products traded on a stock exchange	125,257	7,685	8,277	141,219	–	–
Interest-rate futures	52,889	3,864	2,495	59,248	–	–
Interest-rate options	72,368	3,821	5,782	81,971	–	–
Total	**1,398,880**	**1,244,024**	**1,022,452**	**3,665,356**	**61,408**	**68,737**
Other forward transactions						
OTC products	37,556	145,482	10,837	193,875	3,742	4,444
Structured equity/index products	4,238	11,988	1,086	17,312	758	1,162
Equity call options	9,202	9,567	508	19,277	1,238	–
Equity put options	11,157	10,800	774	22,731	–	1,534
Credit derivatives	8,553	111,713	8,210	128,476	1,451	1,501
Precious metal contracts	4,406	1,414	259	6,079	295	247
Other transactions	–	–	–	–	–	–
Products traded on a stock exchange	33,813	8,887	155	42,855	–	–
Equity futures	4,734	–	–	4,734	–	–
Equity options	29,079	8,887	155	38,121	–	–
Other futures	–	–	–	–	–	–
Other options	–	–	–	–	–	–
Total	**71,369**	**154,369**	**10,992**	**236,730**	**3,742**	**4,444**
Total immatured forward transactions						
OTC products	1,579,461	1,500,978	1,086,913	4,167,352	74,728	83,059
Products traded on a stock exchange	159,740	16,679	8,432	184,851	–	–
Total	**1,739,201**	**1,517,657**	**1,095,345**	**4,352,203**	**74,728**	**83,059**

As of December 31, 2003, the figures were as follows:

31.12.2003	Nominal amount				Fair value	
	Remaining lifetimes					
€ m	under 1 year	1-5 years	more than 5 years	Total	positive	negative
Foreign-currency-based forward transactions						
OTC products	325,473	106,449	55,896	487,818	11,228	12,598
Spot and forward currency transactions	205,883	13,857	634	220,374	5,237	6,484
Interest-rate and currency swaps	57,304	81,434	52,882	191,620	4,962	5,059
Currency call options	32,840	5,917	1,159	39,916	1,029	–
Currency put options	29,446	5,241	1,221	35,908	–	1,055
Other foreign-exchange contracts	–	–	–	–	–	–
Products traded on a stock exchange	816	226	–	1,042	–	–
Currency futures	815	226	–	1,041	–	–
Currency options	1	–	–	1	–	–
Total	**326,289**	**106,675**	**55,896**	**488,860**	**11,228**	**12,598**
Interest-based futures transactions						
OTC products	1,017,271	1,000,787	791,759	2,809,817	46,456	47,539
Forward-rate agreements	209,036	3,322	–	212,358	100	81
Interest-rate swaps	767,819	843,414	685,480	2,296,713	43,013	44,248
Call options on interest-rate futures	21,652	49,010	44,901	115,563	2,399	–
Put options on interest-rate futures	14,169	56,107	49,255	119,531	–	2,682
Other interest-rate contracts	4,595	48,934	12,123	65,652	944	528
Products traded on a stock exchange	168,501	6,026	8,580	183,107	–	–
Interest-rate futures	66,157	3,347	3,892	73,396	–	–
Interest-rate options	102,344	2,679	4,688	109,711	–	–
Total	**1,185,772**	**1,006,813**	**800,339**	**2,992,924**	**46,456**	**47,539**
Other forward transactions						
OTC products	27,110	115,056	11,644	153,810	4,328	4,420
Structured equity/index products	1,480	4,850	1,110	7,440	837	738
Equity call options	6,805	9,617	675	17,097	1,480	–
Equity put options	7,212	10,576	753	18,541	–	1,688
Credit derivatives	6,986	86,837	8,803	102,626	1,474	1,484
Precious metal contracts	4,627	3,176	303	8,106	537	510
Other transactions	–	–	–	–	–	–
Products traded on a stock exchange	25,327	5,115	86	30,528	–	–
Equity futures	4,492	10	–	4,502	–	–
Equity options	20,835	5,105	86	26,026	–	–
Other futures	–	–	–	–	–	–
Other options	–	–	–	–	–	–
Total	**52,437**	**120,171**	**11,730**	**184,338**	**4,328**	**4,420**
Total immatured forward transactions						
OTC products	1,369,854	1,222,292	859,299	3,451,445	62,012	64,557
Products traded on a stock exchange	194,644	11,367	8,666	214,677	–	–
Total	**1,564,498**	**1,233,659**	**867,965**	**3,666,122**	**62,012**	**64,557**

Breakdown of derivatives business, by borrower group:

	31.12.2004 Fair value		31.12.2003 Fair value	
€ m	positive	negative	positive	negative
OECD central governments	1,137	380	1,109	368
OECD banks	50,259	57,708	49,439	50,361
OECD financial institutions	20,360	21,352	8,256	8,978
Other companies, private individuals	2,488	3,233	2,609	4,391
Non-OECD banks	484	386	599	459
Total	**74,728**	**83,059**	**62,012**	**64,557**

Fair values appear as the sum totals of the positive and negative amounts per contract, from which no pledged security has been deducted and no possible netting agreements have been taken into consideration. By definition, no positive fair values exist for put options.

(73) Use made of derivative financial instruments

	31.12.2004 Fair value		31.12.2003 Fair value	
€ m	positive	negative	positive	negative
Derivative financial instruments used for trading purposes	67,982	71,195	57,206	56,002
Hedging derivatives which cannot be employed in hedge accounting	2,826	3,211	2,254	2,623
Derivatives used as hedging instruments	3,920	8,653	2,552	5,932
for fair value hedge accounting	2,111	4,049	1,649	3,211
for cash flow hedge accounting	1,809	4,604	903	2,721
Total	**74,728**	**83,059**	**62,012**	**64,557**

In the above table, we show the use made of our derivative financial instruments. We use derivatives for both trading and hedging purposes. In Notes 6, 13, 14, 20 and 21, we have described the above-mentioned criteria.

(74) Market risk arising from trading activities

For the daily quantification and monitoring of market risk, especially that arising in proprietary trading, mathematical-statistical methods are used to calculate the value-at-risk. The underlying statistical parameters are based on an observation period of the past 255 trading days, a 10-day holding period and a confidence level of 99%. The value-at-risk models are constantly being adapted to the changing environment.

On the basis of the risk data, the Group manages the market risk for all operating units by a system of risk limits, primarily by means of limits for the potential risk (value-at-risk) and stress scenarios, as well as loss-review triggers.

The risk position of the Group's trading portfolio at year-end shows the value-at-risk, broken down by the various business lines engaged in proprietary trading. The value-at-risk shows the potential losses which will not be exceeded with a 99% degree of probability.

Risk position of the trading portfolio (Principle I risks):

Portfolio	Holding period Confidence level 99%	**31.12.2004** € m	**31.12.2003** € m
Group	10 days	54.7 *)	66.8 *)
Corporates & Markets department (Securities)	10 days	50.7	57.7
Treasury department	10 days	12.4	16.8

*) The relatively low value-at-risk at Group level is the result of strong portfolio effects between the Corporates & Markets and Treasury departments.

(75) Interest-rate risk

The interest-rate risk of the Commerzbank Group results from the items in both the trading book and the banking book. In the latter, interest-rate risk mainly arises through maturity mismatches between the Bank's interest-bearing assets and liabilities – for instance, through the short-term funding of long-dated loans. The interest-rate items shown in the balance sheet and also the derivatives employed to steer them are drawn upon in the measurement of interest-rate risk.

The interest-rate risk of the banking book is measured on the basis of a net present value approach, applying the historical simulation method:

31.12.2004 **Portfolio** € m	Holding period	Banking book	Trading book Confidence level: 99%	Overall interest-rate risk
Group	10 days	118.04	19.55	106.62

31.12.2003 **Portfolio** € m	Holding period	Banking book	Trading book Confidence level: 99%	Overall interest-rate risk
Group	10 days	195.72	61.96	213.77

The value-at-risk figures show the potential losses in € m, which at the given holding period of 10 days will not be exceeded with a probability of 99%.

(76) Concentration of credit risk

Concentrations of credit risk may arise through business relations with individual borrowers or groups of borrowers who share a number of features and whose individual ability to service debt is influenced to the same extent by changes in certain overall economic conditions. These risks are managed by the Credit Risk Management department. Credit risk throughout the Group is monitored by the use of limits for each individual borrower and borrower unit, through the furnishing of the appropriate security and through the application of a uniform lending policy. In order to minimize credit risk, the Bank has entered into a number of master netting agreements ensuring the right to set off the claims on and liabilities to a client in the case of default by the latter or insolvency. In addition, the 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 financial instruments were as follows on December 31, 2004:

	Claims	
€ m	**31.12.2004**	**31.12.2003**
Customers in Germany	**96,885**	**96,364**
Companies and self-employed	44,686	44,037
Manufacturing	10,629	10,808
Construction	809	824
Distributive trades	5,114	5,370
Services, incl. professions and others	28,134	27,035
Public sector	15,422	16,141
Other retail customers	36,777	36,186
Customers abroad	**38,740**	**42,074**
Corporate and retail customers	34,978	38,618
Public sector	3,762	3,456
Sub-total	**135,625**	**138,438**
less valuation allowances	–5,292	–5,471
Total	**130,333**	**132,967**

(77) Assets pledged as security

Assets in the amounts shown below were pledged as security for the following liabilities:

	31.12.2004 € m	31.12.2003 € m	Change in %
Liabilities to banks	60,973	35,293	72.8
Liabilities to customers	7,267	10,261	–29.2
Liabilities from dealing activities	2,802	1,983	41.3
Total	**71,042**	**47,537**	**49.4**

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

	31.12.2004 € m	31.12.2003 € m	Change in %
Claims on banks	12,349	1,916	·
Claims on customers	645	11,208	–94.2
Assets held for dealing purposes and investments and securities portfolio	58,460	42,613	37.2
Total	**71,454**	**55,737**	**28.2**

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

(78) Maturities, by remaining lifetime

	Remaining lifetimes as of 31.12.2004				
€ m	due on demand and unlimited in time	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years
Claims on banks	20,876	37,516	13,123	3,303	4,541
Claims on customers	15,347	26,224	13,815	32,335	47,904
Bonds and notes from the assets held for dealing purposes	86	1,897	2,396	9,054	6,704
Bonds, notes and other fixed-income securities and also claims not originated by the Bank held in investments and securities portfolio	113	4,513	6,195	25,582	49,931
Total	**36,422**	**70,150**	**35,529**	**70,274**	**109,080**
Liabilities to banks	17,808	65,821	14,271	5,311	12,219
Liabilities to customers	36,482	55,645	3,094	3,308	6,535
Securitized liabilities	48	16,733	15,643	42,279	12,547
Subordinated capital*)	–	239	736	3,515	3,294
Total	**54,338**	**138,438**	**33,744**	**54,413**	**34,595**

*) excl. deferred interest (€273m) and IAS measurement effects (€819m)

	Remaining lifetimes as of 31.12.2003				
€ m	due on demand and unlimited in time	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years
Claims on banks	16,973	20,946	6,956	3,298	3,484
Claims on customers	18,015	24,731	15,402	31,631	48,659
Bonds and notes from the assets held for dealing purposes	255	1,896	3,336	8,132	5,480
Bonds, notes and other fixed-income securities and also claims not originated by the Bank held in investments and securities portfolio	306	3,767	5,342	28,523	41,291
Total	**35,549**	**51,340**	**31,036**	**71,584**	**98,914**
Liabilities to banks	17,441	47,845	13,031	5,414	11,518
Liabilities to customers	34,294	52,740	3,240	3,040	6,686
Securitized liabilities	78	18,025	13,194	34,555	18,140
Subordinated capital	–	291	478	2,702	4,910
Total	**51,813**	**118,901**	**29,943**	**45,711**	**41,254**

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 recognized for each partial amount.

(79) Fair value of financial instruments

The table below compares the fair values of the balance-sheet items with their book values. 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 for measurement purposes. For a large number of financial instruments, internal measuring models involving current market parameters were used in the absence of market prices. In particular, the net present-value method and option-price models were applied. Wherever claims on and liabilities to banks and customers had a remaining lifetime of less than a year, the fair value was considered for simplicity's sake to be that shown in the balance sheet.

	Fair value		Book value		Difference	
€ bn	**31.12.2004**	**31.12.2003**	**31.12.2004**	**31.12.2003**	**31.12.2004**	**31.12.2003**
Assets						
Cash reserve	4.9	7.4	4.9	7.4	–	–
Claims on banks	79.4	51.7	79.4	51.7	–	–
Claims on customers	138.0	140.4	135.6	138.4	2.4	2.0
Hedging instruments	3.9	2.6	3.9	2.6	–	–
Assets held for dealing purposes	102.1	87.6	102.1	87.6	–	–
Investments and securities portfolio	94.2	87.9	94.2	87.9	–	–
Liabilities						
Liabilities to banks	115.4	95.2	115.4	95.2	–	–
Liabilities to customers	105.2	100.1	105.1	100.0	0.1	0.1
Securitized liabilities	87.8	84.4	87.3	84.0	0.5	0.4
Hedging instruments	8.7	5.9	8.7	5.9	–	–
Liabilities from dealing activities	80.0	67.0	80.0	67.0	–	–
Subordinated capital	8.9	9.3	8.9	9.4	–	–0.1

In net terms, the difference between the book value and fair value, which can be seen as unrealized appreciation, amounted for all items to €1.8bn (previous year: €1.6bn) as of December 31, 2004. For covering these items, cash flow hedges are used for the most part. As of December 31, 2004, the measurement of cash flow hedges yielded a figure of –€1.2bn (previous year: –€1.2bn). As of both December 31, 2004 and December 31, 2003, the unrealized appreciation in interest-bearing assets and liabilities exceeded the negative valuation of the cash flow hedges.

Other notes

(80) Subordinated assets

The following subordinated assets are included in the assets shown in the balance sheet:

	31.12.2004 € m	31.12.2003 € m	Change in %
Claims on customers	127	88	44.3
Bonds and notes	205	81	·
Other variable-yield securities	344	345	–0.3
Total	**676**	**514**	**31.5**
including: banks in which an equity investment exists	318	319	–0.3

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

(81) Off-balance-sheet commitments

	31.12.2004 € m	31.12.2003 € m	Change in %
Contingent liabilities	**24,541**	**26,404**	**–7.1**
from rediscounted bills of exchange credited to borrowers	2	3	–33.3
from guarantees and indemnity agreements	24,539	26,401	–7.1
Credit guarantees	3,869	3,640	6.3
Other guarantees	12,653	14,390	–12.1
Letters of credit	6,256	5,964	4.9
Other warranties	1,761	2,407	–26.8
Irrevocable lending commitments	**36,977**	**39,136**	**–5.5**
Book credits to banks	3,844	1,929	99.3
Book credits to customers	29,813	35,031	–14.9
Credits by way of guarantee	1,195	1,162	2.8
Letters of credit	2,125	1,014	·
Other commitments	**11**	**28**	**–60.7**

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

(82) Volume of managed funds

By type of managed fund, the assets which we manage break down as follows:

	31.12.2004		31.12.2003	
	Number of funds	Fund assets € bn	Number of funds	Fund assets € bn
Retail investment funds	479	48.1	436	50.0
Equity-based and mixed funds	313	26.0	267	22.7
Bond-based funds	123	10.3	125	12.2
Money-market funds	22	10.8	25	14.1
Other*)	21	1.0	19	1.0
Non-publicly-offered funds	1,377	25.8	1,309	28.2
Property-based funds	3	11.8	3	12.0
Total	**1,859**	**85.7**	**1,748**	**90.2**

*) includes fund-of-funds and retirement funds

The regional breakdown of the funds launched is shown in the following chart:

	31.12.2004		31.12.2003	
	Number of funds	Fund assets € bn	Number of funds	Fund assets € bn
Germany	397	43.7	421	45.7
United Kingdom	1,084	14.1	994	14.3
Other European countries	244	22.0	281	27.2
America	11	1.1	10	1.4
Other countries	123	4.8	42	1.6
Total	**1,859**	**85.7**	**1,748**	**90.2**

(83) Genuine repurchase agreements (repo and reverse repo transactions)

Under its genuine repurchase agreements, the Commerzbank Group sells or purchases securities with the obligation to repurchase or return them. The money equivalent deriving from repurchase agreements in which the Commerzbank Group is a borrower (commitment to take the securities back) is shown in the balance sheet as a liability to banks or customers.

The genuine repurchase agreements concluded up to the balance-sheet date break down as follows:

	31.12.2004 € m	**31.12.2003** € m	Change in %
Genuine repurchase agreements as a borrower (repo agreements)			
Liabilities to banks	36,695	19,111	92.0
Liabilities to customers	15,764	13,252	19.0
Total	**52,459**	**32,363**	**62.1**
Genuine repurchase agreements as a lender (reverse repo agreements)			
Claims on banks	35,436	20,880	69.7
Claims on customers	10,744	7,746	38.7
Total	**46,180**	**28,626**	**61.3**

(84) Securities-lending transactions

Securities-lending transactions are conducted with other banks and customers in order to cover our need to meet delivery commitments or to enable us to effect securities repurchase agreements in the money market. We show lent securities in our balance sheet under our trading portfolio or under the investments and securities portfolio, whereas borrowed securities do not appear in the balance sheet. The expenses and income from securities-lending transactions, insofar as they relate to the past financial year, were recognized under interest paid or received in the income statement and reflect the respective maturities.

	31.12.2004 € m	**31.12.2003** € m	Change in %
Lent securities	10,618	8,821	20.4
Borrowed securities	7,638	8,576	–10.9

(85) Trust transactions at third-party risk

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

	31.12.2004 € m	31.12.2003 € m	Change in %
Claims on banks	4	4	0.0
Claims on customers	393	73	·
Other assets	602	581	3.6
Assets on a trust basis at third-party risk	**999**	**658**	**51.8**
Liabilities to banks	382	52	·
Liabilities to customers	617	606	1.8
Liabilities on a trust basis at third-party risk	**999**	**658**	**51.8**

(86) Risk-weighted assets and capital ratios as defined by the Basel capital accord (BIS)

Like other internationally active banks, the Commerzbank Group has committed itself to meeting the demands on capital adequacy contained in the Basel accord. This imposes on banks a minimum requirement of 8% of own funds to risk-weighted assets (own funds ratio). A minimum requirement of 4% applies universally for the ratio between core capital and risk-weighted assets (core capital ratio).

Own funds are defined as liable capital that is made up of core and supplementary capital, plus Tier III capital. Core capital mainly consists of subscribed capital plus reserves and minority interests, less goodwill. Supplementary capital comprises outstanding profit-sharing certificates and subordinated long-term liabilities. Tier III capital consists of short-term subordinated liabilities.

The structure of the Commerzbank Group's capital in accordance with the Basel capital accord yields the following picture:

	31.12.2004 € m	31.12.2003 € m	Change in %
Core capital (Tier I)			
Subscribed capital	1,546	1,545	0.1
Reserves, minority interests, treasury shares	8,938	8,724	2.5
Hybrid capital	–	–	–
Other	–	–12	·
Total	**10,484**	**10,257**	**2.2**
Supplementary capital (Tier II)			
Profit-sharing rights	2,073	2,341	–11.4
Reserves in securities (amount reported: 45%)	623	477	30.6
Subordinated liabilities	4,214	4,810	–12.4
Other	229	240	–4.6
Total	**7,139**	**7,868**	**–9.3**
Tier III capital	**–**	**125**	·
Eligible own funds according to BIS	**17,623**	**18,250**	**–3.4**

as of 31.12.2004			Capital charges in %				Total
€ m	100	50	25	20	10	4	
Balance-sheet business	89,855	6,787	–	11,253	–	–	107,895
Traditional off-balance-sheet business	3,776	15,474	84	755	286	55	20,430
Derivatives business in investment portfolio	–	2,467	–	4,115	–	–	6,582
Risk-weighted assets, total	**93,631**	**24,728**	**84**	**16,123**	**286**	**55**	**134,907**
Risk-weighted market-risk position multiplied by 12.5							4,838
Total items to be risk-weighted							139,745
Eligible own funds							17,623
Core capital ratio (excluding market-risk position)							7.8
Core capital ratio (including market-risk position)							7.5
Own funds ratio (including market-risk position)							12.6

as of 31.12.2003			Capital charges in %				Total
€ m	100	50	25	20	10	4	
Balance-sheet business	91,455	5,709	–	11,020	–	–	108,184
Traditional off-balance-sheet business	4,748	14,946	11	571	344	47	20,667
Derivatives business in investment portfolio	–	2,578	–	4,400	–	–	6,978
Risk-weighted assets, total	**96,203**	**23,233**	**11**	**15,991**	**344**	**47**	**135,829**
Risk-weighted market-risk position multiplied by 12.5							5,000
Total items to be risk-weighted							140,829
Eligible own funds							18,250
Core capital ratio (excluding market-risk position)							7.6
Core capital ratio (including market-risk position)							7.3
Own funds ratio (including market-risk position)							13.0

Reconciliation of reported capital with eligible equity in accordance with BIS

31.12.2004 € m	Core capital/ equity	Minority interests	Supplementary/ subordinated capital (excl. IAS effects and deferred interest)	Tier III capital	**Total**
Reported in balance sheet	9,801	1,269	7,784	–	**18,854**
Reclassifications					
Minority interests[1]	994	–1,100			**–106**
Tier III capital					**–**
Consolidated profit	–150				**–150**
Deduction of goodwill, if relevant for Basel consolidation	–168				**–168**
Changes in consolidated companies	409				**409**
Parts of subordinated capital not eligible due to limited remaining lifetime			–1,436		**–1,436**
Revaluation reserve and measurement of cash flow hedges	–389	–169			**–558**
Latent revaluation reserves for securities			623		**623**
General provisions/ reserves for defaults			309		**309**
Other differences	–13		–141		**–154**
Eligible equity	**10,484**	**–**	**7,139**	**–**	**17,623**

[1] excluding net profit

(87) Liquidity ratio of Commerzbank AG (Principle II)

Pursuant to Art. 11, KWG, banks are obliged to invest their funds such that adequate liquidity for payment purposes is guaranteed at all times. They have to demonstrate that they have adequate liquidity in the form of a liquidity analysis (Principle II). The liquidity-weighted assets (claims, securities, etc.), structured to reflect their respective maturity brackets, are set off against certain liquidity-weighted balance-sheet and off-balance-sheet liabilities (liabilities, lending commitments), broken down by remaining lifetime. The ratio between the funds in the first maturity bracket (remaining life of up to one month) and the payment obligations which may fall due during this period has to reach a value of one every day. If the ratio registers the value of one, liquidity is considered to be adequate. As of December 31, 2004, the liquidity ratio worked out by Commerzbank AG was 1.14 (previous year: 1.12). Excess liquidity stood at €18.5bn (previous year: €14.6bn).

Liquidity ratio of Commerzbank AG in 2004:

	Month-end level		Month-end level
January	1.18	July	1.17
February	1.19	August	1.19
March	1.13	September	1.16
April	1.14	October	1.15
May	1.13	November	1.18
June	1.13	December	1.14

(88) Securitization of credits

The use of credit derivatives (such as credit default swaps, total return swaps, and credit-linked notes) can reduce the risk weighting of a loan portfolio, whereby the hedging effect of a credit derivative may relate both to individual credits or securities and to entire portfolios of loans or securities. As a rule, security is furnished by means of a synthetic securitization (credit default swap) or in the form of cash security. But forms of traditional cover (e.g. the disposal of claims) are also possible. The hedging programmes launched by the Commerzbank Group are intended to ease the strain on regulatory capital.

By the end of the 2004 financial year, Commerzbank AG and two of its subsidiaries had launched ten securitization programmes as the buyers of protection.

The time band stretches from six to 32 years. All told, credits to customers of €10.9bn had been hedged by end-December 2004. This eased the burden on the Bank's risk-weighted assets by €7.7bn.

Name of transaction	Year of conclusion	Duration of transaction in years	Type of claim	Size of credit €m	Reduction of risk-weighted assets €m	Buyer of protection
Kaiserplatz 263	1999	6	Corporate loans	1,500	1,182	Commerzbank AG
Residence 2000-1	2000	32	Private home loans	635	405	Commerzbank AG (CLN)
Residence 2000-1	2000	32	Private home loans	857	375	Commerzbank AG (CDS)
Residence 2001-1	2001	30	Private home loans	1,136	452	Commerzbank AG
Paneuropean CLO	2001	6	Corporate loans	1,635	1,230	Commerzbank AG
Paneuropean CLO	2001	6	Corporate loans	0	0	Commerzbank (Nederland) N.V.
Paneuropean CLO	2001	6	Corporate loans	26	21	Commerzbank International S.A., Luxembourg
Promise C 2002-1	2002	8	Corporate loans	1,470	1,337	Commerzbank AG
Residence 2002-1	2002	31	Private home loans	1,180	1,180	Commerzbank AG
Residence 2002-2	2002	31	Private home loans	1,179	733	Commerzbank AG
Residence 2003-1	2003	30	Private home loans	1,255	800	Commerzbank AG
				10,873	**7,715**	

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

	2004			2003		
	total	male	female	total	male	female
Group	31,400	16,946	14,454	32,898	17,515	15,383
in Germany	24,055	11,965	12,090	25,559	12,747	12,812
abroad	7,345	4,981	2,364	7,339	4,768	2,571

The above figures include both full-time and part-time personnel. Not included in the figures is the average number of employees undergoing training within the Group. The average time worked by part-time staff is 60% (previous year: 55%) of the standard working time.

	total		male		female	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**
Trainees	1,292	1,437	502	559	790	878

(90) Remuneration and loans to board members

Apart from the fixed salary, the remuneration of the members of the Board of Managing Directors also comprises variable, performance-and result-linked components and those with a long-term incentive effect. All the remuneration components are determined by the Presiding Committee of the Supervisory Board. With effect from July 1, 2004, the Presiding Committee altered the remuneration structure of the members of the Board of Managing Directors.

With German commercial law and accounting provisions taken into consideration, €6,599 thousand has to be shown as overall remuneration for the members of the Board of Managing Directors in the 2004 financial year. This includes €843 thousand of remuneration in kind, which in tax terms has to be treated as benefits in money's worth. In the appropriate cases, the stated remuneration of individual members of the Board of Managing Directors includes the fees paid for serving on the boards of consolidated subsidiaries.

Active members of the Board of Managing Directors have participated in the 2000-2004 long-term performance plans presented in Note 28. For this purpose, those entitled to take part have invested in up to 5,000 Commerzbank shares per plan at current market prices. No payments requiring disclosure were effected in the 2004 financial year.

In the following table a), the remuneration of the individual members of the Board of Managing Directors is presented on an accrual basis according to German commercial law and accounting provisions and on condition that Commerzbank AG's annual financial statements for the 2004 financial year are established in their present form and the Presiding Committee adopts the relevant resolution on variable remuneration for 2004. In table b), the remuneration is shown according to the cash method, i.e. the amount actually received in the year under review.

a) on accrual basis

2004 Name	Fixed salary in €1,000	Variable remuneration[3)] in €1,000	Overall amount for 2004 in €1,000
Klaus-Peter Müller	650	370	1,020
Martin Blessing	420	262	682
Mehmet Dalman[1)]	300	0	300
Wolfgang Hartmann	420	262	682
Dr. Achim Kassow[2)]	80	40	120
Andreas de Maizière	420	240	660
Klaus M. Patig	420	240	660
Dr. Eric Strutz[2)]	330	184	514
Nicholas Teller	420	236	656
Total	**3,460**	**1,834**	**5,294**

1) p.r.t. for the time up to resignation; 2) p.r.t. for the time since appointment; 3) payable in 2005, calculated after fees paid for serving on the boards of subsidiaries had been deducted insofar as they fell due before July 1, 2004.

b) by cash method

2004 Name	Fixed salary in €1,000	Variable remuneration[4)] in €1,000	Payment in 2004 in €1,000
Klaus-Peter Müller	650	800	1,450
Martin Blessing	420	500	920
Mehmet Dalman[1)]	300	1,121	1,421
Wolfgang Hartmann	420	360	780
Dr. Achim Kassow[2)]	80	–	80
Andreas de Maizière	420	250	670
Klaus M. Patig	420	330	750
Dr. Eric Strutz[2)]	330	–	330
Nicholas Teller[3)]	420	270	690
Gesamt	**3,460**	**3,631**	**7,091**

1) p.r.t. for the time up to resignation; 2) p.r.t. for the time since appointment; 3) variable remuneration p.r.t.; 4) payment of the variable remuneration for 2003 was made without the fees paid for serving on the boards of subsidiaries being taken into consideration.

Payments to former members of the Board of Managing Directors and their surviving dependents amounted to €6,479 thousand in the 2004 financial year. In the previous year, they had totalled €7,022 thousand.

For active and former members of the Board of Managing Directors or their surviving dependents, the Bank has established a provision for old age, which was partially invested with Commerzbank Pension Trust e.V. in the 2004 financial year. The subsequently remaining provisions for pension commitments as of December 31, 2004, amounted to €4.6m for active members and €12.3m for former members of the Board of Managing Directors or their surviving dependents.

The pension commitments (defined-benefit obligations) pursuant to IAS for active and former members of the Board of Managing Directors or their surviving dependents amounted to €81.9m on December 31, 2004.

The transparency provisions of the German Corporate Governance Code (in the valid version of May 21, 2003), based on the legal provisions of Art. 15a, of the German Securities Trading Act – WpHG (former version), require that transactions by the members of the Board of Managing Directors in Commerzbank shares and options be disclosed in the Notes. Pursuant to Art. 15a, WpHG (former version), purchases and disposals by members of the Board of Managing Directors have to be reported if they exceed €25,000 overall within 30 days. The Bank publishes such information on its internet site.

In the course of the 2004 financial year, Dr. Eric Strutz purchased 3,000 and 2,500 shares of Commerzbank Aktiengesellschaft on May 13 and August 9, respectively, to the value of €39,000 and €32,175. Martin Blessing purchased 2,500 shares with a value of €33,900 on August 4.

Previously similar obligations under the German Corporate Governance Code and WpHG have been extended and made more restrictive in terms of amounts by the legal amendment which became effective on October 30, 2004. Pursuant to Art. 15a, WpHG (new version), purchases effected on a labour-law basis or as part of a remuneration package are no longer exempt from taxation. Transactions exceeding an annual limit of €5,000 now have to be reported and disclosed. Since October 30, 2004, no transactions exceeding this limit have been effected by members of the Board of Managing Directors.

The members of our Supervisory Board will receive remuneration of €1,054 thousand for the 2004 financial year (previous year: €442 thousand), provided that the AGM of Commerzbank Aktiengesellschaft resolves that a dividend of €0.25 be paid per no par-value share. The remuneration of the members of the Supervisory Board is regulated by Art. 15 of the articles of association of Commerzbank AG and is divided as follows between the individual members:

2004 Supervisory Board members	Basic remuneration[1)] in €1,000	Committee remuneration in €1,000	Total in €1,000
Dr. h.c. Martin Kohlhaussen	78	52	130
Uwe Tschäge	52	13	65
Hans-Hermann Altenschmidt	26	13	39
Dott. Sergio Balbinot	26	13	39
Herbert Bludau-Hoffmann	26	–	26
Astrid Evers	26	–	26
Uwe Foullong	26	–	26
Daniel Hampel	26	–	26
Dr.-Ing. Otto Happel	26	13	39
Dr. jur. Heiner Hasford	26	13	39
Sonja Kasischke	26	–	26
Wolfgang Kirsch	26	13	39
Werner Malkhoff	26	13	39
Klaus Müller-Gebel	26	39	65
Dr. Sabine Reiner	26	–	26
Dr. Erhard Schipporeit	26	–	26
Prof. Dr.-Ing. Dr. h.c. Ekkehard Schulz	26	–	26
Prof. Dr. Jürgen F. Strube	26	13	39
Dr. Klaus Sturany	26	–	26
Dr.-Ing. E.h. Heinrich Weiss	26	13	39
Total	**598**	**208**	**806**

1) This basic remuneration consists of a fixed portion (roughly 76.9%) and a variable portion dependent on the dividend payment (roughly 23.1%)

Altogether €247,500 was paid by way of meeting attendance fees for participation in the meetings of the Supervisory Board and its three committees (Presiding, Audit and Risk Committees), which is €1,500 per meeting attended. The turnover tax of €168 thousand to be paid on the overall remuneration of the members of the Supervisory Board is refunded by Commerzbank Aktiengesellschaft.

No purchases or disposals of Commerzbank shares and options by members of the Supervisory Board in excess of €25,000 overall within 30 days were reported in the 2004 financial year; nor were any pursuant to Art. 15a, WpHG (new version).

All told, the Board of Managing Directors and Supervisory Board held no more than 1% of the issued shares and option rights of Commerzbank AG on December 31, 2004.

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

	31.12.2004	31.12.2003
	€1,000	€1,000
Board of Managing Directors	4,141	3,382
Supervisory Board	1,703	1,631

Advances and loans have been granted to members of the Board of Managing Directors with lifetimes ranging between until further notice and a due date of 2030 and at interest rates ranging between 3.00% and 6.00%. Collateral security is provided on a normal market scale, wherever necessary with land charges.

The loans and advances to members of the Supervisory Board – including those to employee representatives on this body – were granted with lifetimes ranging between until further notice and a due date of 2031 and at interest rates ranging between 2.64% and 12.50%. In line with market conditions, some loans were granted without collateral security, against land charges or against the assignment of credit balances and life insurances.

(91) Other commitments

Commitments towards companies both outside the Group and not included in the consolidation for uncalled payments on shares in private limited-liability companies issued but not fully paid amount to €4m (previous year: €7m).

The Bank is responsible for the payment of assessments of up to €38m to Liquiditäts-Konsortialbank (Liko) GmbH, Frankfurt am Main, the "lifeboat" institution of the German banking industry. The individual banking associations have also declared themselves responsible for the payment of assessments to Liko. To cover such assessments, Group companies have pledged to Liko that they will meet any payment in favour of their respective associations.

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

Obligations towards futures and options exchanges and also towards clearing centres, for which securities have been deposited as collateral, amount to €1,235m (previous year: €960m).

Our subsidiaries Caisse Centrale de Réescompte S.A., Paris, and COMINVEST Asset Management S.A., Luxembourg, have provided performance guarantees for selected funds.

The Group's existing obligations arising from rental and leasing agreements – buildings, office furniture and equipment – will lead to expenses of €274m in 2005, €254m per year in 2006-2008, and €219m as from 2009.

(92) Letter of comfort

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

Name	Seat
BRE Bank Hipoteczny SA	Warsaw
BRE Bank SA	Warsaw
BRE Leasing Sp. z o.o.	Warsaw
Caisse Centrale de Réescompte, S.A.	Paris
CCR Actions	Paris
CCR Chevrillon-Philippe	Paris
CCR Gestion	Paris
comdirect bank Aktiengesellschaft (sub-group)	Quickborn
COMINVEST Asset Management GmbH	Frankfurt am Main
COMINVEST Asset Management Ltd.	Dublin
COMINVEST Asset Management S.A.	Luxembourg
Commerz (East Asia) Ltd.	Hong Kong
Commerz Advisory Management Co. Ltd.	British Virgin Islands
Commerz Asset Management (UK) plc	London
Commerz Asset Management Asia Pacific Pte Ltd.	Singapore
Commerz Equity Investments Ltd.	London
Commerz International Capital Management (Japan) Ltd.	Tokyo
Commerz Securities (Japan) Company Ltd.	Hong Kong/Tokyo
Commerzbank (Budapest) Rt.	Budapest
Commerzbank (Eurasija) SAO	Moscow
Commerzbank (Nederland) N.V.	Amsterdam
Commerzbank (South East Asia) Ltd.	Singapore
Commerzbank (Switzerland) Ltd	Zurich
Commerzbank Asset Management Asia Ltd.	Singapore
Commerzbank Belgium S.A. N.V.	Brussels
Commerzbank Capital Markets Corporation	New York
Commerzbank Europe (Ireland) Unlimited	Dublin
Commerzbank Europe Finance (Ireland) plc	Dublin
Commerzbank International S.A.	Luxembourg
Commerzbank Overseas Finance N.V.	Curaçao
CommerzLeasing und Immobilien AG (sub-group)	Düsseldorf
Erste Europäische Pfandbrief- und Kommunalkreditbank Aktiengesellschaft in Luxemburg	Luxembourg
European Bank for Fund Services GmbH (ebase)	Haar near Munich
Gracechurch TL Ltd.	London
Hypothekenbank in Essen AG	Essen
Intermarket Bank AG	Vienna
Jupiter Administration Services Limited	London
Jupiter Asset Management (Asia) Limited	Hong Kong
Jupiter Asset Management (Bermuda) Limited	Bermuda
Jupiter Asset Management Limited	London
Jupiter Asset Managers (Jersey) Limited	Jersey
Jupiter International Group plc	London
Jupiter Unit Trust Managers Limited	London

Name	Seat
OLEANDRA Grundstücks-Vermietungsgesellschaft mbH&Co., Objekt Jupiter KG	Düsseldorf
OLEANDRA Grundstücks-Vermietungsgesellschaft mbH&Co., Objekt Luna KG	Düsseldorf
OLEANDRA Grundstücks-Vermietungsgesellschaft mbH&Co., Objekt Neptun KG	Düsseldorf
OLEANDRA Grundstücks-Vermietungsgesellschaft mbH&Co., Objekt Pluto KG	Düsseldorf
OLEANDRA Grundstücks-Vermietungsgesellschaft mbH&Co., Objekt Uranus KG	Düsseldorf
OLEANDRA Grundstücks-Vermietungsgesellschaft mbH&Co., Objekt Venus KG	Düsseldorf
P.T. Bank Finconesia	Jakarta
Stampen S.A.	Brussels
Transfinance a.s.	Prague
Tyndall Holdings Limited	London
Tyndall International Holdings Limited	Bermuda
Tyndall Investments Limited	London
Tyndall Trust International I.O.M. Limited	Isle of Man

(93) Corporate Governance Code

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

Boards of Commerzbank Aktiengesellschaft

Supervisory Board

Dr. Walter Seipp
Honorary Chairman

Dr. h.c. Martin Kohlhaussen
Chairman

Uwe Tschäge*)
Deputy Chairman

Hans-Hermann Altenschmidt*)

Dott. Sergio Balbinot

Herbert Bludau-Hoffmann*)

Astrid Evers*)

Uwe Foullong*)

Daniel Hampel*)

Dr.-Ing. Otto Happel

Dr. jur. Heiner Hasford

Sonja Kasischke*)

Wolfgang Kirsch*)

Werner Malkhoff*)

Klaus Müller-Gebel

Dr. Sabine Reiner*)

Dr. Erhard Schipporeit

Prof. Dr.-Ing. Dr. h.c. Ekkehard Schulz

Prof. Dr. Jürgen F. Strube

Dr. Klaus Sturany

Dr.-Ing. E.h. Heinrich Weiss

Board of Managing Directors

Klaus-Peter Müller
Chairman

Martin Blessing

Mehmet Dalman
until September 30, 2004

Wolfgang Hartmann

Dr. Achim Kassow
since November 10, 2004

Andreas de Maizière

Klaus M. Patig

Dr. Eric Strutz
since April 1, 2004

Nicholas Teller

*) elected by the Bank's employees

Holdings in affiliated and other companies

Affiliated companies included in the consolidation

Name	Seat	Share of capital held in %	of which: indirectly in %		Equity in 1,000
Atlas-Vermögensverwaltungs-Gesellschaft mbH	Bad Homburg v.d.H.	100.0		€	691,667
ATBRECOM Limited	London	100.0	100.0	€	284
BRE Bank Hipoteczny SA*)	Warsaw	100.0	100.0	Zl	154,215
TOMO Vermögensverwaltungsgesellschaft mbH	Frankfurt am Main	100.0	100.0	€	22,778
Zweite Umbra Vermögensverwaltungs-gesellschaft mbH	Frankfurt am Main	100.0	100.0	€	46
BRE Bank SA	Warsaw	72.2		Zl	1,862,127
BRE Leasing Sp. z o.o.	Warsaw	100.0	100.0	Zl	49,646
Intermarket Bank AG	Vienna	54.8	54.8	€	18,213
PTE Skarbiec-Emerytura SA	Warsaw	100.0	100.0	Zl	99,375
Skarbiec Asset Management Holding SA	Warsaw	100.0	100.0	Zl	82,086
Transfinance a.s.	Prague	100.0	100.0	Kč	211,909
Caisse Centrale de Réescompte, S.A.	Paris	99.5		€	171,557
CCR Actions	Paris	91.6	91.6	€	3,440
CCR Chevrillon-Philippe	Paris	87.0	87.0	€	4,119
CCR Gestion	Paris	100.0	100.0	€	8,389
Commerz (East Asia) Ltd.	Hong Kong	100.0		€	41,771
Commerz Asset Management (UK) plc	London	100.0		£	182,342
Jupiter International Group plc (sub-group)	London	100.0	100.0	£	210,829
Jupiter Asset Management Limited	London	100.0	100.0		
Jupiter Unit Trust Managers Limited	London	100.0	100.0		
Tyndall Holdings Limited	London	100.0	100.0		
Jupiter Administration Services Limited	London	100.0	100.0		
Tyndall Investments Limited	London	100.0	100.0		
Tyndall International Holdings Limited	Bermuda	100.0	100.0		
Jupiter Asset Management (Asia) Limited	Hong Kong	100.0	100.0		
Jupiter Asset Management (Bermuda) Limited	Bermuda	100.0	100.0		
Jupiter Asset Managers (Jersey) Limited	Jersey	100.0	100.0		
Tyndall Trust International I.O.M. Limited	Isle of Man	100.0	100.0		
Tyndall International Group Limited	Bermuda	100.0	100.0		
Lanesborough Limited	Bermuda	55.6	55.6		
NALF Holdings Limited	Bermuda	99.8	99.8		
The New Asian Property Fund Limited	Bermuda	96.8	96.8		
Commerz Asset Management Holding GmbH (sub-group)	Frankfurt am Main	100.0		€	316,840
of which:					
COMINVEST Asset Management GmbH	Frankfurt am Main	100.0	100.0		
COMINVEST Asset Management Ltd.	Dublin	100.0	100.0		
COMINVEST Asset Management S.A.	Luxembourg	100.0	100.0		
European Bank for Fund Services GmbH (ebase)	Haar near Munich	100.0	100.0		

*) renamed: "RHEINHYP-BRE Bank Hipoteczny SA" has been transformed into "BRE Bank Hipoteczny SA"

Affiliated companies included in the consolidation

Name	Seat	Share of capital held in %	of which: indirectly in %		Equity in 1,000
Commerz Asset Management Asia Pacific Pte Ltd.	Singapore	100.0	100.0	S$	24,907
Commerz Advisory Management Co. Ltd.	British Virgin Islands	100.0	100.0	TWD	592,360
Commerzbank Asset Management Asia Ltd.	Singapore	100.0	100.0	S$	44,569
Commerz International Capital Management (Japan) Ltd.	Tokyo	100.0	100.0	¥	477,660
CBG Commerz Beteiligungsgesellschaft Holding mbH	Bad Homburg v.d.H.	100.0		€	6,137
CBG Commerz Beteiligungsgesellschaft mbH	Frankfurt am Main	100.0	100.0	€	13,762
Commerz Business Consulting AG	Frankfurt am Main	100.0		€	2,024
Commerz Equity Investments Ltd.	London	100.0		£	50,011
Commerz Grundbesitzgesellschaft mbH (sub-group)	Wiesbaden	100.0		€	128,414
Commerz Grundbesitz-Investmentgesellschaft mbH	Wiesbaden	75.0	75.0		
Commerz Grundbesitz-Spezialfondsgesellschaft mbH	Wiesbaden	100.0	100.0		
Commerz Securities (Japan) Company Ltd.	Hong Kong/Tokyo	100.0		¥	4,724,106
Commerz Service Gesellschaft für Kundenbetreuung mbH	Quickborn	100.0		€	26
Commerzbank (Budapest) Rt.	Budapest	100.0		Ft	17,528,477
Commerzbank (Eurasija) SAO	Moscow	100.0		Rbl	3,735,106
Commerzbank (South East Asia) Ltd.	Singapore	100.0		€	24,649
Commerzbank Auslandsbanken Holding AG	Frankfurt am Main	100.0		€	1,817,166
Commerzbank (Nederland) N.V.	Amsterdam	100.0	100.0	€	188,956
Commerzbank (Switzerland) Ltd	Zurich	100.0	100.0	Sfr	206,306
Commerzbank International S.A.	Luxembourg	100.0	100.0	€	1,203,966
Commerzbank Belgium S.A. N.V.	Brussels	100.0		€	43,483
Commerzbank Capital Markets Corporation	New York	100.0		US$	188,074
Commerzbank Europe (Ireland) Unlimited	Dublin	44.0	4.0	€	532,284
Commerzbank Europe Finance (Ireland) plc	Dublin	100.0	100.0	€	48
Commerzbank Immobilien- und Vermögensverwaltungsgesellschaft mbH	Frankfurt am Main	100.0		€	30
Commerzbank Inlandsbanken Holding AG	Frankfurt am Main	100.0		€	2,482,491
comdirect bank Aktiengesellschaft (sub-group)	Quickborn	58.6	58.6	€	580,433
comdirect private finance AG	Quickborn	100.0	100.0		
Commerzbank Overseas Finance N.V.	Curaçao	100.0		€	1,089
CommerzLeasing und Immobilien AG (sub-group)	Düsseldorf	100.0	94.5	€	86,823
ASTRIFA Mobilien-Vermietungsgesellschaft mbH	Düsseldorf	100.0	100.0		
CFB Commerz Fonds Beteiligungsgesellschaft mbH	Düsseldorf	100.0	100.0		
CFB Verwaltung und Treuhand GmbH	Düsseldorf	100.0	100.0		
COBA Vermögensverwaltungsgesellschaft mbH	Düsseldorf	100.0	100.0		
Commerz Immobilien GmbH	Düsseldorf	100.0	100.0		
CommerzBaucontract GmbH	Düsseldorf	100.0	100.0		
CommerzBaumanagement GmbH	Düsseldorf	100.0	100.0		
CommerzBaumanagement GmbH und CommerzImmobilien GmbH GbR – Neubau Molegra	Düsseldorf	100.0	100.0		

Affiliated companies included in the consolidation

Name	Seat	Share of capital held in %	of which: indirectly in %		Equity in 1,000
CommerzLeasing Mobilien GmbH	Düsseldorf	100.0	100.0		
CommerzLeasing Auto GmbH	Düsseldorf	100.0	100.0		
CommerzLeasing Mietkauf GmbH	Düsseldorf	100.0	100.0		
ComSystems GmbH	Düsseldorf	73.0	73.0		
FABA Vermietungsgesellschaft mbH	Düsseldorf	95.0	95.0		
Hansa Automobil Leasing GmbH	Hamburg	100.0	100.0		
NESTOR GVG mbH & Co. Objekt ITTAE Frankfurt KG	Düsseldorf	100.0	95.0		
NOVELLA GVG mbH	Düsseldorf	100.0	100.0		
SECUNDO GVG mbH	Düsseldorf	100.0	100.0		
CORECD Commerz Real Estate Consulting and Development GmbH	Berlin	100.0	48.8	€	999
Erste Europäische Pfandbrief- und Kommunalkreditbank Aktiengesellschaft in Luxemburg	Luxembourg	75.0		€	62,379
Gracechurch TL Ltd.	London	100.0		€	766
Hypothekenbank in Essen AG	Essen	51.0		€	744,875
OLEANDRA Grundstücks-Vermietungsgesellschaft mbH & Co., Objekt Jupiter KG	Düsseldorf	100.0		€	15,506
OLEANDRA Grundstücks-Vermietungsgesellschaft mbH & Co., Objekt Luna KG	Düsseldorf	100.0		€	1,978
OLEANDRA Grundstücks-Vermietungsgesellschaft mbH & Co., Objekt Neptun KG	Düsseldorf	100.0		€	7,843
OLEANDRA Grundstücks-Vermietungsgesellschaft mbH & Co., Objekt Pluto KG	Düsseldorf	100.0		€	640
OLEANDRA Grundstücks-Vermietungsgesellschaft mbH & Co., Objekt Uranus KG	Düsseldorf	100.0		€	24,073
OLEANDRA Grundstücks-Vermietungsgesellschaft mbH & Co., Objekt Venus KG	Düsseldorf	100.0		€	11,913
P.T. Bank Finconesia	Jakarta	51.0		Rp.	188,526,000
Service-Center Inkasso GmbH Düsseldorf	Düsseldorf	100.0		€	125
Stampen S.A.	Brussels	99.4		€	11,227
von der Heydt-Kersten & Söhne	Wuppertal-Elberfeld	100.0		€	5,113

Associated companies included in the consolidation at equity

Name	Seat	Share of capital held in %	of which: indirectly in %		Equity in 1,000
Alon Technology Ventures Limited	British Virgin Islands	37.3	37.3	€	10,745
Capital Investment Trust Corporation	Taipei/Taiwan	24.2	5.0	TWD	1,429,463
Commerz Unternehmensbeteiligungs-Aktiengesellschaft	Frankfurt am Main	40.0		€	115,661
COMUNITHY Immobilien AG	Düsseldorf	49.9	49.9	€	–6,294
Deutsche Schiffsbank Aktiengesellschaft	Bremen/Hamburg	40.0	40.0	€	393,905
Eurohypo Aktiengesellschaft	Eschborn	31.8	31.8	€	5,112,119
ILV Immobilien-Leasing Verwaltungsgesellschaft Düsseldorf mbH	Düsseldorf	50.0	47.0	€	28,124
KEB Commerz Investment Trust Management Co. Ltd.	Seoul	45.0		₩	31,995,818
Prospect Poland UK, L.P.	St.Helier/Jersey	39.1	1.2	US$	4,135

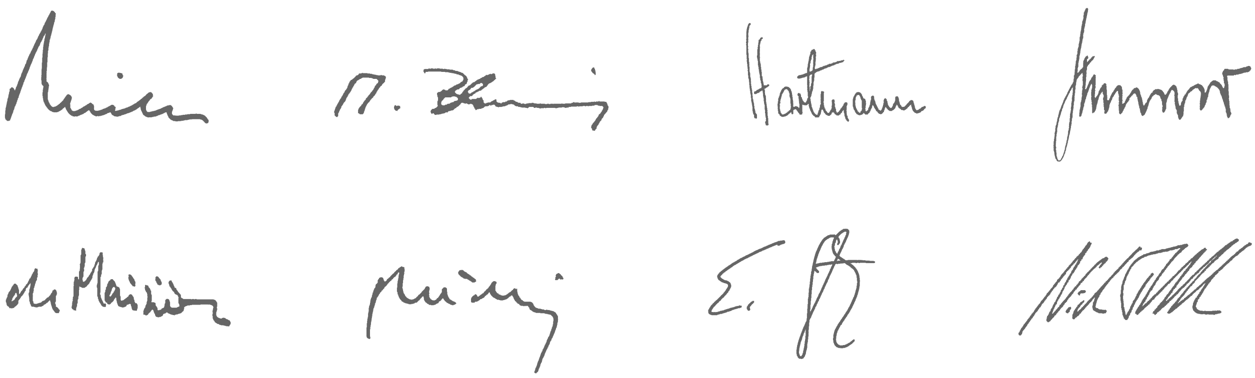
Special-purpose entities and non-publicly-offered funds included in the consolidation pursuant to IAS 27 and SIC-12

Name	Seat/ seat of management company	Share of capital held or share of investor in fund in %		Equity or fund's assets in 1,000
Special-purpose entities				
Comas Strategy Fund I Limited	Grand Cayman	0.0	US$	–171
Four Winds Funding Corporation	Wilmington/Delaware	0.0	US$	2,605
Hanging Gardens 1 Limited	Grand Cayman	0.0	€	6
Plymouth Capital Limited	St.Helier/Jersey	0.0	€	0
Non-publicly-offered funds				
ABN AMRO-Credit Spread-Fonds	Frankfurt am Main	100.0	€	111,457
CDBS-Cofonds I	Frankfurt am Main	100.0	€	109,633
CDBS-Cofonds II	Frankfurt am Main	100.0	€	56,312
CICO-Fonds I	Frankfurt am Main	100.0	€	148,615
CICO-Fonds II	Frankfurt am Main	100.0	€	243,922
Commerzbank Alternative Strategies-Global Hedge	Luxembourg	100.0	US$	68,732
dbi-Fonds HIE1	Frankfurt am Main	100.0	€	107,301
DEGEF-Fonds HIE 1	Frankfurt am Main	100.0	€	116,753
DEVIF-Fonds Nr. 533	Frankfurt am Main	100.0	€	155,590
GRUGAFONDS Anteile	Munich	100.0	€	107,467
HIE-Cofonds I	Frankfurt am Main	100.0	€	90,842
HIE-Cofonds II	Frankfurt am Main	100.0	€	172,179
HIE-Cofonds III	Frankfurt am Main	100.0	€	172,176
HIE-Cofonds IV	Frankfurt am Main	100.0	€	86,161

Other major companies not included in the consolidation

Name	Seat	Share of capital held in %	of which: indirectly in %		Equity in 1,000
ALNO Aktiengesellschaft	Pfullendorf	24.0		€	14,914
Regina Verwaltungsgesellschaft	Munich	25.0	25.0	€	323,305

Frankfurt am Main, March 1, 2005
The Board of Managing Directors



The following auditor's report (Bestätigungsvermerk) has been issued in accordance with § 322 German Commercial Code (Handelsgesetzbuch) in German language on the German version of the consolidated financial statements of Commerzbank Aktiengesellschaft as of the financial year ended December 31, 2004, as a whole, consisting of consolidated balance sheet (Konzernbilanz), consolidated statement of income (Konzerngewinn- und Verlustrechnung), statement of changes in shareholders' equity (Konzerneigenkapitalveränderungsrechnung), consolidated cash flow statement (Kapitalflussrechnung) and notes (Konzernanhang) and the group management report (Konzernlagebericht). The group management report is not included in this Prospectus.

group auditors' report

We have audited the consolidated financial statements of Commerzbank Aktiengesellschaft, Frankfurt am Main, consisting of the balance sheet, the income statement and the statements of changes in equity and cash flows as well as the notes to the financial statements for the business year from January 1 to December 31, 2004. The preparation and the content of the consolidated financial statements according to the International Financial Reporting Standards of the IASB (IFRS) are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion, based on our audit, whether the consolidated financial statements are in accordance with IFRS.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW), and additionally observed the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the business year in accordance with IFRS.

Our audit, which according to German auditing regulations also extends to the Group management report prepared by the Board of Managing Directors for the business year from January 1 to December 31, 2004, has not led to any reservations. In our opinion, on the whole the Group management report together with the other information of the consolidated financial statements provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the Group management report for the business year from January 1 to December 31, 2004 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the Group management report in accordance with German accounting law.

Frankfurt am Main, March 2, 2005

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Rausch)	(Steinrück)
Wirtschaftsprüfer	Wirtschaftsprüfer
(German public auditor)	(German public auditor)

[This page intentionally left blank.]

Extracts from the financial statements of Commerzbank Aktiengesellschaft 2005 (audited)

Balance sheet of Commerzbank Aktiengesellschaft as of December 31, 2005

Assets (in € m)				31.12.2005	31.12.2004
Cash reserve					
a) cash on hand			569		570
b) balances with central banks			4,058		2,321
including: with Deutsche Bundesbank		3,916			(1,880)
				4,627	**2,891**
Debt issued by public-sector borrowers, and bills of exchange rediscountable at central banks					
a) treasury bills and discountable treasury notes, as well as similar debt issues by public-sector borrowers			2,668		759
including: rediscountable at Deutsche Bundesbank		1,682			(251)
b) bills of exchange			392		296
including: rediscountable at Deutsche Bundesbank		392			(296)
				3,060	**1,055**
Claims on banks					
a) payable on demand			12,885		14,429
b) other claims			67,851		46,745
				80,736	**61,174**
Claims on customers					
including: secured by mortgages on real estate		20,273			(20,060)
communal loans		5,313			(4,561)
				112,608	**106,821**
Bonds and other fixed-income securities					
a) money-market instruments					
aa) issued by public-sector borrowers		20			213
including: rediscountable at Deutsche Bundesbank	13				(90)
ab) issued by other borrowers		3,016	3,036		1,465
including: rediscountable at Deutsche Bundesbank	409				(13)
					1,678
b) bonds and notes					
ba) issued by public-sector borrowers		14,157			16,781
including: rediscountable at Deutsche Bundesbank	10,965				(11,349)
bb) issued by other borrowers		23,848	38,005		21,854
including: rediscountable at Deutsche Bundesbank	9,657				(9,217)
					38,635
c) bonds and notes issued by Commerzbank			7,945		3,305
nominal amount €7,926m					
				48,986	**43,618**
Shares and other variable-yield securities				**7,186**	**9,611**
Subsidiaries, associated companies and trade investments (investments)				**1,326**	**2,278**
including: investment in banks		728			(1,646)
investment in financial-service institutions		0			(0)
Holdings in affiliated companies				**9,840**	**7,762**
including: in banks		1,007			(1,526)
in financial-service institutions		13			(32)
Assets held on a trust basis				**322**	**386**
including: loans at third-party risk		322			(386)
Recovery claims on federal and Länder authorities under post-war currency reform acts including bonds in exchange for the former				**–**	**105**
Intangible assets				**45**	**16**
Fixed assets				**612**	**751**
Bank's holding of its own shares theoretical value: €2.4m				**25**	**58**
Other assets				**10,384**	**11,555**
Deferred items					
a) difference arising from consolidation pursuant to Art. 250, (3) of the German Commercial Code – HGB			116		130
b) other deferred items			1,856		2,268
				1,972	**2,398**
Deferred taxes pursuant to Art. 274, (2), German Commercial Code – HGB				**–**	**319**
			Total Assets	**281,729**	**250,798**

Liabilities and Shareholders' Equity (in € m)			31.12.2005	31.12.2004
Liabilities to banks				
a) payable on demand		19,269		24,816
b) with agreed periods or periods of notice		101,941		83,144
			121,210	**107,960**
Liabilities to customers				
a) savings deposits,				
aa) with agreed period of notice of three months	11,087			15,402
ab) with agreed period of notice of more than three months	525			640
		11,612		16,042
b) other liabilities				
ba) payable on demand	36,910			32,190
bb) with agreed periods or periods of notice	45,619			35,448
		82,529		67,638
			94,141	**83,680**
Securitized liabilities				
a) bonds and notes issued		23,977		21,677
b) other securitized liabilities		6,344		4,920
			30,321	**26,597**
including:				
ba) money-market instruments	6,042			(4,660)
bb) own acceptances and promissory notes outstanding	75			(62)
Liabilities on a trust basis			**322**	**386**
including: loans at third-party risk	322			(386)
Other liabilities			**13,645**	**10,362**
Deferred items				
a) difference arising from consolidation pursuant to Art. 340e, (2), 2 of the German Commercial Code – HGB		70		93
b) other deferred items		719		907
			789	**1,000**
Provisions				
a) provisions for pensions and similar commitments		1,351		1,311
b) provisions for taxation		137		338
c) other provisions		2,333		3,324
			3,821	**4,973**
Commerzbank Foundation			**33**	**27**
Subordinated liabilities			**5,046**	**5,242**
Profit-sharing certificates outstanding			**1,581**	**1,794**
including: maturing in less than two years	647			(604)
Fund for general banking risks			**705**	**205**
Capital and reserves				
a) subscribed capital (conditional capital €403m)		1,708		1,556
b) capital reserve		5,918		4,705
c) revenue reserves				
ca) legal reserve	3			3
cb) reserve for the Bank's own shares	25			58
cd) other revenue reserves	2,133			2,100
		2,161		2,161
d) distributable profit		328		150
			10,115	**8,572**
Total Liabilities and Shareholders' Equity			**281,729**	**250,798**
1. Contingent liabilities				
a) contingent liabilities from rediscounted bills of exchange credited to borrowers		2		3
b) liabilities from guarantees and indemnity agreements (see also Note 31)		23,202		20,553
			23,204	**20,556**
2. Other commitments				
c) irrevocable lending commitments		31,917		32,291
			31,917	**32,291**

Profit and loss account of Commerzbank Aktiengesellchaft for the period from January 1 to December 31, 2005

in € m				2005	2004
Interest income from					
a) lending and money-market transactions		7,234			6,787
b) fixed-income securities and government-inscribed debt		1,548			1,241
			8,782		8,028
Interest paid			–6,337		–5,586
				2,445	**2,442**
Current income from					
a) shares and other variable-yield securities			454		385
b) investments (subsidiaries, associated companies, and trade investments)			48		86
c) holdings in affiliated companies			115		182
				617	**653**
Income from profit-pooling and from partial or full profit-transfer agreements				**693**	**155**
Commissions received			1,691		1,656
Commissions paid			–178		–240
				1,513	**1,416**
Net income from financial transactions				**–23**	**125**
Other operating income				**148**	**254**
General operating expenses					
a) personnel expenses					
aa) wages and salaries		–1,654			–1,544
ab) compulsory social-security contributions, expenses for pensions and other employee benefits		–438			–449
of which: for pensions	–193				(–206)
			–2,092		–1,993
b) other administrative expenses			–1,227		–1,338
				–3,319	**–3,331**
Depreciation on and value adjustments to fixed assets				**–199**	**–252**
Other operating expenses				**–145**	**–118**
Write-downs of and value adjustments to claims and certain securities, and additions to provisions for possible loan losses				**–1,302**	**–1,061**
Income from additions to investments, holdings in affiliated companies and securities treated as fixed assets				**837**	**277**
Expenses from the transfer of losses				**–1**	**–3**
Result from ordinary activities before restructuring expenses and appropriation to fund for general banking risks				**1,264**	**557**
Appropriation to fund for general banking risks				–500	–
Restructuring expenses				–30	–125
Result from ordinary activities after restructuring expenses and appropriation to fund for general banking risks				**734**	**432**
Taxes on income			–414		–283
Other taxes			8		1
				–406	**–282**
Net income for the year				**328**	**150**
Withdrawals from revenue reserves					
b) from reserve for the Bank's own shares			–33		–
d) from other revenue reserves			–		–8
				–33	**–8**
Allocation to revenue reserves					
b) to reserve for the Bank's own shares			–		8
d) to other revenue reserves			33		–
				33	**8**
Distributable profit				**328**	**150**

Extracts from the financial statements of Commerzbank Aktiengesellschaft 2004 (audited)

Commerzbank AG's balance sheet as of December 31, 2004

Assets (in € m)				31.12.2004	31.12.2003
Cash reserve					
a) cash on hand			570		814
b) balances with central banks			2,321		4,086
including: with Deutsche Bundesbank		1,880			(3,467)
				2,891	**4,900**
Debt issued by public-sector borrowers, and bills of exchange rediscountable at central banks					
a) treasury bills and discountable treasury notes, as well as similar debt issues by public-sector borrowers			759		1,154
including: rediscountable at Deutsche Bundesbank		251			(2)
b) bills of exchange			296		324
including: rediscountable at Deutsche Bundesbank		296			(322)
				1,055	**1,478**
Claims on banks					
a) payable on demand			14,429		13,638
b) other claims			46,745		46,201
				61,174	**59,839**
Claims on customers					
including: secured by mortgages on real estate		20,060			(19,811)
communal loans		4,561			(4,373)
				106,821	**111,933**
Bonds and other fixed-income securities					
a) money-market instruments					
aa) issued by public-sector borrowers		213			414
including: rediscountable at Deutsche Bundesbank	(90)				(–)
ab) issued by other borrowers		1,465	1,678		1,034
including: rediscountable at Deutsche Bundesbank	(13)				(–)
					1,448
b) bonds and notes					
ba) issued by public-sector borrowers		16,781			16,239
including: rediscountable at Deutsche Bundesbank	11,349				(12,596)
bb) issued by other borrowers		21,854	38,635		19,023
including: rediscountable at Deutsche Bundesbank	9,217				(4,181)
					35,262
c) bonds and notes issued by Commerzbank			3,305		2,631
nominal amount €3,302m					
				43,618	**39,341**
Shares and other variable-yield securities				**9,611**	**8,037**
Subsidiaries, associated companies and trade investments (investments)				**2,278**	**2,762**
including: investment in banks		1,646			(2,225)
investment in financial-service institutions		0			(0)
Holdings in affiliated companies				**7,762**	**7,742**
including: in banks		1,526			(1,385)
in financial-service institutions		32			(48)
Assets held on a trust basis				**386**	**57**
including: loans at third-party risk		386			(57)
Recovery claims on federal and Länder authorities under post-war currency reform acts including bonds in exchange for the former				**105**	**159**
Intangible assets				**16**	**–**
Fixed assets				**751**	**938**
Bank's holding of its own shares notional value: €10.7m				**58**	**50**
Other assets				**11,555**	**8,700**
Deferred items					
a) difference arising from consolidation pursuant to Art. 250, (3) of the German Commercial Code – HGB			130		156
b) other deferred items			2,268		3,818
				2,398	**3,974**
Deferred taxes pursuant to Art. 274, (2), German Commercial Code – HGB				**319**	**452**
			Total Assets	**250,798**	**250,362**

Liabilities and Shareholders' Equity (in € m)			31.12.2004	31.12.2003
Liabilities to banks				
a) payable on demand		24,816		27,042
b) with agreed periods or periods of notice		83,144		82,290
			107,960	**109,332**
Liabilities to customers				
a) savings deposits,				
aa) with agreed period of notice of three months	15,402			10,992
ab) with agreed period of notice of more than three months	640			631
		16,042		11,623
b) other liabilities				
ba) payable on demand	32,190			30,596
bb) with agreed periods or periods of notice	35,448			41,358
		67,638		71,954
			83,680	**83,577**
Securitized liabilities				
a) bonds and notes issued		21,677		19,829
b) other securitized liabilities		4,920		5,737
			26,597	**25,566**
including:				
ba) money-market instruments	4,660			(5,411)
bb) own acceptances and promissory notes outstanding	62			(71)
Liabilities on a trust basis			**386**	**57**
including: loans at third-party risk	386			(57)
Other liabilities			**10,362**	**8,442**
Deferred items				
a) difference arising from consolidation pursuant to Art. 340e, (2), 2 of the German Commercial Code – HGB		93		112
b) other deferred items		907		2,072
			1,000	**2,184**
Provisions				
a) provisions for pensions and similar commitments		1,311		1,246
b) provisions for taxation		338		94
c) other provisions		3,324		3,644
			4,973	**4,984**
Commerzbank Foundation			**27**	**27**
Subordinated liabilities			**5,242**	**5,466**
Profit-sharing certificates outstanding			**1,794**	**2,110**
including: maturing in less than two years	604			(512)
Fund for general banking risks			**205**	**205**
Capital and reserves				
a) subscribed capital (conditional capital €403m)		1,556		1,554
b) capital reserve		4,705		4,697
c) revenue reserves				
ca) legal reserve	3			3
cb) reserve for the Bank's own shares	58			50
cd) other revenue reserves	2,100			2,108
		2,161		2,161
d) distributable profit		150		–
			8,572	**8,412**
Total Liabilities and Shareholders' Equity			**250,798**	**250,362**
1. Contingent liabilities				
a) contingent liabilities from rediscounted bills of exchange credited to borrowers		3		2
b) liabilities from guarantees and indemnity agreements		20,553		21,422
			20,556	**21,424**
2. Other commitments				
c) irrevocable lending commitments		32,291		33,262
			32,291	**33,262**

Commerzbank AG's profit and loss account for the period from January 1 to December 31, 2004

in € m				2004	2003
Interest income from					
a) lending and money-market transactions		6,787			7,402
b) fixed-income securities and government-inscribed debt		1,241			1,295
			8,028		8,697
Interest paid			–5,586		–6,527
				2,442	**2,170**
Current income from					
a) shares and other variable-yield securities			385		170
b) investments (subsidiaries, associated companies, and trade investments)			86		45
c) holdings in affiliated companies			182		283
				653	**498**
Income from profit-pooling and from partial or full profit-transfer agreements				**155**	**117**
Commissions received			1,656		1,563
Commissions paid			–240		–268
				1,416	**1,295**
Net income from financial transactions				**125**	**134**
Other operating income				**254**	**258**
General operating expenses					
a) personnel expenses					
aa) wages and salaries		–1,544			–1,598
ab) compulsory social-security contributions, expenses for pensions and other employee benefits		–449			–409
of which: for pensions	–206				(–166)
			–1,993		–2,007
b) other administrative expenses			–1,338		–1,299
				–3,331	**–3,306**
Depreciation on and value adjustments to intangible and fixed assets				**–252**	**–352**
Other operating expenses				**–118**	**–199**
Write-downs of and value adjustments to claims and certain securities, and additions to provisions for possible loan losses				**–1,061**	**–486**
Income from additions to investments, holdings in affiliated companies and securities treated as fixed assets				**277**	**312**
Expenses from the transfer of losses				**–3**	**–24**
Result from ordinary activities before restructuring expenses and expenses arising from special factors				**557**	**417**
Restructuring expenses				–125	–72
Expenses arising from special factors				–	–2,405
Result from ordinary activities after restructuring expenses and expenses arising from special factors				**432**	**–2,060**
Taxes on income			–283		–234
Other taxes			1		–3
				–282	**–237**
Net income/net loss for the year				**150**	**–2,297**
Withdrawals from the capital reserve				**–**	**–2,297**
Withdrawals from revenue reserves					
b) from reserve for the Bank’s own shares			–		–59
d) from other revenue reserves			–8		–
				–8	**–59**
Allocation to revenue reserves					
b) to reserve for the Bank’s own shares			8		–
d) to other revenue reserves			–		59
				8	**59**
Distributable profit				**150**	**–**

CONSOLIDATED FINANCIAL STATEMENTS 2005
EUROHYPO GROUP

THE EUROHYPO GROUP

INCOME STATEMENT

INCOME STATEMENT

	Notes	1.1.–31.12.2005 € million	1.1.–31.12.2004 € million	Change € million	Change %
Interest income		10,623	11,062	−439	−4.0 %
Interest expenses		9,245	9,762	−517	−5.3 %
Net interest income	26	**1,378**	**1,300**	**78**	**6.0 %**
Risk provisions in lending business	27	−266	−262	4	1.5 %
Net interest income after risk provisions		**1,112**	**1,038**	**74**	**7.1 %**
Commission income		210	144	66	45.8 %
Commission expenses		65	65	0	–
Net commission income	28	**145**	**79**	**66**	**83.5 %**
Result from hedge accounting	29	−54	59	−113	>100 %
Net trading result	30	−19	−15	−4	−26.7 %
Result from financial assets	31	42	24	18	75.0 %
Income from at equity investments	32	−31	3	−34	>100 %
Result from investment property	33	0	−34	34	100%
Administrative expenses	34	513	490	23	4.7 %
Balance of other operating income/expenses	35	0	−33	33	100 %
Operating result		**682**	**631**	**51**	**8.1 %**
Amortization of goodwill	36	–	7	−7	100 %
Restructuring expenses	37	53	13	40	>100 %
Profit before tax		**629**	**611**	**18**	**2.9 %**
Income taxes	38	196	180	16	8.9 %
Profit after tax		**433**	**431**	**2**	**0.5 %**
Minority interests		0	0	–	–
Net income for the year		**433**	**431**	**2**	**0.5 %**

APPLICATION OF PROFIT/EARNINGS PER SHARE

APPLICATION OF PROFIT

in € million	2005	2004
Net income for the year	433	431
Result carried forward	0	0
Change in revenue reserves	−190	−188
Distributable profit of Eurohypo AG	**243**	**243**

EARNINGS PER SHARE

	Notes	2005	2004
Earnings per share in €	39	1.23	1.23

BALANCE SHEET

ASSETS

	Notes	31.12.2005 € million	31.12.2004 € million	Change € million	Change %
Cash reserve	6, 42	105	67	38	56.7 %
Trading assets	9, 43	4,712	5,060	−348	−6.9 %
Claims on banks	10, 44	25,831	24,161	1,670	6.9 %
Claims on customers	10, 45	149,378	156,738	−7,360	−4.7 %
Risk provisions	11, 46	−2,361	−2,553	−192	−7.5 %
Financial assets	12, 47	51,621	37,671	13,950	37.0 %
At equity investments	13, 48	20	–	20	>100 %
Investment property	14, 49	161	168	−7	−4.2 %
Intangible assets	15, 50	155	148	7	4.7 %
Tangible assets	16, 51	173	174	−1	−0.6 %
Deferred tax assets	17, 59	388	590	−202	−34.2 %
Other assets	53	4,120	4,704	−584	−12.4 %
Total		**234,303**	**226,928**	**7,375**	**3.2 %**

LIABILITIES

		31.12.2005	31.12.2004		Change
	Notes	€ million	€ million	€ million	%
Trading liabilities	9, 54	4,053	4,801	−748	−15.6 %
Liabilities to banks	18, 55	45,564	36,154	9,410	26.0 %
Liabilities to customers	18, 56	37,416	38,221	−805	−2.1 %
Liabilities in certificate form	18, 57	126,744	127,971	−1,227	−1.0 %
Provisions	19, 20, 58	471	463	8	1.7 %
Deferred tax liabilities	17, 59	270	271	−1	−0.4 %
Other liabilities	60	9,541	9,000	541	6.0 %
Subordinated liabilities	21, 61	2,737	2,961	−224	−7.6 %
Profit participation certificates	22, 62	455	675	−220	−32.6 %
Hybrid capital	23, 63	900	600	300	50.0 %
Capital and reserves	24, 64, 65	6,152	5,811	341	5.9 %
Subscribed capital	64	914	914	0	0
Capital reserve	64	3,992	3,991	1	0
Revenue reserve	64	828	592	236	39.9 %
Revaluation reserve	64	195	106	89	84.0 %
Reserve for cash flow hedges	64	−20	−35	15	42.9 %
Distributable profit of Eurohypo AG		243	243	0	0
Minority interests		0	0	0	0
Total		**234,303**	**226,928**	**7,375**	**3.2 %**

STATEMENT OF CHANGES IN CAPITAL AND RESERVES

in € million	Subscribed capital	Capital reserve	Revenue reserve
Balance as at January 1, 2004	**914**	**3,991**	**340**
Correction for previous years in accordance with IAS 8.42 (see explanation under note 59, 64)			66
Adjusted consolidated capital and reserves as at January 1, 2004	**914**	**3,991**	**406**
Distribution for financial year 2003			
Transfer to revenue reserve			188
Addition to capital			
Own shares	0	0	
Change in portfolio of own shares			
Result from transactions with own shares			
Available-for-sale financial instruments			
Change in valuation results for AfS securities			
Realization of valuation results for AfS securities			
Cash-flow hedges			
Changes in valuation results for cash flow hedges			
Realization of valuation results for cash-flow hedges			
Change in value resulting from currency translation			
Changes in scope of consolidation and other changes			−2
Net income for the year			
Balance as at December 31, 2004	**914**	**3,991**	**592**

in € million	Subscribed capital	Capital reserve	Revenue reserve
Balance as at January 1, 2005 (after corrections for previous years in accordance with IAS 8.42)	**914**	**3,991**	**592**
Distribution for financial year 2004			
Transfer to revenue reserve			240[1]
Addition to capital			
Own shares	0	1	
Change in portfolio of own shares		0	
Result from transactions with own shares			
Available-for-sale financial instruments			
Change in valuation results for AfS securities			
Realization of valuation results for AfS securities			
Cash-flow hedges			
Changes in valuation results for cash flow hedges			
Realization of valuation results for cash-flow hedges			
Change in value resulting from currency translation			
Changes in scope of consolidation and other changes			−4
Net income for the year			
Balance as at December 31, 2005	**914**	**3,992**	**828**

[1] € 190 million from the annual net income 2005 as well as € 50 million further to the decision of the Annual General Meeting in May 2005

Revaluation reserve	Reserve for cash flow hedges	Reserve for currency translation	Distributable profit	Minority interests	Minority interests Revaluation reserve	Total
151	**−35**	**−3**	**3**	**0**	**0**	**5,361**
						66
151	**−35**	**−3**	**3**	**0**	**0**	**5,427**
			−3			−3
			−188			0
						0
−45						−45
	0					0
		3				3
						−2
			431	0		431
106	**−35**	**0**	**243**	**0**	**0**	**5,811**

Revaluation reserve	Reserve for cash flow hedges	Reserve for currency translation	Distributable profit	Minority interests	Minority interests Revaluation reserve	Total
106	**−35**	**0**	**243**	**0**	**0**	**5,811**
			−193			−193
			−240			0
						1
89						89
	15					15
						−4
			433	0		433
195	**−20**	**0**	**243**	**0**	**0**	**6,152**

CASH FLOW STATEMENT

INFORMATION CONCERNING THE CASH-FLOW STATEMENT

The Cash flow statement shows the change in cash and cash equivalents at the Eurohypo Group as a result of cash flow from operating activity, investment activity and financing activity. The analysis is carried out in accordance with IAS 7 and the German Accounting Standard, DRS 2, supplemented by the specific German Accounting Standard for banks, DRS 2-10.

The allocation of the cash flows from operational business activity takes place in accordance with the delimitation of the operating result. The cashflows (inflows and outflows) from claims on banks and customers as well as other assets are reported here. Inflows and outflows from liabilities to banks and customers liabilities in certificate form and other debt also form part of the operating activity. The interest and dividend payments resulting from the operating activity are also reflected in the cash flow of operating activity.

The cash flow from investment activity results from incoming and outgoing payments in connection with the sale or acquisition of financial assets or tangible assets. All cash flows from financial assets result primarily from payment flows from transactions with securities in the public finance sector. Effects from changes in the scope of consolidation are also taken into account in the cash flow from investment activity.

All cash flows from transactions with share capital together with subordinated capital and profit participation certificates are reported under cash flow from financing activity.

In accordance with strict definition, the cash and cash equivalents shown include purely the cash reserve, which comprises the cash at bank and credit balances with central banks.

Cash-flow statements are not very meaningful for credit institutions and replace neither our liquidity nor financial planning, nor are they used as a management tool.

CASH FLOW STATEMENT

in € million	31.12.2005	31.12.2004
Net income for the year	**433**	**431**
Non-cash items included in net income and transfer to the cash flow from current business activity		
Write-downs of, allowances and write-ups to claims, Tangible and financial assets	698	648
Change in provisions	71	46
Change in other non-cash items	631	−294
Result from the sale of financial and tangible assets	−51	−28
Other adjustments	−1,132	−526
Sub-total	**650**	**277**
Change in the assets and liabilities from current business activity net of non-cash transactions		
Claims		
– on banks	−1,260	−3,766
– on customers	7,195	11,298
Trading securities	–	–
Other assets from operating activity	254	812
Liabilities		
– to banks	8,352	6,854
– to customers	−787	−2,001
Liabilities in certificate form	−2,256	−14,222
Other liabilities from operating activity	383	−1,296
Interest and dividends received	10,790	11,042
Interest paid	−9,576	−9,821
Extraordinary incoming payments	–	–
Extraordinary disbursements	–	–
Income-tax payments	−58	−69
Cash flow from operating activity	**13,687**	**−892**
Incoming payments from divestiture of		
– financial assets	8,879	10,027
– tangible assets	4	5
Disbursements for investment in		
– financial assets	−22,171	−9,089
– tangible assets	−31	−34
Effects of changes in scope of consolidation	0	–
Incoming payment from disposals of subsidiaries	0	20
Disbursements for acquisition of subsidiaries	0	0
Changes in funds from other investment activity	–	–
Cash flow from investment activity	**−13,319**	**929**
Incoming payments from additions to capital	1	0
Dividend payments	−193	−3
Changes in funds from		
– subordinated capital	−138	−74
– other financing activity	–	–
Cash flow from financing activity	**−330**	**−77**
Cash and cash equivalents at the end of the previous period	**67**	**107**
+/– Cash flow from operating activity	13,687	−892
+/– Cash flow from investment activity	−13,319	929
+/– Cash flow from financing activity	−330	−77
+/– Changes in cash and cash equivalents based on exchange rates	0	0
Cash and cash equivalents at the end of the reporting period	**105**	**67**

NOTES

NOTES

ACCOUNTING REGULATIONS

The present consolidated financial statements of Eurohypo were prepared in accordance with the provisions of the International Financial Reporting Standards (IFRS) in accordance with section 315 a HGB in conjunction with the EC Banking Directive (86/635/EEC) and EC Group Directive (83/349/EEC). IFRS encompass apart from the standards defined by IFRS also the interpretations of the International Accounting Standards (IAS) and those of the International Financial Reporting Interpretations Committee (IFRIC) and those of the Standing Interpretations Committee (SIC). An overview of the regulations applied is given on the following pages. The consolidated financial statements and the management report of Eurohypo fully comply with the regulations of the European Union as they apply to and are binding for credit institutions.

ACCOUNTING AND VALUATION PRINCIPLES

(1) POLICIES

The consolidated financial statements of Eurohypo have been prepared in accordance with the International Financial Reporting Standards (IFRS). The aim of the IFRS financial statements is to provide the information on the net assets, financial position and result of operations that is relevant for decision-making purposes as well as changes in the same over the course of time.

(2) IFRS, IAS, IFRIC, SIC AND DRS STANDARDS APPLIED

The dates on which IFRS or IAS standards or IFRIC or SIC interpretations are approved and the dates on which they come into force regularly differ. However, the IASB generally recommends the early application of standards and recommendations that have been approved but not yet come into force.

The Eurohypo Group has based its accounting and valuation principles on the IFRS and IAS standards approved and published as at the reporting date of December 31, 2005.

The consolidated financial statements 2005 are based on the following International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) which are relevant to the Eurohypo Group:

Standard	Title
IFRS 2	Share-based remuneration
IFRS 3	Business combinations
IFRS 5	Non-current assets held for sale and discontinued operations
IAS 1	Presentation of financial statements
IAS 2	Inventories
IAS 7	Cash-flow statement
IAS 8	Net profit or loss for the period, fundamental errors and changes in accounting policies
IAS 10	Events after the balance-sheet date
IAS 12	Income taxes
IAS 14	Segment reporting
IAS 16	Property, plant and equipment
IAS 17	Leases
IAS 18	Revenue
IAS 19	Employee benefits
IAS 21	The effects of changes in exchange rates
IAS 24	Related party disclosures
IAS 27	Consolidated financial statements and accounting for investments in subsidiaries
IAS 28	Accounting for investments in associates
IAS 30	Disclosures in the financial statements of banks and similar financial institutions
IAS 31	Financial reporting of interests in joint ventures
IAS 32	Financial instruments: disclosure and presentation
IAS 33	Earnings per share
IAS 36	Impairment of assets
IAS 37	Provisions, contingent liabilities and contingent assets
IAS 38	Intangible assets
IAS 39	Financial instruments: recognition and measurement
IAS 40	Investment property

The following IFRIC or SIC interpretations relevant to the Eurohypo Group were also taken into account in the consolidated financial statements 2005:

Standard	Title
SIC 7	Introduction of the euro
SIC 12	Consolidation – special purpose entities
SIC 13	Jointly controlled entitites – non-monetary contributions by venturers
SIC 15	Operating leases – incentives
SIC 21	Income taxes – recovery of revalued non-depreciable assets
SIC 25	Income taxes – changes in the tax status of an enterprise or its shareholders
SIC 27	Evaluating the substance of transactions in the legal form of a lease
SIC 32	Intangible assets – website costs
IFRIC 2	Members' shares in co-operative entities and similar instruments
IFRIC	Amendment of SIC 12; scope of SIC 12 – consolidation – special purpose entities

In addition to the Standards and IFRIC and SIC interpretations listed above, the following Deutsche Rechnungslegungs Standards (DRS – German Accounting Standards) approved and published as at December 31, 2005 by the Deutsche Standardisierungsrat (German Standardisation Committee) were applied:

Standard	Title
DRS 2	Cash-flow statement
DRS 2–10	Cash-flow statement of financial institutions
DRS 3	Segment reporting
DRS 3–10	Segment reporting by financial institutions
DRS 4	Acquisition accounting in consolidated financial statements
DRS 5	Risk reporting
DRS 5–10	Risk reporting by financial enterprises
DRS 7	Presenting equity in consolidated financial statements
DRS 8	Accounting for investments in associates in consolidated financial statements
DRS 9	Accounting for investments in joint ventures in consolidated financial statements
DRS 10	Deferred taxes in consolidated financial statements
DRS 11	Related party disclosures
DRS 12	Non-current intangible assets
DRS 13	Consistency principle and correction of errors
DRS 14	Foreign currency translation
DRS 15	Management reporting

Eurohypo AG has not applied in advance IFRS standards, interpretations and amendments to existing standards whose application is not yet obligatory.

We have not taken into account any new regulations for 2005 that we did not take into account for 2004. The first-time application of IFRS regulations therefore has no impact on comparability.

(3) SCOPE OF CONSOLIDATION AND PRINCIPLES OF CONSOLIDATION

The consolidated financial statements of Eurohypo include all material subsidiaries in which the bank has a direct or indirect holding of 50 % or more, or over which the bank can exert a controlling influence. In principle, the subsidiaries are included in the scope of consolidation as of the date on which the Group obtains de facto control and are excluded from the scope of consolidation on disposal or in the event of Eurohypo no longer exerting a controlling influence.

Scope of consolidation

As at December 31, 2005, in addition to Eurohypo AG, the scope of consolidation includes 31 fully consolidated German and international subsidiaries (previous year: 31). In addition, 3 associated or joint venture companies are consolidated using the equity method. A complete list of the subsidiaries included in the consolidated financial statements can be found on page 196.

The 4 companies below were included in the consolidation for the first time in 2005:

- EUROHYPO Capital Funding LLC II, Wilmington, Delaware, USA (full consolidation)
- EUROHYPO Capital Funding Trust II, Wilmington, Delaware, USA (full consolidation)
- Delphi I LLC, Wilmington, Delaware, USA (valued at equity)
- Urbanitas Grundbesitzgesellschaft mbH, Berlin (valued at equity)

prompter Aktiengesellschaft, Mainz, was no longer included in the scope of consolidation in financial year 2005. It was merged onto Eurohypo AG, Eschborn with retrospective effect to January 1, 2005 on June 29, 2005 (entry in commercial register).

Servicing Advisors Deutschland GmbH, Frankfurt/Main (previously SPECIAL EUROHYPO SERVICER GmbH, Frankfurt/Main) which was fully consolidated in 2004, was consolidated using the equity method in financial year 2005 due to a reduction in the shareholding to 50 %.

In January 2005 we took within the framework of credit risk management an indirect participation of 50 % of the shares in Urbanitas Grundstücksgesellschaft mbH, Berlin, for a purchase price of € 1.00. The proportion of voting rights amounts to 51 %.

Affiliated companies, which are only of minor significance in terms of a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, are not included in the consolidated financial statements. The total assets of the 15 companies not included in the scope of consolidation as they are of minor significance amount to less than 0.1 % of the total assets of the Eurohypo Group. As at December 31, 2005, Rheinhyp Finance NV i.L., Amsterdam and Rheinhyp Bank Europe plc. i.L., Dublin are no longer affiliated companies. They were deleted in financial year 2005. Other affiliated companies not included in the consolidated financial statements were:

- EHY Securities LLC, Wilmington, Delaware, USA
- Delphi I Eurohypo LLC, Wilmington, Delaware, USA
- Eurohypo Asset Management Ltd., London
- Goldkey Investimentos Immobiliaros LDA, Lissabon

Of the above new companies, three were newly incorporated. 100% of Goldkey Investimentos Immobiliaros LDA, Lisbon was indirectly acquired within the framework of credit risk management for a purchase price of € 16,000.00 in October 2005.

Principles of consolidation

Consolidation is carried out by offsetting the cost of purchasing the affiliate against the Group’s share of the revalued equity as at the acquisition date. This equity is the difference between the assets and liabilities of the company acquired measured at fair value. Any difference between the higher purchase costs and the pro-rata revalued equity is reported as goodwill under intangible assets and is subject to an impairment test as required, but at least once a year.

All claims and liabilities, income and expenses and intermediate results resulting from intra-Group transactions with consolidated companies are eliminated.

Participations in subsidiaries which are not consolidated because of their minor significance and investments are reported at cost of acquisition in the portfolio of participations and securities.

(4) CURRENCY CONVERSION

The reporting currency and the functional currency of Eurohypo AG and its subsidiaries is the euro.

The reporting currency is the currency in which the financial statements of the reporting company are compiled. The functional currency is the currency of the primary commercial environment in which the reporting company operates. Determination of the functional currency is based on the currency in which the transactions conducted by the company are generally priced.

Assets and liabilities denominated in foreign currency and non-monetary items measured at fair value are converted at the spot rate on the balance-sheet date in accordance with IFRS. Currency forwards are valued on the basis of the current forward rate. The conversion of monetary assets and liabilities is recognized in income. Non-monetary items are converted and reported under capital and reserves with no impact on income.

Any consolidation effects resulting from the currency conversion are reported under capital and reserves with no impact on income.

(5) NETTING

Liabilities are only netted against claims if these are due to the same account holder, are due on demand, and it has been agreed with the counterparty that the interest and commission calculation is carried out as if there were only one account.

(6) CASH RESERVE

The cash reserve of the Eurohypo Group comprises cash at hand and balances with central banks. These are reported at nominal value.

(7) FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT (IAS 39)

In accordance with IAS 39, all financial assets and liabilities, including derivatives, are to be recorded in the balance sheet. IAS 39 provides for the measurement of financial instruments in various categories which differ in terms of subsequent valuation and impact on income of changes in valuation.

For the purposes of subsequent valuation, all financial instruments are therefore to be allocated to a category in accordance with IAS 39. The allocation must be carried out when the instrument is first recognized so that a subsequent valuation can be performed at any time in the subsequent period.

The following explanations provide an overview of how the regulations of the Standard are implemented in the Eurohypo Group:

CATEGORIZATION OF FINANCIAL ASSETS AND LIABILITIES AND THEIR MEASUREMENT

Fundamental accounting principles

In the Eurohypo Group, regular way contracts are reported as at the settlement date irrespective of their category. Derivative contracts (in principle held for trading) are reported as at the trading day.

For financial instruments which have to be reported at fair value, we determine the fair value in principle on the basis of stock market prices. Where there are not sufficient stock market prices that meet our quality criteria or no stock market prices available, which applies to the major portion of our financial instruments with the exception of securities, the fair value is determined using the usual market procedures (valuation methods) based on instrument-specific market parameters.

The fair value is generally calculated using the above discounted cash flow method, taking individual credit-standing and other market circumstances into account in the form of usual market credit-standing and liquidity spreads. Any "optional" components such as statutory or contractual termination rights are also taken into account using usual market option price models, such as Black-Scholes and Hull-White, and included in the fair value calculation.

Loans and Receivables

Loans granted direct to the debtor or direct claims on the debtor and purchased claims are allocated to this category. Valuation is carried out at amortized cost. Premiums and discounts are recognized in net interest income over the term of the loan.

Held-to-maturity assets

Non-derivative financial assets with fixed or specifiable payments and a fixed maturity may be allocated to this category if they were not initially recognized in the income statement at fair value, are not available for sale and do not meet the criteria for definition as loans and receivables. In addition, both the intention and ability to hold the non-derivative financial assets to maturity must exist. Valuation is at amortized cost, whereby premiums and discounts are recognized in net interest income over the term. Eurohypo does not use this category.

Financial assets at fair value through profit or loss with two sub-categories: held-for-trading and at fair value through profit or loss

All financial assets and liabilities held for trading are allocated to the held-for-trading sub-category. In principle, derivative financial instruments are categorized as trading portfolios in accordance with IAS 39 and changes in value are shown in the trading result unless they qualify for reporting under hedge accounting. Changes in value from effective hedges are carried under hedge accounting.

Financial assets which are covered by IAS 39 can be irrevocably allocated to the fair value through profit or loss sub-category at inception. At Eurohypo, a defined portfolio of claims on customers was allocated to this category and was sold in 2004. The transfer of the claims took place with effect from February 1, 2005.

Trading assets and liabilities are reported at fair value on each balance-sheet date. Gains and losses on valuation are recognized in profit or loss under the trading result.

Available-for-sale assets

This category represents the remainder of financial assets not reported in any of the other categories above.

Eurohypo primarily reports securities under this category.

The securities are reported at cost as at the date of acquisition. Subsequent valuation is at fair value. The results of the valuation are reported net of deferred taxes in a separate line item (revaluation reserve) under capital and reserves with no impact on income. If the assets are sold, the accumulated changes in value reported in the revaluation reserve are released and the difference is recognized in the income statement. In the event of permanent value impairment, the revaluation reserve must to be reduced by the impairment loss and the amount charged to the income statement. If the fair value cannot be determined reliably, the assets are valued at amortized cost. Premiums and discounts are recognized in net interest income over the maturity.

Financial liabilities

These include original financial liabilities, in particular liabilities to banks and customers and liabilities in certificate form. These are valued at amortized cost. Premiums and discounts are spread across maturity and recognized in interest income.

Embedded derivatives

IAS 39 also governs the accounting for embedded derivatives. These are derivatives which form part of a hybrid financial instrument and are indivisibly linked to the instrument. Under IAS 39, the embedded derivative must under certain conditions be separated from the original host contract and reported and measured separately at fair value like a free-standing derivative. This separation must take place if the characteristics and risks of the embedded derivative are not closely linked with the host contract. In such cases, the embedded derivative is to be treated as part of the trading portfolio and recognized at fair value. Changes in value are to be recognized through profit or loss. By contrast, the host contract is recognized and measured in line with the provisions of the relevant financial instrument category. If the characteristics and risks of the embedded derivative are, however, closely linked with those of the host contract, the embedded derivative is not separated and the hybrid financial instrument is valued in accordance with general provisions of the corresponding category.

(8) HEDGE ACCOUNTING

If derivatives are used to hedge against risks arising from non-trading transactions, IAS 39 permits the application of special hedge-accounting regulations under certain circumstances. The need for provisions governing the reporting of hedging transactions results from the different valuation approaches for the various financial instrument categories under IAS 39. As (hedging) derivatives are in principle to be allocated to the “financial instruments at fair value through profit or loss” category (sub-category held for trading), they are recognized at fair value as at each balance sheet date with impact on income. Financial instruments in the "loans and receivables" and "financial liabilities" categories, however, are reported at amortized cost and those in the "available-for-sale" category are carried at fair value with no impact on income. To avoid imbalanced effects on the profit-and-loss account from the different measurement approaches for the hedged underlying transaction and the hedge, IAS 39 incorporates special regulations for hedge accounting. The aim of these provisions is to record the changes in value of the hedging instruments and hedged transactions so that they (largely) compensate each other, as fair value hedges (impact on income) or cash flow hedges (no impact on income).

Fair-value hedge accounting:

Fair-value hedges are used to hedge the fair value of assets or liabilities as well as fixed commitments (underlying transaction) that do not affect the balance sheet. Fair-value hedges hedge the interest rate and currency risks. Credit-risk hedges do not count in hedge relationships.

In accordance with the fair-value hedge-accounting regulations, the derivative financial instrument used as a hedge is reported at fair value, whereby changes in value are recognized in profit or loss. For the hedged asset or liability, the changes in fair value resulting from the hedged risk are also recognized in profit or loss.

If the asset or liability is reported at amortized cost in line with general provisions (e. g. loan granted or debenture issued), the book value is to be adjusted by the accumulated fair value changes resulting from the hedged risk. If, however, the asset is carried at fair value (e. g. available-for-sale security), the fair-value changes resulting from the hedged risk are recognized in profit or loss in deviation from the general rule to record such changes under capital and reserves with no impact on income.

The valuation gains or losses relating to the hedged risk and arising from the underlying transaction are recognized together with the fair value changes of the hedge in the income statement (hedge accounting).

If the hedging relationship is fully (i. e. 100 %) effective, the changes in value of the underlying transaction and the hedge compensate each other. If there are inefficiencies (within the bandwidths permitted under hedge accounting), these are reported in the income statement. In addition to the results from inefficiencies within the permitted bandwidths, effects on the results from the allocation of existing underlying transactions to a hedging relationship in accordance with IAS 39 are also shown here. The difference between historical acquisition costs and the hedged fair value, which was established at the time of designation of the hedging relationship, is recorded as an adjustment to the book value of the underlying transaction over the remaining term. Changes in the book value of the underlying transaction resulting from the hedge are released and taken to the profit-and-loss account until maturity, when the hedge relationship is terminated. If the hedge relationship is cancelled because the underlying transaction no longer applies, the change in book value of the underlying transaction resulting from the hedge is written back.

Cash-flow hedge accounting:

Derivatives used as hedging instruments as part of a cash-flow hedge are used to secure future payment flows. There is a risk with regard to the level of future cash flows in particular for variable rate loans, securities and liabilities.

Derivative financial instruments used as cash -flow hedges are reported at fair value. Changes in value are divided into effective and ineffective portions. The effective portion is the portion of changes in value which represents an effective hedge against the cash-flow risk. This is recognized in a separate line item under capital and reserves (cash-flow hedge reserve) with no impact on income. Conversely, the ineffective portion of the change in value is recognized in the income statement and reported in the result from hedge accounting. The above general accounting regulations are not affected by the transactions underlying the hedged cash flows.

When the hedge relationship ceases, the amounts recognized in the reserve are always transferred to the income statement if changes relating to the former underlying transaction impact on income.

Application and documentation of hedge accounting

Eurohypo uses a fair-value hedge to hedge the fair value of a financial instrument against the risks arising from a change in the relevant reference interest rate and/or exchange rate. Interest-rate and interest-currency swaps are mainly used to hedge against these risks. At Eurohypo, the derivatives in the portfolio are virtually all used to hedge against market risks from asset/liability management. Some cash-flow hedges using interest swaps are employed. The same applies for other price risks involved with structured financial instruments.

Hedging derivatives within the meaning of IAS 39 with a positive fair value are reported under other assets and those with a negative fair value under other liabilities.

The application of the hedge-accounting regulations is linked to a series of additional conditions. These refer in particular to the documentation of hedge relationships and the effectiveness of the hedging measures.

The hedge relationship is documented at the time of inception. The documentation comprises the aims of the hedge and a description of the strategy as to how the aims will be achieved, identification of the hedging instrument, identification of the underlying transaction, identification of the hedged risk, the term of the hedge and the hedge ratio, nature of the hedge and methodology used to determine the effectiveness of the hedge.

In addition to this documentation, IAS 39 also requires proof of an effective hedge relationship for application of the hedge accounting regulations. This means that the changes in fair value (for fair value hedges) or changes in cash flow (cash flow hedges) of the hedged underlying transaction must be compensated by the counter changes in fair value or cash flow of the hedging instrument – always in relation to the hedged risk. The effectiveness requirement means that hedge accounting can only be used for hedges which demonstrate a high level of effectiveness (between 80 % and 125 %) between the hedged underlying transaction and the hedge.

The effectiveness of a hedge relationship is measured ex ante according to the Dollar offset method and ex post using the regression method. If there is a short history of measured changes in value, additional data pairs required for the regression relationships are simulated on the basis of historic changes in interest rates and the sensitivity of the underlying transaction and the hedge to interest rate changes.

(9) TRADING ASSETS AND LIABILITIES

Trading assets comprise individual claims, when held for trading purposes and derivative financial instruments with positive fair values, which are not used as hedges under hedge accounting.

Derivative financial instruments with negative fair values, which are not used for hedge accounting purposes under IAS 39, are reported under trading liabilities.

Trading assets and liabilities are carried initially at cost, excluding transaction costs, and are subsequently valued at fair value. In cases for which there are no stock-exchange prices, the fair value of comparable instruments or recognized valuation models (particularly net present value concepts or option price models, see page 130) are used. Suitable adjustments for valuation risks are carried out. Gains or losses arising on valuation are recognized in the result from trading reported in the profit-and-loss account.

(10) CLAIMS

Claims on banks and on customers comprise mortgages, public finance and other claims. They are carried at amortized cost. Interest income is recognized in net interest income. Premiums and discounts are spread across the maturity and recognized in net interest income in the income statement. Embedded derivatives subject to separate consideration were split from the corresponding underlying transaction and reported as trading assets or trading liabilities.

Loans can be categorized as "at fair value through profit or loss" at inception and therefore treated in line with the rules on fair value measurement. This fair value option (IAS 39 amended June 2005) was applied at Eurohypo to a defined portfolio of claims on customers which was sold in 2004. The transfer of the claims took place with effect from February 1, 2005.

(11) RISK PROVISIONS

Risk provisions are determined in line with the application of IAS 39. In addition to the procedure under HGB (German Commercial Code) and German accounting provisions (GoB), claims on banks and customers and provisions for credit business are also subject to the described recognition, valuation and reporting methods.

To determine the risk provisions, customer relationships are analyzed at regular intervals against Group-wide standard benchmarks. A distinction is made between specific allowances and portfolio allowances. Loans for which specific allowances need to be recognized are not taken into account when determining portfolio allowances. At Eurohypo there is so far no requirement for country risk provisions.

Specific allowances are valuation allowances for loans for which it is unlikely that all contractually agreed interest and amortization payments will be received when due. Specific allowances are determined on the basis of the difference between the loan amount including pro rata accumulated interest, costs and other incidental costs and the net present value of the expected future cash flows taking into account the collateral provided. The discounting effects which go beyond the specific allowances required under German commercial law are charged immediately to income. Individual written-down loans are recorded internally as non-accrual loans.

Portfolio allowances are recognized for loans which are not subject to specific allowances, but which collectively show a loss that has occurred but not yet been identified. The amount of the allowance is based on experience.

Amounts which after realization of collateral are deemed to be uncollectible are written off either directly or against the specific allowance. Recoveries on loans previously written off are recognized in income.

Provisions for off-balance-sheet obligations in credit business are created and charged to risk provisions in lending business and determined using the same calculation procedure as for loan-loss provisions.

(12) FINANCIAL ASSETS

Bonds and other fixed-income securities, shares and other non fixed-income securities, which are not part of the trading portfolio, are reported under financial assets, as are shares in affiliated companies and participating interests not included in the consolidated financial statements.

All bonds, other fixed-income securities and shares and other non fixed-income securities are reported in the consolidated financial statements of Eurohypo as available-for-sale when these are traded in an active market. The active market is defined in terms of the liquidity of the instruments. Securities which are trading on an active market are measured at fair value based on their stock-exchange price. Alternatively, the fair value is determined theoretically on the basis of market data using accepted measurement models or derived from comparable securities. Changes in fair value are reported in the revaluation reserve with no impact on income. When the fair value for available-for-sale portfolios cannot be determined reliably, the securities are reported at cost.

Investments in associated companies not included in the consolidated accounts and participating interests are also reported in the available-for-sale portfolio. These assets are not listed on the stock exchange. As the fair value cannot be determined reliably, they are reported at amortized cost.

Acquired securities are reported under financial assets and measured at fair value.

In the case of repo transactions (repurchase agreements) the relevant security is reported in the balance sheet. In addition, the funds inflow received by the counterparty is recognized and a liability to banks recorded.

(13) AT EQUITY INVESTMENTS

Shares in associated companies and joint ventures are reported using the equity method in the available-for-sale portfolio. In financial year 2004, no companies were reported here, in financial year 2005 Delphi I LLC, Wilmington, Delaware, USA, Urbanitas Grundbesitzgesellschaft mbH, Berlin and Servicing Advisors Deutschland GmbH, Frankfurt/Main. The at equity valuations are based on the last available accounts.

The shareholding in Delphi I LLC, Wilmington, Delaware, USA stood at 33.3 % as at December 31, 2005. The shareholding in the other two companies indicated above was 50 % as at the reporting date.

Total assets of the associated companies amounted to € 1.1 billion, revenues to € 179 million and income for the period under review (financial year 2005) to € −89 million.

Assets of approx. € 1.1 billion related mainly to claims under loan agreements.

(14) INVESTMENT PROPERTY

Land and buildings kept to generate rental income or because of expected value appreciation are deemed to be investment property. Essentially the Eurohypo Group reports the property acquired during collateral realization under investment property.

Investment property is valued at the time of acquisition at cost in accordance with IAS 40, taking into account the directly attributable transaction costs. The subsequent valuation of investment property is carried out using the fair-value model. Fair value is determined on the basis of annually updated valuations by internal surveyors as well as on the fair values achievable in the current market.

The valuation of commercially used property is based as a rule on its earning capacity; individual residential buildings are valued as a rule on an asset or comparative value basis.

Gains or losses arising from a change in fair value are recognized in the profit or loss for the period.

(15) INTANGIBLE ASSETS

In addition to goodwill, Eurohypo reports purchased and in-house software under intangible assets. Fixed intangible assets constructed for the company’s own use are capitalized in accordance with IAS 38 when they meet the actual reporting requirements of the standard.

Initially, intangible assets are valued at cost. During subsequent valuation, the benchmark method is applied for purchased and own software, whereby the cost is spread over the economic useful life and amortized on a straight-line basis over the following timescales:

USEFUL LIFE

	Years
Software	3 to 5

As at each balance-sheet date, Eurohypo reviews the previous amortization method and remaining useful life. If there are signs of value impairment, an impairment test is carried out.

There is no scheduled amortization of goodwill. Instead, goodwill is checked for impairment in line with IAS 36 “Impairment of assets” once a year or more frequently if events or a change in circumstances indicate that impairment may have taken place. The impairment test is applied as of the last balance sheet date in each case.

(16) TANGIBLE ASSETS

Tangible assets are reported at cost less scheduled straight-line depreciation in line with the expected useful life, when the assets are depreciable. Extraordinary depreciation is carried out if a permanent impairment is likely. If the grounds for the extraordinary depreciation no longer apply, the asset is written up to a maximum of the amortized cost. Tangible assets are depreciated on a straight-line basis in line with their expected economic useful life over the following time scales:

USEFUL LIFE

	Years
Office buildings	40
Residential buildings	up to 50
Operating and office equipment	3 to 23

Acquisitions of minor-value assets in the financial year are recorded directly as an expense in the reporting period for reasons of materiality. Interest on borrowings to finance tangible assets is not capitalized. Measures to maintain tangible assets are recorded as an expense in the year in which they arise.

Depreciation is reported under administrative expenses. Gains on the disposal of tangible assets are recorded under other operating income and losses under other operating expenses.

(17) INCOME TAXES

Income taxes are carried and valued in accordance with IAS 12 (revised 2004).

Deferred taxes are recognized for all temporary differences between the values carried in accordance with IFRS and the German and foreign tax base as well as for the differences arising from Group-wide standard valuation and consolidation (balance-sheet oriented approach for deferred taxes).

As the concept of deferred taxes is based on the presentation of future tax claims or tax liabilities (liability method), calculation is carried out using the relevant national tax rates expected at the time of the likely settlement of the differences.

Expenses and income from deferred taxes were reported in the income statement on an accrual basis and separate from the actual tax expenses and income. Deferred taxes are recognized in the income statement in accordance with IAS 12 if the underlying transactions affect net income. They are recorded under capital and reserves, e.g. in the revaluation reserve, with no impact on income if the balance-sheet item itself is treated neutrally (IAS 12.61), e.g. in the event of the revaluation of available-for-sale securities portfolio.

(18) LIABILITIES

In principle, liabilities to banks and customers and liabilities in certificate form are carried at amortized cost. The changes in the value of the underlying transaction attributable to the hedged risk are recognized in the income statement if hedge accounting is applied.

If own bonds are redeemed, the amount carried in the balance sheet is reduced by the book value of the redeemed liability. If the redemption price differs from the book value, the difference is recognized in the income statement. In such cases the book value is the average of the initial values. If a redeemed security is sold again at a later date, it is reported as a liability in certificate form in the amount of the sale price.

(19) PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

Defined-benefit plans are in place for company pensions, which are fully financed via provisions for pensions and similar obligations. These correspond to the net present value of the pension rights accruing as at the reporting date, taking into account anticipated rises in wages and salaries as well as the forecast trend in pensions. The pension provisions and similar obligations (provision for age-related short-time working, early retirement provision, anniversary provisions) are determined in accordance with IAS 19 on the basis of actuarial reports in line with the projected unit credit method. Changes in the calculation parameters (interest rate, staff turnover, career trends, index-linking of vesting rights and pensions) expected in the future and actuarial gains and losses are taken into account.

Eurohypo has opted to use corridor approach. Actuarial gains and losses are treated in line with the corridor approach, which means that they are only recognized in the income statement in subsequent years if the total amount of gains or losses accruing as at the balance sheet date exceeds the higher of 10 % of the net present value of the total obligations or 10 % of the fair value of the plan's assets.

(20) OTHER PROVISIONS

A provision is recognized in line with IAS 37 if there is a legal or factual obligation towards third parties resulting from transactions or events in the past and utilization is likely and the amount of such utilization can be reliably determined. Provisions for contingent liabilities and anticipated losses related to incomplete contracts are valued on the basis of our best estimate in accordance with IAS 37.36 ff. Provisions are reviewed and redetermined annually.

Released provisions are reporting under other operating income.

(21) SUBORDINATED LIABILITIES

Capital amounts assigned to the bank which qualify as a financial obligation in accordance with IAS 32.11 and IAS 32.15 as a result of the repayment claim of the relevant investor and are categorized as subordinated are reported under subordinated liabilities.

Under securitized and non-securitized subordinated liabilities we report subordinated bearer bonds, subordinated registered paper and subordinated loans raised. They are reported at amortized cost.

For subordinated funds raised, there is no early repayment obligation on the part of Eurohypo under any circumstances. In the event of liquidation, bankruptcy, composition or any other proceedings to avoid bankruptcy, claims and interest claims arising from these liabilities are serviced after the claims of all creditors of Eurohypo which are not also subordinated.

(22) PROFIT PARTICIPATION CERTIFICATES

The profit participation certificates reported on the balance sheet are capital amounts assigned to the bank, which qualify as a financial obligation in accordance with IAS 32.11 and IAS 32.15 as a result of the repayment claim of the relevant investor and are categorized as subordinated.

The participation certificates grant a profit share to the shareholders which ranks ahead of the annual distribution; they are subordinate to other creditors unless these too are subordinated. Subject to the provisions on participation in a loss, repayment takes place at the nominal amount.

The features of the profit participation certificates comply with the provisions of the German Banking Act (section 10 para. 5 KWG) and are therefore considered to be part of the liable capital.

For profit participation certificates, there is no early repayment obligation on the part of Eurohypo under any circumstances. In the event of liquidation, bankruptcy, composition or any other proceedings to avoid bankruptcy, claims and interest claims arising from these liabilities are serviced after the claims of all creditors of Eurohypo which are not also subordinated.

(23) HYBRID CAPITAL

For hybrid capital, there is no early repayment obligation on the part of Eurohypo in any circumstances. In the event of liquidation, bankruptcy, composition or any other proceedings to avoid bankruptcy, claims and interest claims arising from these liabilities are serviced after the claims of all creditors of Eurohypo which are not also subordinated.

In 2003, we placed a € 600 million hybrid capital issue and a further € 300 million in financial year 2005. The issues are primarily utilised to increase the consolidated tier 1 capital ratio.

(24) CAPITAL AND RESERVES AND MINORITY INTERESTS

In accordance with IFRS, the capital and reserves give rise to a residual claim on the assets of a company after deduction of all its liabilities or claims for which the investor has no termination option.

In accordance with IAS 39, changes in the value of available-for-sale assets and effective portions of the changes from cash-flow hedges are reported under capital and reserves with no impact on income.

Redeemed own-capital instruments are deducted from capital and reserves in accordance with IFRS and the resultant gains or losses recognized in capital and reserves with no impact on income. Under IAS 1 minority holdings are accounted for within capital and reserves.

(25) TRUST TRANSACTIONS

Trust transactions which the Group conducts in its own name but on behalf of third parties are not reported in the balance sheet. Commission payments are shown in the profit-and-loss account under net commission income.

INFORMATION CONCERNING THE INCOME STATEMENT

(26) NET INTEREST INCOME

in € million	2005	2004
Interest income from		
Real-estate financing	4,687	4,936
Public finance	3,496	3,858
Other lending and money-market business	428	327
Fixed-income securities and book entry-securities	2,011	1,939
Current income from shares and other non fixed-income securities	0	0
Current income from participating interests and from non-consolidated affiliated companies	1	2
Other	0	0
Total interest income	**10,623**	**11,062**
Interest expenses for		
Liabilities in certificate form	5,003	5,532
Registered Pfandbriefe	1,663	1,891
Loans taken up	717	774
Other borrowings and money-market business	894	504
Subordinated liabilities	146	161
Profit participation certificates	27	36
Hybrid Capital	55	38
Other liabilities	0	0
Current result from swap transactions (Balance of interest income and interest expense)	740	826
Total interest expenses	**9,245**	**9,762**
Total	**1,378**	**1,300**

Netting payments in relation to interest-rate swaps with off-market coupons are amortized on a straight-line basis in interest income over the maturity of the swap.

(27) RISK PROVISIONS IN LENDING BUSINESS

Risk provisions consist of allowances and provisions off-balance-sheet commitments in relation to lending business and are reported in the income statement as follows:

in € million	2005	2004
Additions to risk provisions	410	475
Releases of risk provisions	174	175
Direct write-downs	89	40
Recoveries on loans previously written off	24	15
Use of guarantee	35	63
Total	**266**	**262**

Risk provisions reflect for the last time the use of the guarantees provided by the major shareholders for the existing lending portfolios of the three predecessor banks. Before usage of the guarantee, risk provisions amounted to € 301 million (previous year: € 325 million).

(28) NET COMMISSION INCOME

in € million	2005	2004
Commission income		
Securities business	0	0
Lending and guarantee business	159	122
Other services	51	22
Total commission income	**210**	**144**
Commission expenses		
Securities business	8	4
Lending and guarantee business	53	60
Other services	4	1
Total commission expenses	**65**	**65**
Total	**145**	**79**

(29) RESULT FROM HEDGE ACCOUNTING

in € million	2005	2004
Result from hedge accounting		
from fair-value hedges	–54	59
from cash-flow hedges	0	0
Total	**–54**	**59**

The result from the hedge accounting includes the measurement results from hedge accounting under IAS 39. In addition to the results of inefficiencies within the permitted bandwidths, the results from the allocation of existing underlying transactions in a hedging relationship are also reported here under IAS 39. The difference between the amortized costs and the hedged fair values calculated at the time of designation of the hedging relationship is recorded over the residual term as an adjustment in the book value of the underlying transaction.

(30) TRADING RESULT

in € million	2005	2004
CMBS transactions CIB-I-US including associated derivatives	46	4
Result from other derivative financial instruments	–65	–73
Result from the application of the fair value option	–	54
Total	**–19**	**–15**

The financial instruments in the trading portfolio are measured at fair value. Unlisted transactions are based on accepted net present value or option price models. The trading result is produced by offsetting trading income against the corresponding expenses. The results from fair-value measurement of the portfolios are included, i.e. unrealized price gains and losses are included in the result reported.

The result from applying the fair value option in 2004 referred to a defined portfolio of claims on customers, which were allocated to "financial assets at fair value through profit or loss" category and sold in 2004. The transfer of the claims took place with effect of Febuary 1, 2005.

(31) RESULT FROM FINANCIAL ASSETS

The proceeds from the disposal of available-for-sale securities are reported in the result from financial assets. In addition, expenses and income from the disposal and amortisation of affiliated companies, companies not carried at equity and participating interests, are also shown here.

in € million	2005	2004
Result from disposal of available-for-sale securities	43	24
Result from participating interests and non-consolidated affiliated companies	–1	0
Total	**42**	**24**

The available-for-sale portfolios are measured at fair value. However, if there is no liquid market price or no reliable relevant factors can be determined for the valuation models, shares in affiliated companies and participating interests are carried at amortized cost.

(32) AT EQUITY INVESTMENTS

The results from disposal and valuation of the associated companies and joint ventures carried at equity are reported under investments in companies accounted for using the equity method.

in € million	2005	2004
Income from at equity investments		
Gains on disposal	–	3
Income from at equity valuation	0	–
Expenses for at equity investments		
Losses on disposal	–	–
Expenses from at equity valuation	–31	–
Total	**–31**	**3**

The expenses from at equity valuation in 2005 largely result from Delphi I LLC, Wilmington, Delaware.

In 2004, there was a profit from the disposal of our participating interest in RHEINHYP-BRE Hipoteczny S.A. of € 3 million.

(33) RESULT FROM INVESTMENT PROPERTY

in € million	2005	2004
Income from investment property		
Rental income	8	7
Income from disposals	2	1
Write-ups	1	4
Other income	2	–
Expenses for investment property		
Building occupancy and office costs	6	6
of which: rented property	4	4
of which: vacant property	2	2
Expenses for disposals	0	2
Depreciation and impairment	7	38
Other expenses	0	0
Total	**0**	**–34**

(34) ADMINISTRATIVE EXPENSES

in € million	2005	2004
Wages and salaries	**244**	**222**
Social-security contributions	**25**	**29**
Expenses for pensions and other employee benefits	**33**	**30**
Total staff expenses	**302**	**281**
Other administrative expenses	**190**	**186**
Depreciation, amortization and impairments on intangible assets, tangible assets and operating and office equipment		
Intangible assets	7	7
Tangible assets	14	16
Total write-downs	**21**	**23**
Total administrative expenses	**513**	**490**

With regard to the depreciation, amortization and impairments on intangible assets, tangible assets and operating and office equipment, Eurohypo reviews the previous method of depreciation or amortization and residual useful life as at each balance-sheet date. If there are signs of impairment, an impairment test is carried out. Subsequent valuation in the financial year did not lead to any extraordinary write-downs (previous year: € –).

(35) OTHER OPERATING INCOME

in € million	2005	2004
Other operating income		
Rental income	0	0
Realization gains from the disposal of certain assets	8	2
Income from the release of provisions	4	3
Realization gains from repurchased liabilities	12	11
Sundry other operating income	16	78
Total other operating income	**40**	**94**
Other operating expenses		
Realization losses from the disposal of certain assets	1	0
Realization losses from repurchased liabilities	18	104
Sundry other operating expenses	21	23
Total other operating expenses	**40**	**127**
Total other operating income	**0**	**–33**

Other operating income and expenses comprise items which cannot be allocated to other line items on the profit-and-loss account, in particular realization gains and losses from the disposal of certain assets and repurchased liabilities. Furthermore, sundry other operating income includes sales revenues by Eurohypo Systems GmbH, Eschborn amounting to € 12 million (previous year: € 9 million). In 2004, this item included the utilization of a guarantee relating to the portfolio of claims on customers categorised in accordance with the fair-value option of € 64 million.

(36) AMORTIZATION OF GOODWILL

Under IFRS, goodwill may no longer be amortized on a scheduled basis and must be subject to an impairment test at least once a year or as required and value adjusted accordingly.

No amortization on goodwill was required during the reporting year. In 2004, amortization of € 7 million was required on goodwill in prompter Aktiengesellschaft, Mainz.

(37) RESTRUCTURING EXPENSES

The restructuring expenses of € 34 million relate to the project to optimize costs and increase efficiency started at the beginning of the reporting year as well as the amalgamation of locations. The merger-related restructuring costs (relating to 2001/2002) amounted to € 19 million (previous year: € 12 million).

in € million	2005	2004
Expenses for restructuring measures introduced	53	13
Total	**53**	**13**

(38) INCOME TAXES

Income taxes for the Group break down as follows:

in € million	2005	2004
Actual tax expenses/income		
Germany	−16	−7
Abroad	−99	−56
Total actual tax expenses/income	**−115**	**−63**
Deferred tax expenses/income		
Germany	−74	−108
Abroad	−7	−9
Total deferred tax expenses/income	**−81**	**−117**
Total	**−196**	**−180**
Actual tax expenses/income		
for the current year	−136	−58
for previous years	21	−5
Total	**−115**	**−63**
Deferred tax expenses/income		
from changes in temporary differences and loss carryforwards	−90	−127
from new evaluation of temporary differences, loss carryforwards	9	10
Total	**−81**	**−117**

In addition to the current income taxes, deferred tax expenses/income are also reported as income taxes. These result from the recognition with impact on income of deferred taxes on the basis of temporary differences, the creation or utilization of loss carryforwards and adjustments to the value of deferred tax assets and changes in tax rates.

The current income tax payable on the net income for the year is reported in the relevant period as an expense in line with the tax legislation in the relevant jurisdiction.

Deferred taxes for the German bank and its fiscal subsidiaries are calculated using the expected nominal average tax rate of 37.62 %. This rate is based on a corporation tax rate of 26.38 %, including the solidarity surcharge, and an effective trade tax rate of 11.24 %.

The current and deferred taxes for EUROHYPO Europäische Hypothekenbank S.A., Luxembourg, and the foreign branches are calculated using the tax rates applicable for the country in question.

The following table shows the reconciliation of the anticipated income-tax expenses (income) in the relevant financial year and the reported income-tax expenses (income).

To determine the anticipated income-tax expenses (income), the profit before tax is multiplied by the overall tax rate for the financial year of 37.62 %.

in € million	2005	2004
Profit from normal operating activity under IFRS:	629	611
Group income-tax rate	37.62 %	37.62 %
Anticipated tax expenses (income)	−237	−230
Tax effects arising from		
previous years and tax-rate changes	34	1
differing tax rates in Germany and abroad	12	−2
changes in recognition and adjustments to deferred tax assets	−15	−6
income from guarantee payments by major shareholders not required to be reported for tax purposes	22	61
other tax-free income	10	11
non-deductible expenses	−10	−7
permanent account differences	−11	−3
other	−1	−5
Reported tax expenses (income)	**−196**	**−180**

The main effect of the reconciliation results from the release of tax provisions of the German bank against the background of external audits to be completed in 2006 and adjustment of tax balance sheet values to the current tax assessment.

The reappraisal of temporary differences and the adjustment of the previous year's portfolio of tax loss carryforwards to the tax assessments produce an additional reconciliation effect.

Reconciliation effects continue to arise from guarantee payments of major shareholders for non-performing loans, which for tax purposes are carried as deposits not earnings, and from permanent accounting differences due to valuation differences in stakes in joint stock companies.

As at December 31, 2005 corporation tax credit balances of € 9.4 million are still available for future distributions.

(39) EARNINGS PER SHARE

To calculate the earnings per share, the net income for the year is divided by the average number of shares outstanding during the financial year, whereby the average number of treasury shares is deducted.

in € million	**2005**	**2004**
Consolidated net income for the year	433	431
Average number of shares outstanding (in million)	351	351
Earnings per share in €	**1.23**	**1.23**

In principle, the diluted earnings per share are calculated using the same method, but taking into account the dilution effects from the exercise of outstanding rights for the subscription of Eurohypo shares. As in the previous year, no such rights were in place as at the end of 2005. As a result, diluted earnings per share at Eurohypo are equivalent to the earnings per share.

(40) QUARTERLY RESULTS

in € million	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004	Q1 2004
Interest income	2,450	2,680	2,767	2,726	2,827	2,589	2,819	2,827
Interest expense	2,107	2,329	2,427	2,382	2,515	2,265	2,498	2,484
Net interest income	**343**	**351**	**340**	**344**	**312**	**324**	**321**	**343**
Risk provisions in lending business	−66	−77	−60	−63	−48	−70	−76	−68
Net interest income after risk provisions	**277**	**274**	**280**	**281**	**264**	**254**	**245**	**275**
Commission income	50	78	51	31	49	32	36	27
Commission expenses	16	18	15	16	15	17	16	17
Net commission income	**34**	**60**	**36**	**15**	**34**	**15**	**20**	**10**
Result from hedge accounting	15	−10	−14	−45	25	20	47	−33
Trading result	−22	−32	13	22	41	−28	−64	36
Result from financial assets	6	1	17	18	6	5	−5	18
At equity investments	−33	0	1	1	0	3	0	0
Result from investment property	1	0	−1	0	−13	−5	1	−17
Administrative expenses	145	133	124	111	136	118	121	115
Other operating income	5	2	−3	−4	−22	−4	−1	−6
Operating result	**138**	**162**	**205**	**177**	**199**	**142**	**122**	**168**
Amortization of goodwill	–	–	–	–	7	–	–	–
Restructuring expenses	6	47	–	–	7	3	1	2
Profit before tax	**132**	**115**	**205**	**177**	**185**	**139**	**121**	**166**
Income taxes	36	32	68	60	50	37	36	57
Profit after tax	**96**	**83**	**137**	**117**	**135**	**102**	**85**	**109**
Minority interest	0	0	0	0	0	0	0	0
Net income for the year	**96**	**83**	**137**	**117**	**135**	**102**	**85**	**109**

(41) SEGMENT REPORTING

PROFIT-AND-LOSS ACCOUNT BY SEGMENT

	CBG € million		CIB-I-CE € million		CIB-I-REIB & UK € million		CIB-I-US € million		RB € million		PFGM € million		Cross-divisional positions € million		Eurohypo Group € million	
	2005	2004[1]	2005	2004	2005	2004[1]	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Net interest income	467	489	212	197	65	59	71	48	273	308	290	199	0	0	1,378	1,300
Risk provisions in lending business	–171	–215	0	3	0	–3	0	0	–97	–65	0	0	2	18	–266	–262
Net interest income after risk provisions	**296**	**274**	**212**	**200**	**65**	**56**	**71**	**48**	**176**	**243**	**290**	**199**	**2**	**18**	**1,112**	**1,038**
Net commission income	61	27	53	38	55	29	26	28	–13	–8	–9	–2	–28	–33	145	79
Result from hedge accounting	0	0	0	0	0	0	0	0	0	0	–54	59	0	0	–54	59
Trading result	0	0	0	0	0	0	46	4	0	54	–65	–73	0	0	–19	–15
Result from financial assets	0	0	0	0	0	0	0	0	0	0	42	24	0	0	42	24
At equity investments	–1	0	0	0	0	0	0	0	–30	0	0	0	0	3	–31	3
Result from investment property	0	–32	0	0	0	0	0	0	0	–2	0	0	0	0	0	–34
Administrative expenses	131	139	52	46	41	33	70	47	114	132	58	49	47	44	513	490
Other operating income	–4	–6	–1	–1	0	0	0	0	–4	–85	–3	–17	12	76	0	–33
Operating result	**221**	**124**	**212**	**191**	**79**	**52**	**73**	**33**	**15**	**70**	**143**	**141**	**–61**	**20**	**682**	**631**
Amortization of goodwill	0	0	0	0	0	0	0	0	0	7	0	0	0	0	0	7
Restructuring expenses	0	0	0	0	0	0	0	0	0	1	0	0	53	12	53	13
Profit before tax	**221**	**124**	**212**	**191**	**79**	**52**	**73**	**33**	**15**	**62**	**143**	**141**	**–114**	**8**	**629**	**611**
Volume																
Segment assets (in € bn)	43.1	42.4	18.1	15.2	5.1	4.0	4.3	2.8	27.1	31.2	129.8	123.7	0.0	0.0	227.5	219.3
Average RWA (in € bn)	37.2	38.0	17.0	15.6	5.4	4.9	4.4	2.7	16.7	19.5	6.6	5.6	–3.5	–5.7	83.8	80.6
Average allocated equity capital (in € bn)	2.6	2.5	1.2	1.0	0.4	0.3	0.3	0.2	1.2	1.3	0.4	0.4	–0.1	–0.4	6.0	5.3
Key ratios																
RoE before tax (in %)	8.5	5.0	17.8	18.6	20.8	16.1	23.5	18.5	1.3	4.8	–	–	–	–	11.2	11.4
CIR (in %)	24.8	27.0	19.7	19.6	34.3	37.8	48.9	61.8	43.7	44.0	20.8	24.9	–	–	32.7	35.5
Average staff capacity (FTE)	464	518	138	124	53	60	97	74	484	618	83	74	1,061	1,159	2,380	2,627

[1] The unit REIB Germany was transferred from CIB-I-REIB & UK to CBG.

PROFIT-AND-LOSS ACCOUNT BY GEOGRAPHIC REGIONS

	Germany € million		Rest of Europe € million		America € million		Eurohypo Group € million	
	2005	2004	2005	2004	2005	2004	2005	2004
Net interest income	930	958	373	293	75	49	1,378	1,300
Risk provisions in lending business	−266	−263	0	1	0	0	−266	−262
Net interest income after risk provisions	**664**	**695**	**373**	**294**	**75**	**49**	**1,112**	**1,038**
Net commission income	12	−12	107	63	26	28	145	79
Result from hedge accounting	−87	47	33	12	0	0	−54	59
Trading result	−68	−9	3	−10	46	4	−19	−15
Result from financial assets	42	24	0	0	0	0	42	24
At equity investments	−31	3	0	0	0	0	−31	3
Result from investment property	0	−34	0	0	0	0	0	−34
Administrative expenses	339	359	101	83	73	48	513	490
Other operating income	1	−32	−1	−1	0	0	0	−33
Operating result	**194**	**323**	**414**	**275**	**74**	**33**	**682**	**631**
Amortization of goodwill	0	7	0	0	0	0	0	7
Restructuring expenses	52	13	1	0	0	0	53	13
Profit before tax	**142**	**303**	**413**	**275**	**74**	**33**	**629**	**611**
	€ billion	€ billion	€ billion	€ billion	€ billion	€ billion	€ billion	€ billion
Segment assets	176.3	181.8	46.9	34.7	4.3	2.8	227.5	219.3
Average staff capacity (FTE)	2,053	2,346	226	207	101	74	2,380	2,627

Segment reporting by Group units

The present segment reporting was prepared in accordance with the provisions of IAS14. It is based on the internal management, information and planning systems of the Eurohypo Group and analyzes the relevant results and portfolios first by operating division (primary reporting format) and then by geographic region (secondary reporting format).

On the sales side, the segment reporting by operating division is based in principle on the responsibilities for the different customers. The divisions Corporate Banking Germany (CBG), Corporate and Investment Banking International Continental Europe (CIB-I-CE), European Real Estate Investment Banking and UK Senior Lending (CIB-I-REIB&UK), Real Estate Investment Banking and Corporate Banking USA (CIB-I-US) and Retail Banking (RB) as well as Public Finance/Global Markets (PFGM) are each headed by a member of the Board of Managing Directors as an independent division with its own profit centre.

As part of the expansion of European Debt Capital Markets, the unit REIB Germany was transferred from CIB-I-REIB&UK to CBG. The comparative figures for financial year 2004 were adjusted accordingly.

The regular expenses and income of CASIA GmbH and the other property realization companies are – as is the case for income and expenses arising from the valuation of properties – allocated to the segments in which they originate.

Public Finance and Treasury are reported together with Money and Capital-Market business in PFGM. This segment also shows the business results of EUROHYPO Europäische Hypothekenbank S.A., Luxembourg, and its Dublin branch, which was closed in 2005 as the subsidiary operates in similar business fields.

The overheads item shows all result components that cannot be directly allocated to the above segments or only on the basis of arbitrary conclusions. This item also reflects all the balance-sheet structural measures carried out as part of overall bank management. Overheads also include income from third party business carried out by Eurohypo Systems GmbH, Eschborn as well as those restructuring expenses, which were not primarily allocated.

The secondary reporting format shows the results and portfolios by geographic region. Eurohypo shows its core regions of Germany, Rest of Europe and America.

The criterion used for segmentation is the registered office of the Group company or foreign branch. For centralized organizational units, the regional responsibility is used for segmentation purposes. In the remaining cases, segmentation is carried out using the same methods as for reporting by operating unit.

The regional segments are also shown on a consolidated basis, whereby unallocated overheads are generally reported under Germany.

The Germany segment therefore comprises the operating units CBG, RB, the German portion of PFGM and the unallocated overheads. The Europe segment includes CIB-I-CE and CIB-I-REIB&UK as well as Eurohypo Luxembourg and its Dublin branch. The America segment shows the activities of CIB-I-US and the Treasury Desk in New York.

The principles of segment reporting

The aim of segment reporting is to allocate the pre-tax profit from the profit-and-loss account of the Eurohypo Group and the financing volume to the segments in which they originate.

As a first step, net interest income has been split on the basis of the market interest-rate method into the components of interest contribution and the maturity transformation contribution. The interest contribution is calculated separately for each individual client transaction and subsequently allocated to the customer segment in which it originates. The maturity transformation contribution is allocated to PFGM.

In addition to the interest contribution, the net interest income for the relevant segment also includes the calculatory income from the interest on the balance of non-interest-bearing balance-sheet positions (capital and reserves, provisions, tangible assets). The underlying interest rate corresponds to that of a risk-free investment in the long-term capital market.

This capital benefit is allocated to the segments in relation to the risk-weighted assets associated with the segment in accordance with BIS. In addition, PFGM receives a calculatory compensation payment for increased spreads that have to be paid for the procurement of subordinated capital, profit participation certificates and hybrid capital.

When breakage costs for prepaid loans are allocated, the customer segments are allocated the margin loss determined and Treasury the funding loss.

The risk provisions in credit business reported in the segments comprise both new provisions and the release of specific allowances, direct write-downs of claims and recoveries on loans written off. Portfolio allowances are reported in overheads. The guarantee from the major shareholders for the portfolios treated as “Loans and receivables” was allocated to the relevant segment of risk provisions.

Net commission income is allocated directly to the segments. The expenses for balance-sheet and structural measures (securitization measures, global guarantees etc.) are generally shown in the overheads item.

The result from hedge accounting is allocated to PFGM.

In the trading result, the result from derivatives not included in hedge accounting is allocated to PFGM. Only the portion of the derivative result attributable to CMBS transactions is shown in CIB-I-US together with changes in valuation of the CMBS loans.

Delphi I LLC, Wilmington, Delaware, USA and Servicing Advisors Deutschland GmbH, Frankfurt/Main are reported in the RB segment under income from at equity investments; Urbanitas Grundbesitz-gesellschaft mbH, Berlin is allocated to the CBG segment.

Income and expenses from investment property are reported in the segment in which they originate.

Administrative expenses include personnel costs and operating expenses as well as depreciation and amortization of tangible assets and other intangible assets (excluding goodwill). Amortization of goodwill and restructuring expenses are shown below the operating result in pre-tax profit. Administrative expenses are allocated in line with their origin and in addition to direct expenses also includes indirect expenses from internal charges for services. For the service provider, this results in a corresponding credit entry. Results from transactions between segments are allocated on the basis of bilateral agreements. Intragroup service providers (corporate centres, Eurohypo Systems, CASIA) allocate their operating expenses to the relevant service recipient. The allocation criteria are specified by central Controlling in agreement with the business divisions and the service providers.

The segment profit is measured on the basis of pre-tax profit and the return on equity before tax and CIR.

The return-on-equity ratio shows the relevant segment result in relation to the average capital tied up in the segment.

This is calculated on the basis that risk-weighted assets (RWA) are backed by 7.0 % core capital further to BIS (previous year: 6.6 %).

The cost-income ratio (CIR) shows the relationship between administrative expenses and the total net interest and commission income as well as the CIBI-I-US trading result.

Given the special funding practices in the mortgage business (macro funding by PFGM with no segment relationship), we have only shown an analysis of the financing volume and have not provided a detailed presentation of segment claims and liabilities, as the resultant information would not have been meaningful.

The segment assets of PFGM also comprise – apart from public sector financings – deposits invested with other credit institutes. The segment assets of the Real Estate financing Divisions CIB-I-REIB-UK and CIB-I-US also comprise securities portfolios backed by real estate.

INFORMATION CONCERNING THE BALANCE SHEET (ASSETS)

(42) CASH RESERVE

in € million	2005	2004
Cash at bank	**0**	**0**
Credit balances with central banks		
At Deutsche Bundesbank	100	66
At other central banks	5	1
Bills	–	–
Total	**105**	**67**

Credit balances at Deutsche Bundesbank also serve to meet the minimum reserve requirements. The minimum credit reserve as at December 2005 amounts to € 153 million (previous year: € 97 million). As at the reporting date, there were no holdings of public-sector debt securities or bills eligible for refinancing at central banks.

(43) TRADING ASSETS

Claims assigned to the held-for-trading category are reported under trading assets, as are derivatives not used for hedging purposes.

All trading assets are recognized at fair value.

in € million	2005	2004
Claims	**695**	**762**
Positive fair values from derivatives (no hedge accounting)		
Interest rate-related transactions	3,712	3,928
Currency-related transactions		
Cross currency swaps	240	313
Forward currency contracts	65	57
Total derivative financing instruments	**4,017**	**4,298**
Total	**4,712**	**5,060**

In 2004 positive fair values in the amount of € 1 million previously reported under "other transactions" were reclassfied as "interest rate – related transactions".

(44) CLAIMS ON BANKS

in € million	2005	2004
Due on demand	**5,973**	**4,912**
Other claims		
Real-estate financing	67	152
Loans to public-sector entities	15,475	15,524
Other claims	4,316	3,573
Total	**25,831**	**24,161**
Germany	21,200	19,615
Abroad	4,631	4,546
Total	**25,831**	**24,161**

(45) CLAIMS ON CUSTOMERS

in € million	2005	2004
Real estate financing	96,149	94,671
Loans to public-sector entities	53,183	62,062
Other claims	46	5
Total	**149,378**	**156,738**
Germany	113,479	128,411
Abroad	35,899	28,327
Total	**149,378**	**156,738**

(46) RISK PROVISIONS

The risk provisions in lending business are recognized in accordance with Group-wide standard regulations and cover all identifiable credit-standing and country risks. For risks which have arisen but for which no losses have yet been identified, portfolio allowances are recognized on the basis of historic values. There was no requirement to recognize any country risks.

	Specific allowances		Portfolio allowances		Total	
in € million	2005	2004	2005	2004	2005	2004
Balance as at 1.1	**2,401**	**2,239**	**152**	**170**	**2,553**	**2,409**
Additions	**410**	**467**	**–**	**–**	**410**	**467**
Reductions	**624**	**309**	**1**	**18**	**625**	**327**
thereof amounts used	456	152	–	–	456	152
thereof amounts released	168	157	1	18	169	175
Other adjustments with no impact on income	**23**	**4**	**–**	**–**	**23**	**4**
Adjustments due to currency translation	**0**	**0**	**–**	**–**	**0**	**0**
Balance as at 31.12	**2,210**	**2,401**	**151**	**152**	**2,361**	**2,553**

Taking into account direct write-downs, recoveries on receivables written-off, utilization of guarantees and additions to and releases of provisions, the additions and releases incorporated into the income statement produce risk provisions of € 266 million (previous year: € 262 million).

Risk provisions were allocated for

in € million	31.12.2005	31.12.2004
Claims on banks	1	1
Claims on customers	2,360	2,552
Total	**2,361**	**2,553**

In addition to the risk provisions amounting to € 2,361 million (previous year: € 2,553 million) deducted from assets on the balance sheet, provisions of € 16 million (previous year: € 25 million) are carried under liabilities for contingent liabilities.

Total non-accrual loans amounted to € 4.3 billion (previous year: € 4.4 billion). As a result, an amount of € 114 million (previous year: € 139 million) was not recognized as interest income.

(47) FINANCIAL ASSETS

Financial assets comprise bonds, other fixed-income securities and shares and other non fixed-income securities as well as shares in affiliated companies and participating interests are not included in the consolidated financial statements. At equity investments are shown under a separate line item.

in € million	2005	2004
Bonds and other fixed-income securities	**51,602**	**37,651**
Money-market paper	364	19
of public issuers	364	19
of other issuers	–	–
Bonds and notes	51,238	37,632
of public issuers	36,377	30,786
of other issuers	14,861	6,846
Shares and other non fixed-income securities	**–**	**3**
Participating interests	**9**	**8**
of which: measured at fair value	–	–
of which: measured at cost	9	8
Shares in other non-consolidated affiliated companies	**10**	**9**
of which: measured at fair value	–	–
of which: measured at cost	10	9
Total	**51,621**	**37,671**

Fair value of financial assets	listed		unlisted	
in € million	**2005**	**2004**	**2005**	**2004**
Bonds and other fixed-income securities	44,398	37,300	7,204	312
Shares and other non fixed-income securities	–	3	–	–
Participating interests	–	–	–	–
Shares in non-consolidated affiliated companies	–	–	–	–
Total	**44,398**	**37,303**	**7,204**	**312**

(48) AT EQUITY INVESTMENTS

Investments in associated companies and joint ventures are reported in the available-for-sale portfolio as investments in companies accounted for using the equity method. In financial year 2004, no companies were reported under this item; in financial year 2005, this item included Delphi I LLC, Wilmington, Delaware, USA and Urbanitas Grundbesitzgesellschaft mbH, Berlin and Servicing Advisors Deutschland GmbH, Frankfurt/Main.

The investment in companies accounted for using the equity method was reported on the basis of the most recent financial statements prepared in accordance with national regulations.

in € million	2005	2004
At equity investments	20	–
Total	**20**	**–**

	listed		unlisted	
	2005	2004	2005	2004
At equity investments	–	–	20	–
Total	**–**	**–**	**20**	**–**

(49) INVESTMENT PROPERTY

This item essentially comprises salvage acquisitions as part of collateral realization. For details see Note (51).

(50) INTANGIBLE ASSETS

in € million	2005	2004
Goodwill	135	135
Software		
Purchased software	12	9
Own software	8	4
Total	**155**	**148**

(51) TANGIBLE ASSETS

in € million	2005	2004
Advance payments on buildings under construction	–	–
Land and buildings	137	139
Advance payments on operating and office equipment	–	–
Operating and office equipment	36	35
Total	**173**	**174**

The amount reported under land and buildings refers mainly to the bank’s building in Eschborn.

(52) STATEMENT OF CHANGES IN FIXED ASSETS

Amortization of goodwill is reported under a separate line item in the profit-and-loss account. Amortization of software, other intangible assets and depreciation of land and buildings and operating and office equipment are shown in the item depreciation, amortization and value adjustment of intangible and tangible assets under administrative expenses.

Goodwill is the amount by which the Group's share of the fair value of the acquired net assets of a company exceeds the cost of its acquisition as at the date of acquisition.

Goodwill is recorded as an asset and subject to an impairment test at least once a year. A permanent impairment of goodwill exists when the book value of a reporting unit exceeds its estimated fair value. All permanent impairments are recognized immediately in the profit-and-loss account.

All the goodwill is allocated to the cash-generating units. The cash-generating units of the Group correspond to the business divisions of the Group or a level below.

Since the date of first-time adoption, the Group carries out an intrinsic value test at least once a year or as required.

The annual impairment test as at December 31, 2005 did not indicate any permanent impairment of goodwill.

In financial year 2004, reporting unit prompter AG showed a permanent impairment of goodwill of € 7 million.

The cash-generating unit European Real Estate Investment Banking and UK Senior Lending (CIB-I-REIB & UK) was allocated goodwill of € 34 million resulting from the contribution of REIB London by Deutsche Bank in 2002.

The cash-generating unit Real Estate Investment Banking and Corporate Banking USA (CIBI-US) was allocated goodwill of € 36 million resulting from the contribution of REIB US by Dresdner Bank in 2003.

The cash-generating unit Corporate Banking Germany (CBG) was allocated goodwill of € 58 million from the contribution of the Real Estate Finance division of Deutsche Bank in 2003.

The cash-generating unit Public Finance Global Markets (PFGM) was allocated goodwill of € 7 million resulting from the acquisition of a minority interest of 10 % in EUROHYPO Europäische Hypotheken-bank S.A., Luxembourg.

The impairment tests are based on corporate value calculations for the relevant cash-generating units carried out using the discounted cash-flow method to determine the utility value according to the income method.

The achievable amount of the assets of a cash-generating unit is determined as the higher of its fair value less costs of sale and its utility value.

The cash-flow projections are based on multi-year financial planning approved by the Board of Managing Directors and the Supervisory Board, prepared on the basis of past performance of the individual cash-generating units and the expectations of the Board of Managing Directors with regard to market trends.

The starting basis to determine the value of the basic assumptions for cash-generating unit CBG is as follows:

- Active portfolio management and targeted reduction of value-eroding portfolios
- Reduction of risk costs and administrative expenses
- Stabilization of new business margins and commissions at the current level

The starting basis to determine the value of the basic assumptions for cash-generating unit CIB-I-REIB & UK is as follows:

- Increase in new business, improvement of renewals rate
- Acquisition of new advisory mandates
- Expansion of CMBS business without cannibalizing the lending business

The starting basis to determine the value of the basic assumptions for the cash-generating unit CIB-I-US is as follows:

- Expansion of syndication loans business
- Expansion of conduit CMBS business
- Expansion of mezzanine business
- Enhancement of product range (CDO, real-estate securities investment)
- Improvement of CIR after start-up costs no longer apply and leveraging of economies of scale

The starting basis to determine the value of the basic assumptions for cash-generating unit PFGM is as follows:

- Achieve trading book status and generate trading income
- Optimize portfolio results through targeted restructuring
- Generate additional income through product-related customer business

Today’s Eurohypo was formed in 2002 by the merger of three institutions; Eurohypo (old), Deutsche Hyp and Rheinhyp. To be able to provide a suitably long monitoring period, the planning for all cash-generating units was extended to include an outline budget phase for the years 2009 to 2012. The growth rate in terminal value was assumed to be 1 %.

The movement in non-current financial assets, investments in associates, investment property, intangible assets and tangible assets in financial year 2005 was as follows:

STATEMENT OF CHANGES IN FIXED ASSETS

in € million	Non-current financial assets: Participating interests	Non-current financial assets: Shares in non-consolidated affiliated companies	At equity investments (companies): At equity investments (joint ventures)
Cost			
Balance as at 1.1.2005	8	12	–
Additions	2	1	49
Disposals	–	–	–
Reclassifications	–	–	2
Adjustments due to currency translation	–	–	–
Balance as at 31.12.2005	**10**	**13**	**51**
Amortization			
Balance as at 1.1.2005	–	3	–
Scheduled amortization in financial year	1	–	–
Balance as at 31.12.2005	**1**	**3**	–
Accumulated changes from fair value or at equity measurement	–	–	−31
Book values			
Balance as at 31.12.2005	**9**	**10**	**20**
Previous year	**8**	**9**	–

STATEMENT OF CHANGES IN FIXED ASSETS

in € million	Investment property: Rescue acquisitions	Investment property: Investment property
Cost		
Balance as at 1.1.2005	167	1
Additions	5	–
Disposals	6	–
Reclassifications	–	–
Balance as at 31.12.2005	**166**	**1**
Amortization		
Balance as at 1.1.2005	–	–
Scheduled amortization in financial year	–	–
Extraordinary amortization in financial year	–	–
Write-ups in financial year	–	–
Reclassifications	–	–
Disposals	–	–
Balance as at 31.12.2005	–	–
Accumulated changes from fair value	−6	0
Book values		
Balance as at 31.12.2005	**160**	**1**
Previous year	**167**	**1**

STATEMENT OF CHANGES IN FIXED ASSETS

in € million	Intangible assets: Goodwill	Intangible assets: Other intangible assets
Cost		
Balance as at 1.1.2005	142	239
Additions	–	14
Disposals	–	30
Reclassifications	–7	–
Balance as at 31.12.2005	**135**	**223**
Amortization		
Balance as at 1.1.2005	7	226
Scheduled amortization in financial year	–	7
Extraordinary amortization in financial year	–	–
Write-ups in financial year	–	–
Reclassifications	–7	–
Disposals	–	30
Balance as at 31.12.2005	**0**	**203**
Accumulated changes from fair value	–	–
Book values		
Balance as at 31.12.2005	**135**	**20**
Previous year	**135**	**13**

STATEMENT OF CHANGES IN FIXED ASSETS

in € million	Tangible assets: Advance payments on assets under construction	Tangible assets: Land and buildings	Tangible assets: Operating and office equipment
Cost			
Balance as at 1.1.2005	–	149	115
Additions	–	1	13
Disposals	–	–	25
Reclassifications	–	–	–
Balance as at 31.12.2005	–	**150**	**103**
Amortization			
Balance as at 1.1.2005	–	9	81
Scheduled depreciation in financial year	–	4	10
Extraordinary depreciation in financial year	–	–	–
Write-ups in financial year	–	–	–
Reclassifications	–	–	–
Disposals	–	–	24
Balance as at 31.12.2005	–	**13**	**67**
Accumulated changes from fair value	–	–	–
Book values			
Balance as at 31.12.2005	–	**137**	**36**
Previous year	–	**140**	**34**

(53) OTHER ASSETS

Other assets comprise the following:

in € million	2005	2004
Positive fair value from hedges		
Fair value hedges	3,688	4,221
Cash-flow hedges	5	18
Collection documents	404	447
Deferred items	20	12
Sundry other assets	3	6
Total	**4,120**	**4,704**

The positive fair value from hedges includes derivatives used within the framework of hedge accounting to hedge against market interest-rate and exchange-rate risks.

INFORMATION CONCERNING THE BALANCE SHEET (LIABILITIES)

(54) TRADING LIABILITIES

Trading liabilities comprise negative fair values from derivative financial instruments not used as hedges under hedge accounting.

in € million	2005	2004
Negative fair values from derivatives (not hedge accounting)		
Interest rate-related transactions	3,866	4,267
Currency-related transactions		
Cross currency swaps	92	509
Forward currency transactions	95	25
Total	**4,053**	**4,801**

Negative fair values of € 20 million which were reported under “other transactions” in 2004 have been reassigned to “interest rate-related transactions”.

(55) LIABILITIES TO BANKS

Liabilities to banks break down as follows:

in € million	2005	2004
Due on demand	518	574
Time-limited liabilities		
Loans taken up	5,818	6,384
Registered Pfandbriefe	5,827	5,436
Other liabilities	33,401	23,760
Total	**45,564**	**36,154**
Germany	29,801	26,150
Abroad	15,763	10,004
Total	**45,564**	**36,154**

(56) LIABILITIES TO CUSTOMERS

Liabilities to customers break down as follows:

in € million	2005	2004
Due on demand	700	399
Time-limited liabilities		
Loans taken up	9,791	9,592
Registered Pfandbriefe	25,445	27,730
Other liabilities	1,480	500
Total	**37,416**	**38,221**
Germany	36,880	37,561
Abroad	536	660
Total	**37,416**	**38,221**

(57) LIABILITIES IN CERTIFICATE FORM

in € million	2005	2004
Bonds issued	**123,613**	**126,529**
Hypothekenpfandbriefe	30,417	29,682
Öffentliche Pfandbriefe	66,633	72,029
Other bonds	26,563	24,818
Other liabilities in certificate form	**3,131**	**1,442**
Total	**126,744**	**127,971**

(58) PROVISIONS

in € million	2005	2004
Provisions for pensions and similar obligations	264	263
Other provisions	207	200
Total	**471**	**463**

Provisions for pensions and similar obligations

Provisions for pensions and similar obligations are based on defined-benefit and defined-contribution direct pension obligations.

Provisioning plans for the period after retirement comprise contracts predating the merger of the predecessor institutions and Eurohypo commitments.

Statement of changes in pension obligations:

in € million	2005	2004
Net present value of pension obligations as at January 1 (DBO)	279	256
Unrecorded actuarial gain/loss	−16	1
Unrecorded service cost to be allocated subsequently	–	–
Pension provisions as at January 1	**263**	**257**
Additions		
Service cost	5	6
Service cost to be allocated subsequently	–	–
Interest expenses	14	13
Impact of planned reductions and settlements	0	–
Payments for obligations not included in DBO as at 1.1.	–	–
Expenses for conversion to IAS	–	–
Utilization		
Pensions paid	14	13
Business transfers	4	–
Pension provisions as at December 31	**264**	**263**
Anticipated net present value of pension obligations as at December 31	**280**	**263**
Unrecorded actuarial gain/loss	−78	−16
Unrecorded service cost to be allocated subsequently	–	–

In financial year 2005, Eurohypo reported additions to pension provisions and similar obligations of € 19 million (previous year: € 19 million).

On the basis of the changes in actuarial assumptions, actuarial losses increased to € 78 million. As of January 1, 2006 the balance of the actuarial losses which were not yet recorded exceeded 10 % of the net present value of the total obligation (defined benefit obligation) amounting to € 342 million. The amount exceeding the range of the corridor is therefore to be amortized over the average remaining useful life of the assets. Amortization expenditure for 2006 stands at € 3 million.

The pensions provisions are determined on the basis of the following actuarial assumptions:

	2005	2004
Calculation method	Projected unit credit	Projected unit credit
Calculation base	2005 K. Heubeck guideline tables	1998 K. Heubeck guideline tables
Interest rate	3.85 %	5.0 %
Salaries – rate of increase	2.00 %	1.6 %
Pensions trend	1.50 %	1.5 %
Income threshold – rate of increase	2.00 %	1.6 %

Statement of changes in other provisions:

in € million	Provisions in lending business	Provisions for personnel matters	Restructuring provisions	Provisions for litigation risks	Sundry other provisions	Total
Balance as at 1.1.2005	25	12	117	10	36	200
Addition	1	1	55	2	24	83
Utilization	0	1	29	0	19	49
Release	6	0	0	1	4	11
Reclassification	–4	–1	–	–	–11	–16
Change in scope of consolidation	–	–	–	–	–	–
Adjustments due to currency translation	–	–	–	–	0	0
Balance as at 31.12.2005	**16**	**11**	**143**	**11**	**26**	**207**

Provisions for personnel matters essentially comprise anniversary provisions as well as provisions for obligations concerning age-related short-time working and early retirement.

Restructuring provisions refer primarily to the project launched at the beginning of the financial year to optimize costs and increase efficiency and the amalgamation of locations as well as merger-related restructuring expenses arising from the merger of the three predecessor institutions. The existing provisions cover future obligations in personnel for early retirement and age-related short-time working arrangements as well as rental agreements.

Due to the lapse of time during the reporting period, the amount of the restructuring provisions increased by interest of € 4 million. A further € 2 million of the addition to restructuring provisions is due to the change in the discount rate.

(59) INCOME-TAX OBLIGATIONS

Income-tax obligations and claims for current taxes result mainly from the predecessor institutions and refer to previous years. Payment obligations and refund claims which from the perspective as at year-end will arise for the current year were taken into account when establishing tax provisions.

Current income-tax provisions and income-tax claims which relate to the same tax jurisdiction and are identical in terms of nature and maturity are netted out.

Income-tax claims/obligations comprise the following:

in € million	2005	2004
Actual tax claims	100	184
Deferred tax claims	288	406
Actual tax liabilities	–125	–132
Deferred tax liabilities	–145	–139 [1]
Total	**118**	**319**

[1] The deferred tax adjustment in the amount of € 66 million according to IAS 8.42 is the result of the reclassification of temporary differences in relation to the years preceding the business year 2004 to other tax jurisdictions.

Deferred tax claims and deferred tax liabilities were recognized for the following items on differences between the tax base and the base under IFRS:

in € million	2005	2004
Tax claims		
Claims on banks and customers	8	4
Risk provisions	86	70
Trading assets	3	–
Financial assets	3	11
Investment property	1	2
Tangible assets	0	0
Other assets	58	1
Liabilities to banks and customers	276	218
Liabilities in certificate form	302	560
Derivatives with negative fair value	3,833	3,809
Provisions	42	32
Subordinated liabilities and profit participation certificates	37	39
Tax-loss carryforwards and tax-credit balances	50	98
Tax liabilities		
Claims on banks and customers	1,239	918
Risk provisions	6	244
Trading assets	0	2
Financial assets	1,371	922
Derivatives with positive fair value	1,799	2,436[1]
Investment property	5	2
Tangible assets	36	36
Other assets	16	13
Liabilities to banks and customers	55	–
Derivatives with negative fair value	2	–
Provisions	2	4
Subordinated liabilities and profit participation certificates	0	0
Other liabilities	25	0
Total	**143**	**267**
Deferred income tax claims (+)/income tax obligations (–)		
Revaluation	−100	−72
Cash-flow hedge	12	21
Total	**−88**	**−51**

[1] See page 170

The deferred tax claims determined on temporary differences are only recorded when their realization is sufficiently probable.

As at December 31, 2005 the Group had corporate tax loss carryforwards of € 158 million (previous year: € 291 million) and trade tax loss carryforwards of € 178 million (previous year: € 321 million).

These refer essentially to German loss carryforwards of Eurohypo AG. The loss carryforwards have no time limit. No deferred tax assets were recognized for corporation tax loss carryforwards amounting to € 28 million and trade tax loss carryforwards of € 43 million. These relate to losses concerning rescue acquisitions in subsidiaries (companies exploiting third-party rights) whose future income situation does not permit capitalization from the current perspective.

No deferred taxes were recognized for retained profits and differences in values carried at consolidated subsidiaries, as no distributions or disposals are expected.

(60) OTHER LIABILITIES

Other liabilities comprise the following:

in € million	2005	2004
Negative fair values from hedging instruments		
Fair Value Hedges	9,225	8,695
Cashflow Hedges	77	116
Deferred items	36	32
Other liabilities	203	157
Total	**9,541**	**9,000**

The negative fair values from hedging instruments include derivatives used to hedge against market interest-rate and exchange-rate risks in particular.

(61) SUBORDINATED LIABILITIES

Subordinated liabilities are own funds within the meaning of section 10 para. 5a of the German Banking Act (KWG). In the event of insolvency proceedings on the assets of the bank or liquidation of the bank, the subordinated liabilities are not repayable until all non-subordinated creditors have been satisfied. There can be no obligation for early repayment on the part of the issuer.

in € million	2005	2004
Bearer bonds	661	733
Registered paper	–	–
Loans taken out	2,076	2,228
Total	**2,737**	**2,961**

As at the balance sheet date there were no individual items which exceeded 10% of the total subordinated liabilities.

Interest expenses of € 146 million (previous year: € 161 million) arose for subordinated liabilities.

(62) PROFIT PARTICIPATION CERTIFICATES

in € million	2005	2004
Profit participation certificates	455	675
Total	**455**	**675**

Breakdown of main profit participation certificate issues:

Year of issue	Nominal amount in € million	Interest rate	Date of maturity	Repayment	Special conditions*)
1995	122	6-month Libor plus 120 basis points	31.12.2005	30.06.2006	Call right on 31.12.2000 at the earliest
1997	133	6.875%	31.12.2007	30.06.2008	Call right on 31/12.2002 at the earliest
2000**)	200	Euribor twelve-month deposits plus 150 basis points on 2nd working day prior to start of interest period	31.12.2012	01.07.2013	

*) The bank can call the profit participation certificates by giving at least 2 years' notice at the end of any calendar year, if a legal regulation is adopted, amended or applied in the Federal Republic of Germany in such a way that the bank would incur a tax charge on the interest payment, in the form of trade or corporation tax, or the profit participation capital cannot be deducted as debt items for wealth tax purposes.

**) When the Eurohypo AG merger came into force, the holders of participation certificates in the former Rheinhyp were granted equal participation certificates, with a corresponding payment commitment to the relevant holders, which are subordinate to all liabilities due to other creditors, but rank equally with profit participation certificates already issued.

Interest payable on the profit participation certificates for financial year 2005 amounts to € 27 million (previous year: € 36 million). € 20 million (previous year: € 35 million) was reported under other liabilities for pro rata interest.

The profit participation certificates grant holders the right to an annual distribution, which has priority over the share in profits of the shareholders; they are subordinate to liabilities to other creditors, provided that such liabilities are not likewise subordinated. Repayment takes place at the nominal amount, subject to the provisions concerning participation in losses.

AUTHORIZATION FOR THE ISSUE OF PROFIT PARTICIPATION CERTIFICATES

At the Annual General Meeting of May 19, 2003, the Board was authorized to issue on one or more occasions profit participation certificates up to a total of € 1,500,000,000 until May 17, 2008.

The profit participation certificates must comply with the conditions of section 10 para. 5 of the German Banking Act, according to which the capital contributed against the granting of profit participation certificates can be allocated to the liable capital. The term of the participation rights can be up to fifteen years. When utilizing the authorization, the Board of Managing Directors can exclude residual amounts from the shareholders' subscription rights.

In addition, the Board of Managing Directors was authorized to exclude shareholders' subscription right for an amount totalling € 750,000,000.00. This authorization can only be used, however, if the profit participation certificates are structured in the same way as bonds, which means that they do not convey any rights of membership or subscription or conversion rights to shares, or grant participation in liquidation proceeds, and that the level of interest is not geared to the net income for the year, the distributable profit or the dividend. In addition, the interest and the amount issued for the profit participation certificates in this instance must correspond to the current market conditions for comparable borrowings at the time of the issue. The Board of Managing Directors was authorized to determine the further details and terms of the issues, particularly the time of issue, the type, level and maturity of the claim to distribution and repayment, the issue price and term of the profit participation certificates.

If the subscription right is not excluded, issues of profit participation certificates shall be underwritten by a consortium of banks, with the obligation of offering them to the shareholders.

The Board of Managing Directors has made no use of the authorization to issue profit participation certificates during the reporting year.

(63) HYBRID CAPITAL

in € million	2005	2004
Hybrid capital	900	600
Total	**900**	**600**

Via Eurohypo Capital Funding LLC I, Delaware USA and Eurohypo Capital Funding Trust I, Delaware USA, Eurohypo issued hybrid capital with a nominal amount of € 600 million in 2003 at an interest rate of 6.445 %. The hybrid capital is due on May 23, 2033. There is a call option as at May 23, 2013.

In financial year 2005, hybrid capital of a further € 300 million was issued via Eurohypo Capital Funding LLC II, Delaware, USA and Eurohypo Capital Funding Trust II, Delaware, USA, at an interest rate of 6.75%. The hybrid capital is due on March 8, 2045. There is an annual call option, the first being on March 3, 2011.

For hybrid capital, interest expenses amounted to € 55 million (previous year: € 38 million).

(64) INFORMATION REGARDING CAPITAL AND RESERVES

Composition of capital and reserves

in € million	31.12.2005	31.12.2004
Subscribed capital	914	914
Capital reserve	3,992	3,991
Deduction item for own shares	0	0
Revenue reserve	828	592[1]
Revaluation reserve	195	106
Reserve for cash flow hedges	–20	–35
Reserve for currency translation	–	–
Distributable profit/loss	243	243
Minority interests	0	0
Total	**6,152**	**5,811**[1]

[1] As a result of subsequent deferred tax adjustment for previous years, the revenue reserve has been corrected accordingly under IAS 8.42 (see presentation of statement of changes in capital and reserves on page 120)

Subscribed capital

The subscribed capital of Eurohypo AG as at December 31, 2005 was € 913,688,919.00 divided into 351,418,815 no par value shares. The shares are fully paid up.

	No. in thousands
Number of outstanding shares as at 31.12.2004	**351,349**
Plus: treasury shares as at 31.12.2004	70
Number of shares issued as at 31.12.2005	**351,419**
Less: treasury shares on reporting date	14
Number of outstanding shares as at 31.12.2005	**351,405**

The value of the issued shares outstanding and approved shares is as follows:

	31.12.2005		31.12.2004	
	€ million	No. in thousands	€ million	No. in thousands
Issued shares	**914**	**351,419**	**914**	**351,419**
Less: treasury shares	0	14	0	70
Outstanding shares (subscribed capital)	914	351,405	914	351,349
Plus: shares not yet issued from authorized capital	183	70,280	183	70,280
Total	**1,097**	**421,685**	**1,097**	**421,629**

As at December 31, 2005 the shareholding structure following the takeover by Commerzbank on December 15, 2005 of a 9.73 % stake held by the Deutsche Bank Group and a 7.35 % stake held by the Allianz Group is as follows:

The Commerzbank holds 48.92 %, the Deutsche Bank Group holds 27.99 % and the Allianz Group 21.13 %. The remaining 1.96 % is in free float.

The major shareholders have declared to the bank again for 2005 that they will not exert a controlling influence over the bank either severally or jointly, nor carry out joint management of the bank. They have not agreed any prescribed voting for voting at the AGM or for their representatives on the Supervisory Board.

Capital reserve

The capital reserve shows the premium from the issue of shares including subscription rights which exceed the nominal or arithmetical value.

A deferred deduction item for own shares is reported under the capital reserve which contains the changes in value from own share transactions.

Revenue reserve

The revenue reserves comprise the statutory reserves and other revenue reserves.

The statutory reserves amount to € 4 million as at December 31, 2005 and are subject to a distribution restriction. Other revenue reserves include reinvested consolidated profit including accumulated amounts from consolidation effects impacting on income and the effects of first-time adoption of IFRS from the conversion date of January 1, 2003.

in € million	31.12.2005	31.12.2004
Statutory reserves	4	4
Other revenue reserves		
Reinvested revenue reserves	824	588
Total	**828**	**592**[1]

[1] see explanation page 175

As at December 31, 2005 the Group had not issued any convertible bonds or bonds with warrants. There is therefore no requirement to split financial instruments into equity and borrowings components.

Revaluation reserve

The revaluation reserve comprised the unrealized gains and losses on the revaluation of available-for-sale financial instruments amounting to € 295 million as at December 31, 2005 (previous year: € 182 million).

Deferred taxes arising on the revaluations of € –100 million were taken into account (previous year: € –76 million).

Reserve for cash-flow hedges

Changes in fair value of the effective portion of hedges amounting to € –32 million were taken into account for cash-flow hedges (previous year: € –56 million).

The deferred taxes arising on the hedges of € 12 million were taken into account (previous year: € 21 million).

Reserve for currency conversion

The reserve for currency conversion comprises the conversion gains and losses arising on capital consolidation.

(65) AUTHORIZED CAPITAL

On May 17, 2004, the General Meeting authorized the bank to increase the share capital of the bank in one amount or several partial amounts up until June 16, 2009, with the approval of the Supervisory Board, by a total of up to € 182,728,000.00 in the form of the issue of new no-par value bearer shares against cash or non-cash contributions. The Board of Managing Directors was authorized to exclude shareholders' subscription rights with the approval of the Supervisory Board, as long as the capital increase took place on the basis of contributions in kind for the purpose of the acquisition of companies, company divisions or units, or participating interests in companies. If the shareholders' subscription rights are not excluded, they shall be granted a subscription right, subject to the condition that the new shares should be underwritten by a consortium of banks with the obligation of offering them to the shareholders. In addition, the Board of Managing Directors was authorized to exclude share fractions from the shareholders' subscription rights, with the approval of the Supervisory Board.

The Board of Managing Directors did not make use of the authorization to increase the capital during the reporting year.

(66) FOREIGN-CURRENCY POSITIONS

As at December 31, 2005 the Group reported the following assets and liabilities (excluding fair values from derivatives) in foreign currencies:

in € million	USD	CHF	GBP	JPY	Sonstige	31.12.2005 Total	31.12.2004 Total
Cash reserve	0	–	–	–	–	0	0
Claims on banks	1,090	574	661	13	29	2,367	1,820
Claims on customers	3,922	4,855	5,638	112	1,654	16,181	13,388
Risk provisions	–	−46	–	–	–	−46	−48
Trading assets	695	–	–	–	–	695	762
Financial assets	8,526	150	986	4,127	628	14,417	7,479
Other assets	53	1	35	–	–	89	14
Total assets in foreign currencies	**14,286**	**5,534**	**7,320**	**4,252**	**2,311**	**33,703**	**23,415**
Liabilities to banks	2,619	439	1,183	1,297	475	6,013	3,415
Liabilities to customers	142	43	13	0	31	229	161
Liabilities in certificate form	12,340	3,788	2,714	112	497	19,451	13,320
Other liabilities	63	3	30	–	1	97	46
Total liabilities in foreign currencies	**15,164**	**4,273**	**3,940**	**1,409**	**1,004**	**25,790**	**16,942**

INFORMATION CONCERNING FINANCIAL INSTRUMENTS

(67) DERIVATIVES

The value of derivatives used to transfer market and credit risks between various parties is derived from interest rates and indices as well as share prices and exchange rates. The main derivative product types used by Eurohypo are swaps. Forward Rate Agreements, currency forwards, currency options and index-linked transactions. As at December 31, 2005 we reported a small number of derivatives with separation requirement on our books with a fair value of € 1 million (previous year: € −1 million).

Derivatives are used predominantly to hedge and manage interest-rate and exchange-rate risks. They are used to hedge interest-rate and currency risks on available-for-sale securities, real estate financings, note loans and liabilities in the form of fair-value and cash-flow hedges. In addition, since Eurohypo has acquired its trading book status on July 5, 2005, the bank has been actively trading derivatives to a limited extent.

When derivatives do not form part of a hedge relationship and therefore part of hedge accounting, they are reported as trading assets and liabilities. Derivatives to hedge underlying transactions in hedge accounting are reported under other assets and liabilities.

If the market value does not reflect the fair value accurately or there are no listed prices (e.g. OTC derivatives), established measurement procedures (e.g. net present value method, option price model) are applied. The fair value of an unstructured derivative corresponds to the sum of all future cash flows discounted to the valuation date. Option price models (e.g. Black-Scholes and Hull White) are used for derivatives with option components.

The fair values of interest rate swaps and other interest rate contracts are determined on a net present value basis taking account of the corresponding swap curve. Similarly, forward currency transactions are measured via the corresponding swap curve for the respective currency, taking account of the relevant spot exchange rate as at the reporting date.

For cross currency swaps, the "basis-swap-effects" are used along with the corresponding swap curve to determine on a net present value basis the relevant fair values as spreads.

If listed, interest rate options are measured using the market price; unlisted interest rate options are measured using the above option price models. Interest rate futures are determined and measured using market prices taking account of daily margining.

The following overview shows the notional value and residual life as well as the positive and negative fair values of derivative transactions concluded by the bank. The notional amounts do not represent any balance-sheet claims or liabilities.

Swaps and swaptions in Eurohypo's hedge portfolio are essentially used to hedge interest-rate and currency risks as well as premature terminations.

Breakdown of derivative transactions:

REMAINING TERM BREAKDOWN

	Notional amount/remaining life					Fair value		Fair value	
in € million	up to 1 year	1–5 years	over 5 years	Total 31.12.2005	Total 31.12.2004	Positive 31.12.2005	Negative 31.12.2005	Positive 31.12.2004	Negative 31.12.2004
Interest rate-related deals									
Forward-rate Agreements	–	–	–	–	292	–	–	–	97
Interest-rate swaps	47,318	140,377	91,621	279,316	247,605	7,096	12,553	7,956	12,344
Interest-rate futures	252	–	–	252	–	–	–	–	–
Interest-rate options	465	1,836	925	3,226	3,293	7	451	4	267
Other interest-rate contracts	841	5,519	1,564	7,924	4,835	23	18	24	93
Total interest rate-related deals	**48,876**	**147,732**	**94,110**	**290,718**	**256,025**	**7,126**	**13,022**	**7,984**	**12,801**
Currency-related deals									
Currency forwards	10,401	12	–	10,413	6,045	65	92	57	17
Cross-currency swaps	458	1,525	5,106	7,089	6,391	520	241	496	793
Total currency-related deals	**10,859**	**1,537**	**5,106**	**17,502**	**12,436**	**585**	**333**	**553**	**810**
Total	**59,735**	**149,269**	**99,216**	**308,220**	**268,461**	**7,711**	**13,355**	**8,537**	**13,611**

COUNTERPARTY BREAKDOWN	Notional	Notional		Fair value		Fair value
			positive	negative	positive	negative
	31.12.2005	31.12.2004	31.12.2005	31.12.2005	31.12.2004	31.12.2004
OECD banks	288,924	257,092	7,168	13,291	8,116	13,577
Other companies, private individuals	19,296	11,369	542	64	421	34
Total	**308,220**	**268,461**	**7,711**	**13,355**	**8,537**	**13,611**

(68) MARKET PRICE RISKS

Market risk means the danger of sustaining losses due to changes in market parameters. The main parameters of relevance for Eurohypo in the context of market risk are interest rates.

(69) INTEREST-RATE RISKS

The interest-rate risk is taken to mean the risk of loss arising when the benchmark interest-rate curve changes. Eurohypo uses the swap curve of the relevant currency as the benchmark interest-rate curve.

The interest-rate risk is quantified daily as part of the present value concept using the factors delta (interest-rate sensitivity), net directional and yield curve. In order to ascertain these indicators, the net present values of all assets and liabilities on the balance sheet and of all derivatives are calculated. The interest rates of the underlying benchmark interest-rate curve are then raised by one basis point in certain maturity ranges. The delta for a specific maturity band is the cash equivalent loss – or gain – incurred if the benchmark interest-rate curve rises. The net directional is the total of the deltas ranging across all maturity bands. At Eurohypo, a limit is set on this measurement of interest-rate sensitivity. The utilization rate of the limit on the cut-off date was 5 % (previous year: 16 %).

A further means of quantifying the interest-rate risks is the value-at-risk method (VaR). The VaR quantifies risk as a negative deviation from the current value of all the bank's financial transactions. The VaR is calculated daily on the basis of the variance/co-variance approach. The variances and co-variances are estimated statistically, using market data with a history of 260 days. Eurohypo uses 99 % as confidence level. The holding period is set at one day. For the purposes of limiting market risks, the limit set on the VaR is € 40 million. The amount of the VaR on the cut-off date was € 4 million (previous year: € 10 million).

(70) CURRENCY RISKS

The currency risk is the risk of incurring losses due to changes in exchange rates. This risk is determined by means of balance overviews, in compliance with the provisions of the German Banking Act (KWG). This risk is restricted by means of a volume restriction which sets a limit on the balanced portfolio of open foreign-currency positions. The utilization rate of the limit on the cut-off date was 9 % (previous year: 6 %).

(71) FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value is the amount at which a financial instrument can be traded between competent and willing contractual parties at market conditions. A financial instrument is a contract under which one contracting party establishes an asset and the other a liability or equity instrument.

The table below shows the fair values of the financial instruments compared with the book values.

in € billion	Fair value 31.12.2005	Book value 31.12.2005	Fair value 31.12.2004	Book value 31.12.2004
Assets				
Cash reserve	0.1	0.1	0.1	0.1
Trading assets	4.7	4.7	5.1	5.1
Claims on banks	26.0	25.8	24.5	24.2
Claims on customers	153.2	149.4	163.3	156.7
Financial assets	51.6	51.6	37.7	37.7
Other assets[1]	3.7	3.7	4.2	4.2
Liabilities				
Trading liabilities	4.1	4.1	4.8	4.8
Liabilities to banks	45.9	45.6	36.6	36.2
Liabilities to customers	38.9	37.4	41.7	38.2
Liabilities in certificate form	128.6	126.7	130.4	128.0
Other liabilities[1]	9.3	9.3	8.8	8.8
Subordinated liabilities	2.9	2.7	3.1	3.0
Profit participation certificates	0.5	0.5	0.7	0.7
Hybrid capital	0.9	0.9	0.7	0.6

[1] Only financial derivatives in hedge accounting

We determine the fair values of financial instruments using stock-exchange prices. When there are no stock-exchange prices that meet our stringent quality criteria, or no stock-exchange prices at all, which with the exception of securities is the case with a large proportion of our financial instruments, valuation is carried out using normal market procedures based on market parameters specific to the instrument.

(72) ASSETS ASSIGNED AS COLLATERAL

Assets were assigned at the values indicated below as collateral for the following liabilities and trading liabilities:

in € million	31.12.2005	31.12.2004
Liabilities to banks	29,863	14,594
Total	**29,863**	**14,594**

The following assets were assigned as collateral for the above liabilities:

in € million	31.12.2005	31.12.2004
Claims on banks	576	–
Financial assets	29,190	14,225
Total	**29,766**	**14,225**

The collateral was provided for funds raised as part of repo transactions.

(73) MATURITY BREAKDOWN ACCORDING TO RESIDUAL TERMS

The residual term is the time between the balance-sheet date and the date of contractual maturity of the claim or liability. For claims and liabilities due in instalments, the residual term for each individual tranche is shown.

2005 in € million	Due on demand and unlimited	Residual term up to 3 months	Residual term 3 months – 1 year	Residual term 1 year – 5 years	Residual term over 5 years	Total
Claims on banks	5,973	5,461	2,261	10,322	1,814	25,831
Claims on customers	5,532	14,763	14,938	70,803	43,342	149,378
Bonds and other fixed-income securities (financial assets)	0	5,887	2,047	9,805	33,863	51,602
Total 2005	**11,505**	**26,111**	**19,246**	**90,930**	**79,019**	**226,811**
Liabilities to banks	518	23,346	11,993	6,714	2,993	45,564
Liabilities to customers	691	3,523	2,661	13,438	17,103	37,416
Liabilities in certificate form	–	15,781	24,516	67,721	18,726	126,744
Subordinated liabilities	–	62	76	268	2,331	2,737
Profit participation certificates	–	–	123	133	199	455
Hybrid capital	–	–	–	–	900	900
Total 2005	**1,209**	**42,712**	**36,369**	**88,274**	**42,252**	**213,816**

2004 in € million	Due on demand and unlimited	Residual term up to 3 months	Residual term 3 months – 1 year	Residual term 1 year – 5 years	Residual term over 5 years	Total
Claims on banks	4,923	4,195	1,960	10,976	2,107	24,161
Claims on customers	6,054	14,466	18,049	73,474	44,695	156,738
Bonds and other fixed-income securities (financial assets)	566	957	1,701	12,275	22,152	37,651
Total 2004	**11,543**	**19,618**	**21,710**	**96,725**	**68,954**	**218,550**
Liabilities to banks	574	15,874	9,289	7,502	2,915	36,154
Liabilities to customers	399	2,339	2,819	14,588	18,076	38,221
Liabilities in certificate form	–	13,752	19,288	71,469	23,462	127,971
Subordinated liabilities	–	147	159	339	2,316	2,961
Profit participation certificates	–	–	220	256	199	675
Hybrid capital	–	–	–	–	600	600
Total 2004	**973**	**32,112**	**31,775**	**94,154**	**47,568**	**206,582**

OTHER INFORMATION

(74) SUBORDINATED ASSETS

In the event of the bankruptcy or liquidation of the issuer, the subordinated assets rank after the claims of all other creditors.

in € million	31.12.2005	31.12.2004
Claims on banks	109	109
Financial assets	–	3
Total	**109**	**112**

(75) OFF-BALANCE-SHEET OBLIGATIONS

in € million	31.12.2005	31.12.2004
Liabilities under indemnities and guarantees	641	538
of which: credit guarantees	215	238
of which: other guarantees	426	300
of which: letters of credit	–	–
Other contingent liabilities	–	38
Other obligations		
Irrevocable credit commitments	9,784	8,988
of which: book credits	1,612	2,826
of which: mortgage loans/public finance	8,172	6,162
Sundry obligations	93	94
Total	**10,518**	**9,658**

(76) TRUST BUSINESS

Trust business breaks down as follows:

in € million	31.12.2005	31.12.2004
Claims on customers	104	112
Trust assets	**104**	**112**
of which liabilities to banks	9	10
of which liabilities to customers	95	102
Trust liabilities	**104**	**112**

(77) AUDITORS' FEES

(Excluding VAT)

in € '000	2005	2004
Audit	2,380	2,395
Other audit and valuation services	332	796
Tax advisory services	482	759
Other services	2,807	4,743
Total	**6,001**	**8,693**

(78) EMPLOYEES (AVERAGE)

	2005			2004		
Average for the year	Female	Male	Total	Female	Male	Total
Full time	893	1,312	2,205	1,031	1,393	2,424
Part time	237	34	271	237	43	280
Trainees	3	3	6	2	3	5
School leavers	11	9	20	12	7	19
Total	**1,144**	**1,358**	**2,502**	**1,282**	**1,446**	**2,728**

(79) RELATED-PARTY DISCLOSURES

As part of standard operating activities, transactions are concluded with related companies and persons at normal market terms and conditions. The extent of these transactions is shown below. Whether or not the company is included in the consolidated financial statement of Eurohypo AG as a subsidiary or an associate is not relevant here.

This mainly concerns repo transactions, investments, real estate financing and derivatives. Subordinated liabilities are linked to hybrid capital issues. The changes on 2004 are primarily due to the Commerzbank Group transactions included in the present report.

Claims on and liabilities to affiliated and associated companies.

in € million	2005	2004
Trading assets	541	–
Claims on banks	2,567	1,328
Claims on customers	272	261
Financial assets	260	259
Other assets	502	–
Total claims	**4,142**	**1,848**
Trading liabilities	328	–
Liabilities to banks	8,998	10
Liabilities to customers	17	20
Liabilities in certificate form	15	416
Other liabilities	1,023	–
Subordinated liabilities	940	624
Profit participation certificates	–	–
Hybrid capital	–	–
Total liabilities	**11,321**	**1,070**

As a result, a related-party relationship is assumed as before to be in place not only when a parent company exerts a controlling influence on a subsidiary or there is material influence on an associated company, but also where there is joint control of partner companies under a joint venture.

In addition, defined-benefit payment plans and pension providers are to be classified as related parties. The companies providing the plans are to be taken into account. This includes BVV.

In addition to business transactions, claims and receivables between the reporting company and its related parties are also covered by the scope of the standard.

REMUNERATION OF THE BOARD OF MANAGING DIRECTORS AND THE SUPERVISORY BOARD OF EUROHYPO AG

BOARD OF MANAGING DIRECTORS

The remuneration of the members of the Board of Managing Directors comprises the components of fixed salary, annual bonus and long-term incentive. The portion of fixed salary is 40 %, with annual bonus and long-term incentive each accounting for 30% of the annual remuneration. In addition the members of the Board of Managing Directors receive the usual payments in kind as well as a pension commitment.

The fixed remuneration, which is paid in twelve monthly instalments, is based on the scope of responsibilities of the respective Board member.

The amount of variable remuneration is dependent on the achievement of specific targets agreed at the beginning of the financial year between the Board of Managing Directors and the Supervisory Board Presiding Committee. One of the benchmarks used is the forecast performance for the bank as a whole, measured on the basis of the return on equity, as well as the personal performance of the individual Board member in his area of responsibility.

Long-term incentives are granted either in the form of shares or cash at the company’s discretion. Depending on the form of the long-term incentive for financial year 2005, shares will not be allotted or payment made until after the Annual General Meeting which resolves the application of profit for financial year 2008.

The number of shares allotted as long-term incentive for financial year 2005 is based on the achievement of a specified target return on equity before tax at Group level. If this target is achieved, the members of the Board of Managing Directors may receive a specified number of shares, whereby the number is calculated on the basis of the average Eurohypo share price in 2003. If the target RoE is exceeded or not achieved, the number of shares increases or decreases by 25% per percentage point of the target achievement or shortfall. The arrangement is capped and if the share price more than trebles in the time between setting the target and payment, this will not be taken into account.

For financial year 2005, the emoluments of the active members of the Board of Managing Directors amounted to € 3,757,500.00 of which € 1,800,000.00 related to fixed salary and € 1,957,500.00 to the annual bonus. In addition, the members of the Board of Managing Directors have rights to a total of 165,987 no-par-value shares in Eurohypo.

The amounts paid to the individual Board Members are listed below:

in € million	**Fixed salary**	**Variable bonus (cash)**	**Number of rights to shares accrued**
Bernd Knobloch	480,000.00	522,000.00	44,263
Dirk Wilhelm Schuh	360,000.00	391,500.00	33,197
Jochen Klösges	320,000.00	348,000.00	29,509
Joachim Plesser	320,000.00	348,000.00	29,509
Henning Rasche	320,000.00	348,000.00	29,509

The total emoluments of former members of the Board of Managing Directors and their dependants amounted to € 5,953,415.13. Pension provisions of € 56,890,001.00 were made for this group of persons.

THE SUPERVISORY BOARD OF EUROHYPO AG

The remuneration of the Supervisory Board is regulated in the bank's Articles of Association. Each member of the Supervisory Board receives an annual fixed emolument of € 15,000.00 plus a variable emolument which amounts to € 1,000.00 per 0.25 percentage points by which the return on equity before tax reported in the relevant consolidated financial statements exceeds 8 % for the financial year. This remuneration rises by 25 % for each membership of a committee which was active in the financial year. For the Chairman of such a committee, the rate of increase is 50 % in each case. The Deputy Chairman of the Supervisory Board receives double the emolument and the Chairman triple the emolument. If a member of the Supervisory Board is active on several committees, the overall emolument for a full member of the Supervisory Board is limited to double the amount described above, for the Deputy Chairman of the Supervisory Board triple the amount and for the Chairman of the Supervisory Board quadruple the amount. In addition, the expenses incurred by the Supervisory Board members and any VAT which may arise on their Supervisory Board duties are refunded. If members of the Supervisory Board do not sit on the Board for a full year, the emoluments are paid on a pro-rata basis.

REMUNERATION OF THE SUPERVISORY BOARD MEMBERS

(Excluding VAT)

in € million	Fixed emolument	Variable emolument
Dr. Joachim v. Harbou	23,835.62	25,424.66
Dr. Manfred Gentz	34,058.22	36,328.77
Brigitte Siebert	37,500.00	40,000.00
Dr. Clemens Börsig	15,626.71	16,668.49
Dr. Hans-Peter Keitel	20,434.93	21,797.26
Dr. Hugo Banziger	22,787.67	24,306.85
Wolfgang Barth	17,311.64	18,465.75
Herbert Bayer	15,000.00	16,000.00
Peter Birkenfeld	18,750.00	20,000.00
Martin Blessing	7,448.63	7,945.21
Dr. Andreas Georgi	19,386.99	20,679.45
Klaus Müller-Gebel	22,500.00	24,000.00
Rupert Hackl	11,917.81	12,712.33
Cornelia Pielenz	15,000.00	16,000.00
Hans Reischl	11,352.74	12,109.59
Hans Schumacher	3,750.00	4,000.00

LOANS GRANTED TO MANAGEMENT BODIES

Loans totalling € 263,465.85 with terms ending between 2006 and 2041 and nominal interest rates of 3.27 % and 4.53 % were granted to members of the Board of Managing Directors. Loans were granted to members of the Supervisory Board, including employees' representatives, totalling € 1,519,577.90 with terms ending between 2007 and 2039 and nominal interest rates of 3.85 % and 6.10 %. All loans are secured on land charges.

(80) SECURITIZATION OF LOANS

Securitization is an important core element of our equity and risk management. The aim is to reduce the bank's risk-weighted assets, free up the equity-capital base and create scope for new business with higher margins and thereby achieve a higher return on equity. Under securitization, we sell claims in the form of loan portfolios to the capital market. The assets assigned are securitized by the special-purpose vehicles acquiring the loans and sold to third parties.

(81) OTHER OBLIGATIONS

The Eurohypo Group is a lessee under operating leases. As at December 31, 2005 a variety of non-terminable operating leases were in place for properties and other tangible assets (vehicles, copiers) which are used to carry out the bank's operating activities. The main leases include extension options and exit clauses, which are in line with market conditions for business properties and which link adjustments in the lease payments to the price index. The minimum obligations under non-terminable leases for properties and other tangible assets will lead to expenses of € 25 million in financial year 2006, € 77 million for financial years 2007 to 2010 and € 61 million for the period from 2011 onwards.

(82) DATE OF RELEASE FOR PUBLICATION

The present consolidated financial statements were approved for submission to the Supervisory Board by the Board of Managing Directors on March 9, 2006. The Supervisory Board then has to examine the consolidated financial statements and declare its approval or otherwise. The Board of Managing Directors approved the income statement and the balance sheet for submission to the Supervisory Board on February 17, 2006. The Supervisory Board authorised publication on the same date.

(83) CORPORATE GOVERNANCE – DECLARATION OF CONFORMITY (§ 161 AKTG)

On March 21, 2005 the Board of Managing Directors and the Supervisory Board of Eurohypo AG issued the annual Declaration of Conformity further to § 161 AktG (Stock Corporation Act) which our shareholders can access in the internet under www.eurohypo.com (Investor Relations). The next Declaration of Conformity will be issued by our Board of Managing Directors and the Supervisory Board on March 23, 2006.

SUPERVISORY BOARD MANDATES

MANDATES IN SUPERVISORY BOARDS OR COMPARABLE GERMAN AND INTERNATIONAL SUPERVISORY BODIES PURSUANT TO SECTION 285 NO. 10 OF THE GERMAN COMMERCIAL CODE (HGB)

Name, Profession	Mandates in other Supervisory Boards (of German companies) to be established under law	Membership of comparable German and international supervisory bodies of commercial companies
Dr. Manfred Gentz Berlin Chairman President of the Administrative Board of Zürich Financial Services SINCE MAY 25, 2005	Deutsche Börse AG, Frankfurt a.M. DWS Investment GmbH, Frankfurt a.M. adidas-Salomon GmbH, Herzogenaurach	Zürich Financial Services, President of the Advisory Board, Zürich
Dr. Joachim v. Harbou Gießen Chairman Lawyer UNTIL MAY 25, 2005	Nestlé Deutschland AG, Frankfurt a.M. Fraport AG, Frankfurt a.M. equinet Corporate Finance AG, Frankfurt a.M. (Chair)	–
Brigitte Siebert Eschborn Deputy Chairwoman Bank employee	–	–
Dr. Clemens Börsig Deputy Chairman Frankfurt am Main Member of the Board of Managing Directors of Deutsche Bank AG UNTIL MAY 25, 2005	Heidelberger Druckmaschinen AG, Heidelberg	Foreign & Colonial Eurotrust plc, London Deutsche Bank Trust Company Americas, New York, Member of the Board of Directors* Deutsche Bank Trust Corporation, New York, Member of the Board of Directors*
Dr.-Ing. Hans-Peter Keitel Deputy Chairman Essen Chairman of the Board of Managing Directors of HOCHTIEF Aktiengesellschaft SINCE MAY 25, 2005	HOCHTIEF Construction AG (Chair)*, Essen National-Bank AG, Essen	HOCHTIEF AUSTRALIA Ltd.* Leighton Holdings Limited, St. Leonards Australia, Deptuy Chairman The Turner Corporation, Deputy Chairman, New York
Dr. Hugo Banziger London Chief Credit Officer of Deutsche Bank AG	Eurex Frankfurt AG, Frankfurt a.M. Eurex Clearing AG, Frankfurt a.M.	Eurex Zuerich AG, Zürich Deutsche Bank S.p.A., Milan*

* internal Group mandate

Name, Profession	Mandates in other Supervisory Boards (of German companies) to be established under law	Membership of comparable German and international supervisory bodies of commercial companies
Wolfgang Barth Frankenthal Bank employee	–	–
Herbert Bayer Frankfurt am Main Union Secretary ver.di	Deutsche Wertpapierservice Bank AG, Frankfurt a. M./Düsseldorf Deutsche Börse AG, Frankfurt a. M.	–
Peter Birkenfeld Bad Homburg Full-time Works Council member	–	–
Martin Blessing Frankfurt am Main Member of the Board of Managing Directors of Commerzbank AG UNTIL MAY 25, 2005	AMB Generali Holding AG, Aachen Heidelberger Druckmaschinen AG, Heidelberg ThyssenKrupp Services AG, Düsseldorf Commerzbank Inlandsbanken Holding AG, Frankfurt a. M.* CommerzLeasing und Immobilien AG, Düsseldorf (Vorsitz)*	BRE Bank SA, Warsaw (Deputy Chairman)*
Dr. Andreas Georgi Frankfurt am Main Member of the Board of Managing Directors of Dresdner Bank AG	Asea Brown Boveri Aktiengesellschaft, Mannheim Deutsche Schiffsbank AG, Hamburg/Bremen (stellv. Vorsitz) Deutscher Investment-Trust Gesellschaft für Wertpapieranlagen mbH, Frankfurt a. M.* Rheinmetall AG, Düsseldorf RWE Dea AG, Hamburg	Allianz Dresdner Global Investors Deutschland GmbH, München (Supervisory Board) Dresdner Bank Luxembourg S.A., Luxembourg (Vice President Conseil d' Administration)* Dresdner Bank (Schweiz) AG, Zürich (President of the Administrative Board)* Dresdner Mezzanine Verwaltungs GmbH Frankfurt am Main (Deputy Chairman) Reuschel & Co., München (Deputy Chairman of the Administrative Board)* Felix Schoeller Holding GmbH & Co. KG, Osnabrück (Advisory Board)

* internal Group mandate

Name, Profession	Mandates in other Supervisory Boards (of German companies) to be established under law	Membership of comparable German and international supervisory bodies of commercial companies
Rupert Hackl Munich Bank employee SINCE MARCH 17, 2005	Ratgeber AG, München (Deputy Chairman)	Alba BAUPROJEKT MANAGEMENT GmbH, München
Klaus Müller-Gebel Bad Soden Lawyer	comdirect bank AG, Quickborn (Deputy Chairman) Commerzbank AG, Frankfurt a. M. Deutsche Schiffsbank AG, Bremen/Hamburg	–
Cornelia Pielenz Berlin Lawyer	AGIS Allianz-Dresdner Informationssysteme GmbH, München	–
Hans Reischl Cologne Chairman of the Board of Managing Directors of REWE Zentral AG (retired) SINCE MAY 25, 2005	Alte Leipziger Versicherungs-aG, Oberursel Alte Leipziger Holding AG, Oberursel KarstadtQuelle AG, Essen Maxdata AG, Marl	–
Hans Schumacher Cologne Bank employee UNTIL MARCH 14, 2005	–	Kamps Autohaus Gruppe, Bergkamen

* internal Group mandate

MANAGEMENT BOARD MANDATES

MANDATES IN SUPERVISORY BOARDS OR COMPARABLE GERMAN AND INTERNATIONAL SUPERVISORY BODIES PURSUANT TO SECTION 285 NO. 10 OF THE GERMAN COMMERCIAL CODE (HGB), INCLUDING MANDATES PURSUANT TO SECTION 340 A PARAGRAPH 4 NO. 1 HGB

Name, Profession	Mandates in other Supervisory Boards (of German companies) to be established under law	Membership of comparable German and international supervisory bodies of commercial companies
Bernd Knobloch Chairman	–	Eurohypo Investment Banking Ltd., London*
Dirk Wilhelm Schuh Deputy Chairman	GEWOBA Wohnen und Bauen AG, Bremen**	EUROHYPO Europäische Hypothekenbank S.A., Luxemburg, Member of the Administrative Board*/** CASIA Immobilien-Management GmbH, Eschborn, Chairman of the Administrative Board*
Joachim Plesser	prompter AG, Mainz* (until June 29, 2005)	HypZert Gesellschaft zur Zertifizierung von Immobiliensachverständigen für Beleihungswertermittlungen GmbH, Berlin Deutsche Interhotel Holding GmbH & Co KG, Berlin (Deputy Chairman of the Advisory Board) (until 31.12.2005) moderne stadt Gesellschaft zur Förderung des Städtebaus und der Gemeindeentwicklung mbH, Köln (Deputy Chairman of the Supervisory Board) (until 31.12.2005) CASIA Immobilien-Management GmbH, Eschborn*
Henning Rasche	–	EUROHYPO Europäische Hypothekenbank S.A., Luxemburg (Chairman of the Advisory Board)*/** Eurohypo Systems GmbH, Eschborn*
Jochen Klösges	prompter AG, Mainz* (until June 29, 2005)	CASIA Immobilien-Management GmbH, Eschborn*

* internal Group mandate
** mandate in large corporations pursuant to Section 340 a Paragraph 4 No. 1 HGB

STAFF MANDATES

MANDATES PURSUANT TO SECTION 340 A PARAGRAPH 4 NO. 1 OF THE GERMAN COMMERCIAL CODE (HGB) IN SUPERVISORY BODIES TO BE ESTABLISHED UNDER LAW OF LARGE CORPORATIONS (SECTION 267 PARAGRAPH 3 HGB)

Name, Profession	Mandates in other Supervisory Boards (of German companies) to be established under law	Membership of comparable German and international supervisory bodies of commercial companies
Dr. Bernhard Fuhrmann	–	Eurohypo Systems GmbH, Eschborn* Servicing Advisors Deutschland GmbH, Frankfurt a. M.
Wolfgang Groth	–	EUROHYPO Europäische Hypothekenbank S.A., Luxembourg (Member of the Administrative Board)*
Rupert Hackl	Ratgeber AG, München	Alba BAUPROJEKT MANAGEMENT GmbH, München
Lissimahos Hatzidimoulas	–	Eurohypo Systems GmbH, Eschborn*
Robert Lange	–	ABG Frankfurt Holding Wohnungsbau- und Beteiligungs mbH, Frankfurt a. M.
Dr. Peter Otto	–	VBW Bauen und Wohnen GmbH, Bochum (since January 28, 2005)
Stephan Overbeck	–	VBW Bauen und Wohnen GmbH, Bochum (until January 27, 2005)
Christian Schaarschmidt	Agaplesion gemeinnützige AG, Frankfurt a. M.	–
Dirk Schuster	–	Servicing Advisors Deutschland GmbH, Frankfurt am Main
Peter Steinmetz	–	Conjekt AG, München

* internal Group mandate
** mandate in large corporations pursuant to Section 340 a Paragraph 4 No. 1 HGB

MANAGEMENT BODIES

SUPERVISORY BOARD

Dr. Manfred Gentz
Chairman
SINCE MAY 25, 2005

Dr. Joachim v. Harbou
Chairman
UNTIL MAY 25, 2005

Brigitte Siebert[1)]
First Deputy Chairwoman

Dr. Clemens Börsig
Additional Deputy Chairman
UNTIL MAY 25, 2005

Dr.-Ing. Hans-Peter Keitel
Additional Deputy Chairman
SINCE MAY 25, 2005

Dr. Hugo Banziger

Wolfgang Barth[1)]

Herbert Bayer[1)]

Peter Birkenfeld[1)]

Martin Blessing
UNTIL MAY 25, 2005

Dr. Andreas Georgi

Rupert Hackl[1)]
SINCE MARCH 17, 2005

Klaus Müller-Gebel

Cornelia Pielenz[1)]

Hans Reischl
SINCE MAY 25, 2005

Hans Schumacher[1)]
UNTIL MARCH 14, 2005

BOARD OF MANAGING DIRECTORS

Bernd Knobloch
Chairman

Dirk Wilhelm Schuh
Deputy Chairman

Jochen Klösges

Joachim Plesser

Henning Rasche

[1)] Employee representative

LIST OF AFFILIATED COMPANIES AND PARTICIPATING INTERESTS

FULLY CONSOLIDATED COMPANIES

AGV Allgemeine Grundstücks-verwaltungs- und Verwertungs-gesellschaft mbH GmbH
65760 Eschborn

GVG Gesellschaft zur Verwertung von Grundbesitz mbH
65760 Eschborn

IVV Immobilien-Verwaltungs- und Verwertungsgesellschaft mbH
65760 Eschborn

CASIA Immobilien-Management GmbH
65760 Eschborn

Forum Immobiliengesellschaft mbH
65760 Eschborn

Futura Hochhausprojekt-gesellschaft mbH
65760 Eschborn

Unica Immobiliengesellschaft mbH
65760 Eschborn

EUROHYPO Europäische Hypothekenbank S.A.
1736 Luxemburg – Senningerberg

Eurohypo Capital Funding LLC I
Delaware, USA

Eurohypo Capital Funding LLC II
Delaware, USA

Eurohypo Capital Funding Trust I
Delaware, USA

Eurohypo Capital Funding Trust II
Delaware, USA

Eurohypo Systems GmbH
65760 Eschborn

Frankfurter Gesellschaft für Vermögensanlagen mit beschränkter Haftung
65760 Eschborn

FHB Immobilienprojekte GmbH
65760 Eschborn

Fi Pro-City GmbH
65760 Eschborn

GBG Verwaltungs- und Verwertungs-gesellschaft für Grundbesitz mbH
65760 Eschborn

Messestadt Riem »Office am See I« GmbH
60760 Eschborn

Messestadt Riem »Office am See II« GmbH
65760 Eschborn

Messestadt Riem »Office am See III« GmbH
65760 Eschborn

Nordboden Immobilien- und Handelsgesellschaft mbH
65760 Eschborn

SB Bauträger GmbH & Co. Urbis Hochhaus KG
60329 Frankfurt am Main

SB Bauträger GmbH & Co. Urbis Verwaltungs KG
60329 Frankfurt am Main

SB-Bauträger Gesellschaft mit beschränkter Haftung
65760 Eschborn

WESTBODEN-Bau- und Verwaltungsgesellschaft mbH
65760 Eschborn

G-G-B Gebäude- und Grundbesitz GmbH
65760 Eschborn

gr Grundstücks GmbH Objekt Corvus & Co. Sossenheim KG
65929 Frankfurt am Main

gr Grundstücks GmbH Objekt Corvus
60489 Frankfurt am Main

Property Invest GmbH
65760 Eschborn

Wohnbau-Beteiligungsgesellschaft mbH
60329 Frankfurt am Main

Westend Grundstücksgesellschaft mbH
60329 Frankfurt am Main

AT EQUITY INVESTMENTS

Servicing Advisors Deutschland GmbH (formerly SPECIAL EUROHYPO SERVICER GmbH)
60323 Frankfurt am Main

Urbanitas Grundbesitzgesellschaft mbH
10785 Berlin

ASSOCIATED COMPANIES VALUED AT EQUITY

Delphi I LLC
Delaware, USA

NON-CONSOLIDATED COMPANIES

Eurohypo Asset Management Ltd.
London

Eurohypo Investmentbanking Limited
London EC2N 2DB

121 KHS Limited
London, U.K.

Ampton BV
Amsterdam, Netherlands

Ski Leasing No. 1
London, U.K.

Ski Leasing No. 2
London, U.K.

EHY Securities LLC
Delaware, USA

EHY Sub Asset LLC
Delaware, USA

BACUL Immobiliengesellschaft mbH
65760 Eschborn

BAMUS Vermietungsgesellschaft mbH i.L.
40227 Düsseldorf

BARIS Vermietungsgesellschaft mbH i.L.
40227 Düsseldorf

BELUS Vermietungsgesellschaft mbH
40227 Düsseldorf

CAMPANIA Vermietungsgesellschaft mbH
40215 Düsseldorf

Delphi I Eurohypo LLC
Delaware, USA

Goldkey Investimentos Immobiliaros LDA,
Lisbon

PARTICIPATING INTERESTS

BATOR Vermietungsgesellschaft mbH
40215 Düsseldorf

BATOR Vermietungsgesellschaft mbH Objekt Nürnberg KG
40215 Düsseldorf

BGB-Gesellschaft Kornmarkt Speyer with head office in München, consisting of
- **Bayerische Landesbank Girozentrale**, München and
- **GVG Gesellschaft zur Verwertung von Grundbesitz mbH**
  Eschborn

BNL-Beteiligungsgesellschaft Neue Länder GmbH & Co. KG i.L.
10178 Berlin

BONUS Vermietungsgesellschaft mbH
40215 Düsseldorf

Bürgschaftsgemeinschaft Hamburg GmbH
22305 Hamburg

BWF Beteiligungsgesellschaft Wirtschaftsförderung mbH
20457 Hamburg

CAP Kiel Betriebs-GmbH
24114 Kiel

CETERA Vermietungsgesellschaft mbH & Co. Objekt Weinheim KG
40227 Düsseldorf

CHRISTA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Rottweil KG
40215 Düsseldorf

Delphi Immobilien I GmbH
Frankfurt am Main

Dr. Gubelt Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Dortmund KG
40227 Düsseldorf

Dr. Gubelt Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Duisburg KG
40227 Düsseldorf

Dr. Gubelt Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Stuttgart KG
40227 Düsseldorf

GAG Gemeinnützige Aktiengesellschaft für Wohnungs-, Gewerbe- und Städtebau
67061 Ludwigshafen am Rhein

GEWOBA Aktiengesellschaft Wohnen und Bauen
28195 Bremen

Hammerson 99 Bishopsgate Unit Trust
Jersey

Hammerson 125 OBS Unit Trust
Jersey

Hammerson Merthyr Unit Trust
Jersey

Hammerson Romford Unit Trust
Jersey

Hammerson 60 TNS Unit Trust
Jersey

Inter IKEA Center Grundbesitz GmbH & Cie. KG
80333 München

ILLIT Grundstücks-Verwaltungsgesellschaft mbH & Co. KG
82031 Grünwald

Interessengemeinschaft Frankfurter Kreditinstitute GmbH
60311 Frankfurt am Main

Kingswood Unit Trust
Jersey

Korona Grundstücks-Verwaltungsgesellschaft mbH & Co. KG
82031 Grünwald

LECTIO Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Essen KG
40227 Düsseldorf

Liquiditäts-Konsortialbank GmbH
60311 Frankfurt

MAECENA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Bremen KG
40215 Düsseldorf

MAECENA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Dortmund KG
40227 Düsseldorf

MANICA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Neustraubing KG
40227 Düsseldorf

MARIUS Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Hannover KG
40227 Düsseldorf

MARTINA Grundstücks-vermietungsgesellschaft mbH & Co. Objekt Hamburg KG
40227 Düsseldorf

Merino Grundstücks-Verwaltungsgesellschaft mbH & Co.KG
82031 Grünwald

MIDAS Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Langenhagen KG
40227 Düsseldorf

MINERVA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Radolfzell KG
40215 Düsseldorf

Mondo Grundstücks-Verwaltungsgesellschaft mbH & Co.KG
82031 Grünwald

NESTOR Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Landau KG
40227 Düsseldorf

Nossia Grundstücks-Verwaltungsgesellschaft mbH & Co.KG
82031 Grünwald

Registra Securita Trust GmbH
Frankfurt am Main

SARIO Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Nürnberg KG
40215 Düsseldorf

SARIO Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Würzburg KG
40215 Düsseldorf

SOREX Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Hamburg KG
40215 Düsseldorf

TABA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt München KG
40215 Düsseldorf

True Sale International GmbH
60329 Frankfurt am Main

VBW Bauen und Wohnen GmbH
44803 Bochum

Wohnungsbaugesellschaft Lubeca GmbH i.L.
23552 Lübeck

WOHNSTADT Stadtentwicklungs- und Wohnungsbaugesellschaft mbH
34117 Kassel

ZEPAS Beteiligungs GmbH & Co. Vermietungs-KG
80538 München

The list of the participations pursuant to the German Commercial Code Section 313 (2) has been lodged with the Amtsgericht Frankfurt/Main (HRB 45701). The important subsidiaries are included in this list.

Eschborn, March 9, 2006
Eurohypo Aktiengesellschaft

The Board of Managing Directors

Bernd Knobloch · Dirk Wilhelm Schuh

Jochen Klösges · Joachim Plesser · Henning Rasche

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the Eurohypo Aktiengesellschaft, Eschborn, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2005. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315 a Abs. 1 HGB are the responsibility of the parent company`s management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB [Handelsgesetzbuch „German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315 a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt/Main, March 10, 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Wohlmannstetter
Auditor

Dr. Lemnitzer
Auditor

[This page intentionally left blank.]

CONSOLIDATED FINANCIAL STATEMENTS 2004
EUROHYPO GROUP

EUROHYPO GROUP

INCOME STATEMENT

INCOME STATEMENT

	Notes	1.1.–31.12.2004 € million	1.1.–31.12.2003 € million	Change € million	Change in %
Interest income		11,062	11,913	−851	−7.1
Interest expenses		9,762	10,624	−862	−8.1
Net interest income	26	**1,300**	**1,289**	**11**	**0.9**
Risk provisions in lending business	27	−262	−210	−52	−24.8
Net interest income after risk provisions		**1,038**	**1,079**	**−41**	**−3.8**
Commission income		144	111	33	29.7
Commission expenses		65	77	−12	−15.6
Net commission income	28	**79**	**34**	**45**	**>100**
Result from hedge accounting	29	59	43	16	37.2
Net trading result	30	−15	−161	146	90.7
Result from financial investments	31	24	23	1	4.3
Income from at equity investments	32	3	0	3	>100
Result from investment property	33	−34	−3	−31	>100
Administrative expenses	34	490	508	−18	−3.5
Balance of other operating income/expenses	35	−33	−67	34	50.7
Operating result		**631**	**440**	**191**	**43.4**
Amortisation of goodwill	36	7	0	7	>100
Restructuring expenses	37	13	122	−109	−89.3
Profit before taxes		**611**	**318**	**293**	**92.1**
Income taxes	38	180	76	104	>100
Profit after taxes		431	242	189	78.1
Minority interests		0	0	–	–
Net income for the year		**431**	**242**	**189**	**78.1**

APPLICATION OF PROFIT/EARNINGS PER SHARE

APPLICATION OF PROFIT

€ million	2004	2003
Net income for the year	431	242
Result carried forward	0	0
Allocation to revenue reserves	–188	–239
Distributable profit of Eurohypo AG	**243**	**3**

EARNINGS PER SHARE

	Notes	2004	2003
Earnings per share in €	39	1.23	0.69

BALANCE SHEET

ASSETS

		31.12.2004	31.12.2003		Change
	Notes	€ million	€ million	€ million	in %
Cash reserve	6, 41	67	107	−40	−37.4
Trading assets	9, 42	5,060	3,979	1,081	27.2
Claims on banks	10, 43	24,161	20,507	3,654	17.8
Claims on customers	10, 44	156,738	168,185	−11,447	−6.8
Risk provisions	11, 45	−2,553	−2,409	144	6.0
Financial investments	12, 46	37,671	38,635	−964	−2.5
At equity investments	13, 47	0	15	−15	−100
Investment property	14, 48	168	171	−3	−1.8
Intangible assets	15, 49	148	156	−8	−5.1
Tangible assets	16, 50	174	165	9	5.5
Deferred tax assets	17, 58	590	753	−163	−21.6
Other assets	52	4,704	4,318	386	8.9
Total assets		**226,928**	**234,582**	**−7,654**	**−3.3**

LIABILITIES

		31.12.2004	31.12.2003		Change
	Notes	€ million	€ million	€ million	in %
Trading liabilities	9, 53	4,801	3,898	903	23.2
Liabilities to banks	18, 54	36,154	29,469	6,685	22.7
Liabilities to customers	18, 55	38,221	40,005	−1,784	−4.5
Liabilities in certificate form	18, 56	127,971	143,053	−15,082	−10.5
Provisions	19, 20, 57	463	496	−33	−6.7
Deferred tax liabilities	17, 58	337	383	−46	−12.0
Other liabilities	59	9,000	7,722	1,278	16.6
Subordinated liabilities	21, 60	2,961	2,895	66	2.3
Profit participation certificates	22, 61	675	700	−25	−3.6
Hybrid capital	23, 62	600	600	0	0
Capital and reserves	24, 63, 64	5,745	5,361	384	7.2
Subscribed capital	63	914	914	0	0
Capital reserve	63	3,991	3,991	0	0
Revenue reserve	63	526	340	186	54.7
Revaluation reserve	63	106	151	−45	−29.8
Reserve for cash flow hedges	63	−35	−35	0	0
Reserve for currency translation	63	0	−3	3	100
Distributable profit of Eurohypo AG		243	3	240	>100
Minority interests		0	0	0	0
Total liabilities		**226,928**	**234,582**	**−7,654**	**−3.3**

STATEMENT OF CHANGES IN CAPITAL AND RESERVES

The reconciliation of capital and reserves as at December 31, 2002 in accordance with the German accounting provisions (HGB) to IFRS accounting as at January 1, 2003 (the conversion date) and the statement of changes in capital and reserves in the 2003 comparative period and in the year under review is as follows:

€ million	Subscribed capital	Capital reserve	Revenue reserve
Capital and reserves as at December 31, 2002 HGB*	**851**	**3,534**	**217**
First-time adoption effects			
Adjustment for first-time application of IAS 39			−791
Release of funds for general banking risks			218
Fair value measurement of investment property			−41
Other changes			120
Total first-time adoption effects before tax			**−494**
Adjustment for deferred taxes			378
Total first-time adoption effects			**−116**
Balance as at January 1, 2003 (IFRS)	**851**	**3,534**	**101**
Distribution for financial year 2002			
Transfer to revenue reserve			239
Addition to capital	63	457	
Own shares			
Change in portfolio of own shares	0	0	
Result from transactions with own shares			
Available-for-sale financial instruments			
Change in valuation results for AfS securities			
Realization of valuation results for AfS securities			
Cash flow hedges			
Changes in valuation results for cash flow hedges			
Realization of valuation results for cash flow hedges			
Change in value resulting from currency translation			
Changes in scope of consolidation and other changes			
Net income for the year			
Balance as at December 31, 2003 (IFRS)	**914**	**3,991**	**340**

*) Subscribed capital and the capital reserve include contributions made to carry out the approved increase in capital. € 9 million was posted to subscribed capital and € 64 million to the capital reserve.

The adjustments resulting from the first-time adoption of IAS 39 refer mainly to the designation of a specified portfolio of non-performing loans (NPL) to the “at Fair value through profit or loss” category and the associated fair value measurement and accounting for derivatives at fair value, including hedge accounting. Other significant effects result from the specific and portfolio allowances as well as the writing-off of a portfolio of own debentures. Other changes refer essentially to adjustments to provisions.

	Revaluation reserve	Reserve for cash flow hedges	Reserve for currency translation	Distributable profit	Minority interests	Minority interests Revaluation reserve	Total
	0	**0**	**0**	**147**	**16**	**0**	**4,765**
	336	−62			−2	2	−517
							218
					0		−41
					0		120
	336	**−62**			**−2**	**2**	**−220**
	−126	23			−2	−1	272
	210	**−39**			**−4**	**1**	**52**
	210	**−39**	**0**	**147**	**12**	**1**	**4,817**
				−147			−147
				−239			
						−1	519
							0
	−59						−59
		4					4
			−3				−3
					−12		−12
				242	0		242
	151	**−35**	**−3**	**3**	**0**	**0**	**5,361**

€ million	Subscribed capital	Capital reserve	Revenue reserve
Balance as at January 1, 2004 (IFRS)	**914**	**3,991**	**340**
Distribution for financial year 2003			
Transfer to revenue reserve			188
Addition to capital			
Own shares	0	0	
Change in portfolio of own shares			
Result from transactions with own shares			
Available-for-sale financial instruments			
Change in valuation results for AfS securities			
Realization of valuation results for AfS securities			
Cash-flow hedges			
Changes in valuation results for cash flow hedges			
Realization of valuation results for cash-flow hedges			
Change in value resulting from currency translation			
Changes in scope of consolidation and other changes			–2
Net income for the year			
Balance as at December 31, 2004 (IFRS)	**914**	**3,991**	**526**

The reconciliation of the capital and reserves in the most recently published financial statements in accordance with HGB to IFRS as at December 31, 2003 is as follows. The reconciliation includes income-neutral adjustments from the first-time adoption of IFRS as at the conversion date of January 1, 2003.

€ million	Subscribed capital	Capital reserve	Revenue reserve
Capital and reserves as at December 31, 2003 (HGB)	**914**	**3,991**	**217**
IFRS first-time adoption effects as at conversion date January 1, 2003			–116
Reclassification of hybrid capital			
Differences in HGB and IFRS profit for 2003			236
Changes from revaluation reserve and reserve for cash-flow hedges			
Change in reserve for currency translation			
Change in scope of consolidation and other changes			3
Own shares	0	0	
Capital and reserves as at December 12, 2003 (IFRS)	**914**	**3,991**	**340**

Revaluation reserve	Reserve for cash flow hedges	Reserve for currency translation	Distributable profit	Minority interests	Minority interests Revaluation reserve	Total
151	**−35**	**−3**	**3**	**0**	**0**	**5,361**
			−3			−3
			−188			0
						0
−45						−45
						0
	0					
		3				3
				0		−2
			431	0		431
106	**−35**	**0**	**243**	**0**	**0**	**5,745**

Revaluation reserve	Reserve for cash flow hedges	Reserve for currency translation	Distributable profit	Minority interests	Minority interests Revaluation reserve	Total
0	**0**	**0**	**3**	**624**	**0**	**5,749**
210	−39			−4	1	52
				−600		−600
				−24		212
−59	4				−1	−56
		−3				−3
				4		7
						0
151	**−35**	**−3**	**3**	**0**	**0**	**5,361**

RECONCILIATION OF PROFIT FOR THE YEAR 2003 IN ACCORDANCE WITH HGB TO IFRS

The reconciliation of the profit for the year in the most recently published financial statements in accordance with HGB to IFRS as at December 31, 2003 is as follows:

	€ million
Profit for the year (HGB) as at December 31, 2003	**30**
IFRS changes	
Reversal of transfer to fund for general banking risks	289
Change in scope of consolidation and other changes	43
Reversal of amortization of goodwill	18
Fair value measurement of investment property	7
Effects of adoption of IAS 39	−63
Restructuring expenses	−53
Hybrid capital distribution claims	−24
Deferred income taxes	−5
Profit for the year (IFRS) as at December 31, 2003	**242**

CASH FLOW STATEMENT

INFORMATION CONCERNING THE CASH-FLOW STATEMENT

The Cash flow statement shows the change in cash and cash equivalents at the Eurohypo Group as a result of cash flow from operating activity, investment activity and financing activity.

The analysis is carried out in accordance with IAS 7 and the German Accounting Standard, DRS 2, supplemented by the specific German Accounting Standard for banks, DRS 2-10.

The allocation of the cash flows from operational business activity takes place in accordance with the delimitation of the operating result. The cash flow from investment activity mainly results from incoming and outgoing payments in connection with the sale or acquisition of financial assets or tangible assets. All cash flows from transactions with share capital, together with subordinated capital and profit participation certificates, are reported under financing activity.

In accordance with strict definition, the cash and cash equivalents shown include purely the cash reserve, which comprises the cash at bank and credit balances with central banks.

The significant differences compared with HGB accounting result from the allocation of portfolios of financial instruments within the cash flow from operating activity.

Cash-flow statements are not very meaningful for credit institutions and replace neither our liquidity nor financial planning, nor are they used as as a management tool.

CASH FLOW STATEMENT

€ million	31.12.2004	31.12.2003
Net income for the year	**431**	**242**
Non-cash items included in net income and transfer to the cash flow from current business activity		
Write-downs of, allowances and write-ups to claims, tangible and financial assets	648	833
Change in provisions	46	138
Change in other non-cash items	−294	−82
Result from the sale of financial and tangible assets	−28	−21
Other adjustments	−526	−1,332
Sub-total	**277**	**−222**
Change in the assets and liabilities from current business activity net of non-cash transactions		
Claims		
– on banks	−3,766	−557
– on customers	11,298	8,933
Trading securities	0	0
Other assets from operating activity	812	151
Liabilities		
– to banks	6,854	−4,230
– to customers	−2,001	−1,912
Liabilities in certificate form	−14,222	−1,477
Other liabilities from operating activity	−1,296	413
Interest and dividends received	11,042	9,577
Interest paid	−9,821	−8,387
Extraordinary incoming payments	0	–
Extraordinary disbursements	0	−32
Income-tax payments	−69	410
Cash flow from operating activity	**−892**	**2,667**
Incoming payments from disposals of		
– financial assets	10,027	6,187
– tangible assets	5	6
Disbursements for acquisition of		
– financial assets	−9,089	−8,871
– tangible assets	−34	−35
Effects of changes in scope of consolidation		
Incoming payment from disposals of subsidiaries	20	0
Disbursements for acquisition of subsidiaries	0	−20
Changes in funds from other investment activity	0	0
Cash flow from investment activity	**929**	**−2,733**
Incoming payments from additions to capital	–	600
Dividend payments	−3	−147
Changes in funds from		
– subordinated capital	−74	−432
– other financing activity	–	0
Cash flow from financing activity	**−77**	**21**
Cash and cash equivalents at the end of the previous period	**107**	**152**
+/– Cash flow from operating activity	−892	2,667
+/– Cash flow from investment activity	929	−2,733
+/– Cash flow from financing activity	−77	21
+/– Changes in cash and cash equivalents based on exchange rates	–	–
Cash and cash equivalents at the end of the reporting period	**67**	**107**

NOTES

NOTES

ACCOUNTING REGULATIONS

The present consolidated financial statements of Eurohypo were prepared for the first time in accordance with the provisions of the International Financial Reporting Standards (IFRS) as consolidated financial statements and meet the criteria under section 292 a HGB for exemption from the requirement to prepare consolidated financial statements in conjunction with the EC Banking Directive (86/635/EEC) and EC Group Directive (83/349/EEC). IFRS encompass apart from the standards defined by IFRS also the interpretations of the International Accounting Standards (IAS) and those of the International Financial Reporting Interpretations Committee (IFRIC) and those of the Standing Interpretations Committee (SIC). The consolidated financial statements and the management report of Eurohypo fully comply with the regulations of the European Union as they apply to and are binding for credit institutions.

ACCOUNTING AND VALUATION PRINCIPLES

(1) POLICIES

The consolidated financial statements of Eurohypo have been prepared in accordance with the International Financial Reporting Standards (IFRS). The aim of the IFRS financial statements is to provide the information on the net assets, financial position and result of operations that is relevant for decision-making purposes as well as changes in the same over the course of time. By contrast, the aim of financial statements prepared in accordance with German accounting provisions (HGB) is creditor protection.

As a first-time adopter within the meaning of IFRS 1, Eurohypo is using the following simplification option as at the date of first-time application, December 31, 2004. The exemption provision rules that IFRS 3 "Business combinations" does not have to be applied to company mergers that were reported in accordance with other accounting regulations before the changeover date. As a result, the corresponding consolidation results were taken from the previous HGB financial statements.

(2) IFRS, IAS, SIC AND DRS STANDARDS APPLIED

The dates on which IFRS, IAS or SIC interpretations are approved and the dates on which they come into force regularly differ. However, the IASB generally recommends the early application of standards and recommendations that have been approved but not yet come into force.

The Eurohypo Group has based its accounting and valuation principles on the IFRS and IAS standards approved and published as at the reporting date of December 31, 2004.

The consolidated financial statements 2004 are based on the following International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) which are relevant to the Eurohypo Group:

Standard	Title
IFRS 1	First-time adoption of International Financial Reporting Standards
IFRS 2	Share-based remuneration
IFRS 3	Business combinations
IFRS 5	Non-current assets held for sale and discontinued operations
IAS 1	Presentation of financial statements
IAS 7	Cash-flow statement
IAS 8	Net profit or loss for the period, fundamental errors and changes in accounting policies
IAS 10	Events after the balance-sheet date
IAS 12	Income taxes
IAS 14	Segment reporting
IAS 16	Property, plant and equipment
IAS 17	Leases
IAS 18	Revenue
IAS 19	Employee benefits
IAS 21	The effects of changes in exchange rates
IAS 24	Related party disclosures
IAS 27	Consolidated financial statements and accounting for investments in subsidiaries
IAS 28	Accounting for investments in associates
IAS 30	Disclosures in the financial statements of banks and similar financial institutions
IAS 31	Financial reporting of interests in joint ventures
IAS 32	Financial instruments: disclosure and presentation
IAS 33	Earnings per share
IAS 36	Impairment of assets
IAS 37	Provisions, contingent liabilities and contingent assets
IAS 38	Intangible assets
IAS 39	Financial instruments: recognition and measurement
IAS 40	Investment property

The following SIC interpretations relevant to the Eurohypo Group were complied with:

Standard	Title
SIC 7	Introduction of the euro
SIC 12	Consolidation – special purpose entities
SIC 15	Operating leases – incentives
SIC 21	Income taxes – recovery of revalued non-depreciable assets
SIC 25	Income taxes – changes in the tax status of an enterprise or its shareholders
SIC 27	Evaluating the substance of transactions in the legal form of a lease

In addition to the Standards and SIC interpretations listed above, the following Deutsche Rechnungslegungs Standards (DRS – German Accounting Standards) approved and published as at December 31, 2004 by the Deutsche Standardisierungsrat (German Standardisation Committee) were applied:

Standard	Title
DRS 1	Exempting consolidated financial statements in accordance with section 292 a HGB (German Commercial Code)
DRS 2	Cash-flow statement
DRS 2–10	Cash-flow statement of financial institutions
DRS 3	Segment reporting
DRS 3–10	Segment reporting by financial institutions
DRS 4	Acquisition accounting in consolidated financial statements
DRS 5	Risk reporting
DRS 5–10	Risk reporting by financial enterprises
DRS 7	Presenting equity in consolidated financial statements
DRS 8	Accounting for investments in associates in consolidated financial statements
DRS 9	Accounting for investments in joint ventures in consolidated financial statements
DRS 10	Deferred taxes in consolidated financial statements
DRS 11	Related party disclosures
DRS 12	Non-current intangible assets
DRS 13	Consistency principle and correction of errors
DRS 14	Currency conversion

(3) SCOPE OF CONSOLIDATION AND PRINCIPLES OF CONSOLIDATION

The consolidated financial statements of Eurohypo include all material subsidiaries in which the bank has a direct or indirect holding of 50% or more, or over which the bank can exert a controlling influence. In principle, the subsidiaries are included in the scope of consolidation as of the date on which the Group obtains de facto control and are excluded from the scope of consolidation on disposal or in the event of Eurohypo no longer exerting a controlling influence.

Scope of consolidation

As at December 31, 2004, in addition to Eurohypo AG, the scope of consolidation includes 31 fully consolidated German and international subsidiaries (previous year: 28). A complete list of the subsidiaries included in the consolidated financial statements can be found on page 204.

The 4 companies below were included in the consolidation for the first time in 2004:

- Messestadt Riem “Office am See I” GmbH, Eschborn
- Messestadt Riem “Office am See II” GmbH, Eschborn
- Messestadt Riem “Office am See III” GmbH, Eschborn
- SPECIAL EUROHYPO SERVICER GmbH, Frankfurt/Main

The consolidated financial statements 2004 no longer include RHEINHYP Bank Europe plc i.L., Dublin, which was merged into fully consolidated subsidiary, EUROHYPO Europäische Hypothekenbank S.A., Luxembourg.

In October 2004, we acquired 94 % of the shares in each of the above "Office am See" property companies for a purchase price of € 1 each. The non-performing loans of Retail Banking have been spun off into SPECIAL EUROHYPO SERVICER GmbH, which was established in 2004.

In financial year 2005, prompter Aktiengesellschaft, Mainz, which is at present fully consolidated, is to be merged onto Eurohypo AG.

The participation in RHEINHYP-BRE Bank Hipoteczny S.A., Warsaw reported as an investment accounted for using the equity method as at December 31, 2003, was sold in 2004 and the company is therefore no longer included as a joint venture. At present no investments in enterprises accounted for using the equity method are reported in the Eurohypo consolidated financial statements.

Affiliated companies, which are only of minor significance in terms of a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, are not included in the consolidated financial statements. The total assets of the 11 (previous year: 12) companies not included in the scope of consolidation as they are of minor significance amount to less than 0.1 % of the total assets of the Eurohypo Group. As at December 31, 2004, eXtrahyp.de Aktiengesellschaft, Frankfurt/Main, is no longer an affiliated company and was merged onto Eurohypo Systems GmbH, Eschborn in financial year 2004.

Principles of consolidation

Consolidation is carried out by offsetting the cost of purchasing the affiliate against the Group's share of the revalued equity as at the acquisition date. This equity is the difference between the assets and liabilities of the company acquired measured at fair value. Any difference between the higher purchase costs and the pro-rata revalued equity is reported as goodwill under intangible assets and is subject to an impairment test as required, but at least once a year.

All claims and liabilities, income and expenses and intermediate results resulting from intra-Group transactions with consolidated companies are eliminated.

Participations in subsidiaries which are not consolidated because of their minor significance and investments are reported at cost of acquisition in the portfolio of participations and securities.

(4) CURRENCY CONVERSION

The reporting currency and the functional currency of Eurohypo AG and its subsidiaries is the euro (EUR).

The reporting currency is the currency in which the financial statements of the reporting company are compiled. The functional currency is the currency of the primary commercial environment in which the reporting company operates. Determination of the functional currency is based on the currency in which the transactions conducted by the company are generally priced.

Assets and liabilities denominated in foreign currency and non-monetary items measured at fair value are converted at the spot rate on the balance-sheet date in accordance with IFRS. Currency forwards are valued on the basis of the current forward rate. The conversion of monetary assets and liabilities is recognized in income. Non-monetary items are converted and reported under capital and reserves with no impact on income.

Any consolidation effects resulting from the currency conversion are reported under capital and reserves with no impact on income.

(5) NETTING

Liabilities are only netted against claims if these are due to the same account holder, are due on demand, and it has been agreed with the counterparty that the interest and commission calculation is carried out as if there were only one account.

(6) CASH RESERVE

The cash reserve of the Eurohypo Group comprises cash at hand and balances with central banks. These are reported at nominal value.

(7) FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT

In accordance with IAS 39, all financial assets and liabilities, including derivatives, are to be recorded in the balance sheet. IAS 39 provides for the measurement of financial instruments in various categories which differ in terms of subsequent valuation and impact on income of changes in valuation.

For the purposes of subsequent valuation, all financial instruments are therefore to be allocated to a category in accordance with IAS 39. The allocation must be carried out when the instrument is first recognized so that a subsequent valuation can be performed at any time in the subsequent period.

The following explanations provide an overview of how the regulations of the Standard are implemented in the Eurohypo Group:

CATEGORIZATION OF FINANCIAL ASSETS AND LIABILITIES AND THEIR MEASUREMENT

Loans and receivables

Loans granted direct to the debtor or direct claims on the debtor and purchased claims are allocated to this category. Valuation is carried out at amortized cost. Premiums and discounts are recognized in net interest income over the term of the loan.

Held-to-maturity assets

Non-derivative financial assets with fixed or specifiable payments and a fixed maturity may be allocated to this category if they were not initially recognized in the income statement at fair value, are not available for sale and do not meet the criteria for definition as loans and receivables. In addition, both the intention and ability to hold the non-derivative financial asses to maturity must exist. Valuation is at amortized cost, whereby premiums and discounts are recognized in net interest income over the term. Eurohypo does not use this category.

Financial assets at fair value through profit or loss with two sub-categories: held-for-trading and at fair value through profit or loss

All financial assets and liabilities held for trading are allocated to the held-for-trading sub-category. In principle, derivative financial instruments are categorized as trading portfolios in accordance with IAS 39 and changes in value are shown in the trading result unless they qualify for reporting under hedge accounting. Changes in value from effective hedges are carried under hedge accounting.

Financial assets which are covered by IAS 39 can be irrevocably allocated to the fair value through profit or loss sub-category at inception. At Eurohypo, a defined portfolio of claims on customers has been allocated to this category, and changes in value are included in the income statement under the trading result.

Trading assets and liabilities are reported at fair value on each balance-sheet date. Gains and losses on valuation are recognized in profit or loss under the trading result.

Available-for-sale assets

This category represents the remainder of financial assets not reported in any of the other categories above.

Eurohypo primarily reports securities under this category.

The securities are reported at cost as at the date of acquisition. Subsequent valuation is at fair value. The results of the valuation are reported net of deferred taxes in a separate line item (revaluation reserve) under capital and reserves with no impact on income. If the assets are sold, the accumulated changes in value reported in the revaluation reserve are released and the difference is recognized in the income statement. In the event of permanent value impairment, the revaluation reserve must to be reduced by the impairment loss and the amount charged to the income statement. If the fair value cannot be determined reliably, the assets are valued at amortized cost. Premiums and discounts are recognized in net interest income over the maturity.

Financial liabilities

These include original financial liabilities, in particular liabilities to banks and customers and liabilities in certificate form. These are valued at amortized cost. Premiums and discounts are spread across maturity and recognized in interest income.

Embedded derivatives

IAS 39 also governs the accounting for embedded derivatives. These are derivatives which form part of a hybrid financial instrument and are indivisibly linked to the instrument. Under IAS 39, the embedded derivative must under certain conditions be separated from the original host contract and reported and measured separately at fair value like a free-standing derivative. This separation must take place if the characteristics and risks of the embedded derivative are not closely linked with the host contract. In such cases, the embedded derivative is to be treated as part of the trading portfolio and recognized at fair value. Changes in value are to be recognized in the income statement. By contrast, the host contract is recognized and measured in line with the provisions of the relevant financial instrument category. If the characteristics and risks of the embedded derivative are, however, closely linked with those of the host contract, the embedded derivative is not separated and the hybrid financial instrument is valued in accordance with general provisions.

(8) HEDGE ACCOUNTING

If derivatives are used to hedge against risks arising from non-trading transactions, IAS 39 permits the application of special hedge-accounting regulations under certain circumstances. The need for provisions governing the reporting of hedging transactions results from the different valuation approaches for the various financial instrument categories under IAS 39. As (hedging) derivatives are in principle to be allocated to the "financial instruments at fair value through profit or loss" category (sub-category held for trading), they are recognized at fair value as at each balance sheet date with impact on income. Financial instruments in the "loans and receivables" and "financial liabilities" categories, however, are reported at amortized cost and those in the "available-for-sale" category are carried at fair value with no impact on income. To avoid imbalanced effects on the income statement from the different measurement approaches for the hedged underlying transaction and the hedge, IAS 39 incorporates special regulations for hedge accounting. The aim of these provisions is to record the changes in value of the hedging instruments and hedged transactions so that they (largely) compensate each other, as fair value hedges (impact on income) or cash flow hedges (no impact on income).

Fair-value hedge accounting

Fair-value hedges are used to hedge the fair value of assets or liabilities as well as fixed commitments (underlying transaction) that do not affect the balance sheet. Fair-value hedges hedge the interest rate and currency risks. Credit-risk hedges do not count in hedge relationships.

In accordance with the fair-value hedge-accounting regulations, the derivative financial instrument used as a hedge is reported at fair value, whereby changes in value are recognized in the income statement. For the hedged asset or liability, the changes in fair value resulting from the hedged risk are also recognized in the income statement.

If the asset or liability is reported at amortized cost in line with general provisions (e.g. loan granted or debenture issued), the book value is to be adjusted by the accumulated fair value changes resulting from the hedged risk. If, however, the asset is carried at fair value (e.g. available-for-sale security), the fair-value changes resulting from the hedged risk are recognized in the income statement in deviation from the general rule to record such changes under capital and reserves with no impact on income.

The valuation gains or losses relating to the hedged risk and arising from the underlying transaction are recognized together with the fair value changes of the hedge in the income statement (hedge accounting).

If the hedging relationship is fully effective, the changes in value of the underlying transaction and the hedge compensate each other. If there are inefficiencies, these are reported in the income statement. Changes in the book value of the underlying transaction resulting from the hedge are released and taken to the income statement until maturity, when the hedge relationship is terminated. If the hedge relationship is cancelled because the underlying transaction no longer applies, the change in book value of the underlying transaction resulting from the hedge is written back.

Cash-flow hedge accounting

Derivatives used as hedging instruments as part of a cash-flow hedge are used to secure future payment flows. There is a risk with regard to the level of future cash flows in particular for variable rate loans, securities and liabilities.

Derivative financial instruments used as cash-flow hedges are reported at fair value. Changes in value are divided into effective and ineffective portions. The effective portion is the portion of changes in value which represents an effective hedge against the cash-flow risk. This is recognized in a separate line item under capital and reserves (cash-flow hedge reserve) with no impact on income. Conversely, the ineffective portion of the change in value is recognized in the income statement and reported in the result from hedge accounting. The above general accounting regulations are not affected by the transactions underlying the hedged cash flows.

When the hedge relationship ceases, the amounts recognized in the reserve are always transferred to the income statement if changes relating to the former underlying transaction impact on income.

Application and documentation of hedge accounting

Eurohypo uses a fair-value hedge to hedge the fair value of a financial instrument against the risks arising from a change in the relevant reference interest rate and/or exchange rate. Interest-rate and interest-currency swaps are mainly used to hedge against these risks. At Eurohypo, the derivatives in the portfolio are virtually all used to hedge against market risks from asset/liability management. Some cash-flow hedges using interest swaps are employed. The same applies for other price risks involved with structured financial instruments. Hedging derivatives within the meaning of IAS 39 with a positive fair value are reported under other assets and those with a negative fair value under other liabilities.

The application of the hedge-accounting regulations is linked to a series of additional conditions. These refer in particular to the documentation of hedge relationships and the effectiveness of the hedging measures.

The hedge relationship is documented at the time of inception. The documentation comprises the aims of the hedge and a description of the strategy as to how the aims will be achieved, identification of the hedging instrument, identification of the underlying transaction, identification of the hedged risk, the term of the hedge and the hedge ratio, nature of the hedge and methodology used to determine the effectiveness of the hedge.

In addition to this documentation, IAS 39 also requires proof of an effective hedge relationship for application of the hedge accounting regulations. This means that the changes in fair value (for fair value hedges) or changes in cash flow (cash flow hedges) of the hedged underlying transaction must be compensated by the counter changes in fair value or cash flow of the hedging instrument – always in relation to the hedged risk. The effectiveness requirement means that hedge accounting can only be used for hedges which demonstrate a high level of effectiveness (between 80 % and 125 %) between the hedged underlying transaction and the hedge.

The effectiveness of a hedge relationship is measured ex ante and ex post using the regression method. If there is a short history of measured changes in value, additional data pairs are simulated on the basis of historic changes in interest rates and the sensitivity of the underlying transaction and the hedge to interest rate changes.

(9) TRADING ASSETS AND LIABILITIES

Trading assets comprise individual claims, when held for trading purposes and derivative financial instruments with positive fair values, which are not used as hedges under hedge accounting.

Derivative financial instruments with negative fair values, which are not used for hedge accounting purposes under IAS 39, are reported under trading liabilities.

Trading assets and liabilities are carried initially at cost, excluding transaction costs, and are subsequently valued at fair value. In cases for which there are no stock-exchange prices, the fair value of comparable instruments or recognized valuation models (particularly net present value concepts or option price models) are used. Suitable adjustments for valuation risks are carried out. Gains or losses arising on valuation are recognized in the result from trading reported in the income statement.

(10) CLAIMS

Claims on banks and on customers comprise mortgages, public finance and other claims. They are carried at amortized cost. Interest income is recognized in net interest income. Premiums and discounts are spread across the maturity and recognized in net interest income in the income statement. Embedded derivatives subject to separate consideration were split from the corresponding underlying transaction and reported as trading assets or trading liabilities.

Loans can be categorized as "at fair value through profit or loss" at inception and therefore treated in line with the rules on fair value measurement. This fair value option (IAS 39 revised November 2004) has been used for a defined portfolio of claims on customers.

(11) RISK PROVISIONS

Risk provisions are determined in line with the application of IAS 39. In addition to the procedure under HGB (German Commercial Code) and German accounting provisions (GoB), claims on banks and customers and provisions for credit business are also subject to the described recognition, valuation and reporting methods.

To determine the risk provisions, customer relationships are analyzed at regular intervals against Group-wide standard benchmarks. A distinction is made between specific allowances and portfolio allowances. Loans for which specific allowances need to be recognized are not taken into account when determining portfolio allowances. At Eurohypo there is no requirement for country risk provisions.

Specific allowances are valuation allowances for loans for which it is unlikely that all contractually agreed interest and amortization payments will be received when due. Specific allowances are determined on the basis of the difference between the loan amount including pro rata accumulated interest, costs and other incidental costs and the net present value of the expected future cash flows taking into account the collateral provided. The discounting effects which go beyond the specific allowances required under German commercial law are charged immediately to income. Individual written-down loans are recorded internally as non-accrual loans.

Portfolio allowances are recognized for loans which are not subject to specific allowances, but which collectively show a loss that has occurred but not yet been identified. The amount of the allowance is based on experience.

Amounts which after realization of collateral are deemed to be uncollectible are written off either directly or against the specific allowance. Recoveries on loans previously written off are recognized in income.

Provisions for off-balance-sheet obligations in credit business are created and charged to risk provisions in lending business and determined using the same calculation procedure as for loan-loss provisions.

(12) FINANCIAL ASSETS

Bonds and other fixed-income securities, shares and other non fixed-income securities, which are not part of the trading portfolio, are reported under financial assets, as are shares in affiliated companies and participating interests not included in the consolidated financial statements.

All bonds, other fixed-income securities and shares and other non fixed-income securities are reported in the consolidated financial statements of Eurohypo as available-for-sale when these are traded in an active market. The active market is defined in terms of the liquidity of the instruments. Securities which are trading on an active market are measured at fair value based on their stock-exchange price. Alternatively, the fair value is determined on the basis of comparable securities or theoretically on the basis of market data. Changes in fair value are reported in the revaluation reserve with no impact on income. When the fair value for available-for-sale portfolios cannot be determined reliably, the securities are reported at cost.

Investments in companies accounted for using the equity method not included in the consolidated accounts and participating interests are also reported in the available-for-sale portfolio. These assets are not listed on the stock exchange. As the fair value cannot be determined reliably, they are reported at amortized cost.

Acquired securities are reported under financial assets and measured at fair value.

In the case of repo transactions (repurchase agreements) the relevant security is reported in the balance sheet. In addition, the funds inflow received by the counterparty is recognized and a liability to banks recorded.

(13) AT EQUITY INVESTMENTS

In financial year 2003, shares in joint ventures were reported as investments in companies accounted for using the equity method in the available-for-sale portfolio. RHEINHYP-BRE Bank Hipoteczny S.A., Warsaw, which was carried as an investment accounted for using the equity method in financial year 2003, was sold in 2004.

(14) INVESTMENT PROPERTY

Land and buildings kept to generate rental income or because of expected value appreciation are deemed to be investment property. Essentially the Eurohypo Group reports the property acquired during collateral realization under investment property.

Investment property is valued at the time of acquisition at cost in accordance with IAS 40, taking into account the directly attributable transaction costs. The subsequent valuation of investment property is carried out using the fair-value model. Fair value is determined on the basis of annually updated valuations by surveyors as well as on the fair values achievable in the current market. Gains or losses arising from a change in fair value are recognized in the income statement for the period.

(15) INTANGIBLE ASSETS

In addition to goodwill, Eurohypo reports purchased and in-house software under intangible assets. Fixed intangible assets constructed for the company’s own use are capitalized in accordance with IAS 38 when they meet the actual reporting requirements of the standard.

Initially, intangible assets are valued at cost. During subsequent valuation, the benchmark method is applied for purchased and own software, whereby the cost is spread over the economic useful life and amortized on a straight-line basis over the following timescales:

USEFUL LIFE

	Years
Software	3 to 5

As at each balance-sheet date, Eurohypo reviews the previous amortization method and remaining useful life. If there are signs of value impairment, an impairment test is carried out.

The simplification option under IFRS 1 regarding the first-time capitalization of goodwill reported prior to the conversion date in accordance with HGB was used. There is no scheduled amortization of goodwill. Instead, goodwill is checked for impairment in line with IAS 36 “Impairment of assets” once a year or more frequently if events or a change in circumstances indicate that impairment may have taken place.

(16) TANGIBLE ASSETS

Tangible assets are reported at cost less scheduled straight-line depreciation in line with the expected useful life, when the assets are depreciable. Extraordinary depreciation is carried out if a permanent impairment is likely. If the grounds for the extraordinary depreciation no longer apply, the asset is written up to a maximum of the amortized cost. Tangible assets are depreciated on a straight-line basis in line with their expected economic useful life over the following timescales:

USEFUL LIFE

	Years
Office buildings	40
Residential buildings	up to 50
Operating and office equipment	3 to 23

Acquisitions of minor-value assets in the financial year are recorded directly as an expense in the reporting period for reasons of materiality. Interest on borrowings to finance tangible assets is not capitalized. Measures to maintain tangible assets are recorded as an expense in the year in which they arise.

Depreciation is reported under administrative expenses. Gains on the disposal of tangible assets are recorded under other operating income and losses under other operating expenses.

(17) INCOME TAXES

Income taxes are carried and valued in accordance with IAS 12 (revised 2000).

Deferred taxes are recognized for all temporary differences between the values carried in accordance with IFRS and the German and foreign tax base as well as for the differences arising from Group-wide standard valuation and consolidation (balance-sheet oriented approach for deferred taxes).

As the concept of deferred taxes is based on the presentation of future tax claims or tax liabilities (liability method), calculation is carried out using the relevant national tax rates expected at the time of the likely settlement of the differences.

Expenses and income from deferred taxes were reported in the income statement on an accrual basis and separate from the actual tax expenses and income. Deferred taxes are recognized in the income statement in accordance with IAS 12 if the underlying transactions affect net income. They are recorded under capital and reserves, e.g. in the revaluation reserve, with no impact on income if the balance-sheet item itself is treated neutrally (IAS 12.61), e.g. in the event of the revaluation of available-for-sale securities.

The Board of Managing Directors | Report of the Supervisory Board | Eurohypo Shares | Management Report | Corporate Citizenship | Corporate Governance | Management Bodies and Boards | Consolidated Financial Statements | Auditor's Report | At a glance

(18) LIABILITIES

In principle, liabilities to banks and customers and liabilities in certificate form are carried at amortized cost. The changes in the value of the underlying transaction attributable to the hedged risk are recognized in the income statement if hedge accounting is applied.

If own bonds are repurchased, the amount carried in the balance sheet is reduced by the book value of the repurchased liability. If the repurchase price differs from the book value, the difference is recognized in the income statement. In such cases the book value is the average of the initial values. If a repurchased security is sold again at a later date, it is reported as a liability in certificate form in the amount of the sale price.

(19) PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

Defined-benefit plans are in place for company pensions, which are fully financed via provisions for pensions and similar obligations. These correspond to the net present value of the pension rights accruing as at the reporting date, taking into account anticipated rises in wages and salaries as well as the forecast trend in pensions. The pension provisions and similar obligations (provision for age-related short-time working, early retirement provision, anniversary provisions) are determined in accordance with IAS 19 on the basis of actuarial reports in line with the projected unit credit method. Changes in the calculation parameters (interest rate, staff turnover, career trends, index-linking of vesting rights and pensions) expected in the future and actuarial gains and losses are taken into account.

Eurohypo has not used the option under IFRS 1 of reporting all actuarial gains and losses on first-time adoption, and the corridor approach was selected instead. Actuarial gains and losses are treated in line with the corridor approach, which means that they are only recognized in the income statement in subsequent years if the total amount of gains or losses accruing as at the balance sheet date exceeds the higher of 10 % of the net present value of the total obligations or 10 % of the fair value of the plan’s assets.

(20) OTHER PROVISIONS

A provision is recognized in line with IAS 37 if there is a legal or factual obligation towards third parties resulting from transactions or events in the past and utilization is likely and the amount of such utilization can be reliably determined. Provisions for contingent liabilities and anticipated losses related to incomplete contracts are valued on the basis of our best estimate in accordance with IAS 37.36 ff. Provisions are reviewed and redetermined annually.

Released provisions are reported under other operating income.

(21) SUBORDINATED LIABILITIES

Capital amounts assigned to the bank which qualify as a financial obligation in accordance with IAS 32.11 and IAS 32.15 as a result of the repayment claim of the relevant investor and are categorized as subordinated are reported under subordinated liabilities.

The following are reported under subordinated liabilities, including those in certificate form: subordinated bearer bonds, subordinated registered paper and subordinated loans raised. They are reported at amortized cost.

For subordinated funds raised, there is no early repayment obligation on the part of Eurohypo under any circumstances. In the event of liquidation, bankruptcy, composition or any other proceedings to avoid bankruptcy, claims and interest claims arising from these liabilities are serviced after the claims of all creditors of Eurohypo which are not also subordinated.

(22) PROFIT PARTICIPATION CERTIFICATES

The profit participation certificates reported on the balance sheet are capital amounts assigned to the bank, which qualify as a financial obligation in accordance with IAS 32.11 and IAS 32.15 as a result of the repayment claim of the relevant investor and are categorized as subordinated.

The participation certificates grant a profit share to the shareholders which ranks ahead of the annual distribution; they are subordinate to other creditors unless these too are subordinated. Subject to the provisions on participation in a loss, repayment takes place at the nominal amount.

The features of the profit participation certificates comply with the provisions of the German Banking Act (section 10 para. 5 KWG) and are therefore considered to be part of the liable capital.

For subordinated monies raised, there is no early repayment obligation on the part of Eurohypo under any circumstances. In the event of liquidation, bankruptcy, composition or any other proceedings to avoid bankruptcy, claims and interest claims arising from these liabilities are serviced after the claims of all creditors of Eurohypo which are not also subordinated.

(23) HYBRID CAPITAL

For hybrid capital, there is no early repayment obligation on the part of Eurohypo in any circumstances. In the event of liquidation, bankruptcy, composition or any other proceedings to avoid bankruptcy, claims and interest claims arising from these liabilities are serviced after the claims of all creditors of Eurohypo which are not also subordinated.

In 2003, we placed a € 600 million hybrid capital issue. The main investors were funds, banks and insurance companies in Germany, the UK and Portugal. The issue was primarily used to increase the consolidated tier 1 capital ratio.

(24) CAPITAL AND RESERVES AND MINORITY INTERESTS

In accordance with IFRS, the capital and reserves give rise to a residual claim on the assets of a company after deduction of all its liabilities or claims for which the investor has no termination option.

In accordance with IAS 39, changes in the value of available-for-sale assets and effective portions of the changes from cash-flow hedges are reported under capital and reserves with no impact on income.

Redeemed own-capital instruments are deducted from capital and reserves in accordance with IFRS and the resultant gains or losses recognized in capital and reserves with no impact on income.

(25) TRUST TRANSACTIONS

Trust transactions which the Group conducts in its own name but on behalf of third parties are not reported in the balance sheet. Commission payments are shown in the profit-and-loss account under net commission income.

MATERIAL DIFFERENCES BETWEEN HGB AND IFRS ACCOUNTING AND VALUATION PRINCIPLES

In accordance with section 292 a HGB, the following outlines the material IFRS accounting policies applied and the differing HGB accounting and valuation principles.

Hedge accounting

Hedge accounting is strictly regulated under IAS 39. The requirements in terms of documentation, effectiveness measurement and disclosure of hedge relationships must be complied with as at each balance sheet date for all hedge relationships. Presentation under HGB is less strictly regulated.

HGB accounting provisions do not currently include specific rules for the valuation of derivative financial instruments, and the general valuation policies in accordance with section 252 ff HGB are therefore applied. There is generally no change in value on the measurement of hedging derivatives under HGB. The underlying transaction and hedge are amalgamated as one valuation unit under German accounting provisions, and the underlying transaction is reported at amortized cost in the balance sheet. The hedge is basically not reported in the balance sheet.

With fair value hedges in particular, only the underlying transaction is reported according to the HGB accounting provisions. The compensating changes in value arising from the underlying transaction and hedging derivative are recognized in income in line with the imparity principle. This means that unrealized gains are not included. By contrast, under fair-value hedge accounting according to IAS 39, the changes in value arising from the hedging instrument, which is to be reported at fair value, are recognized in income. The underlying transaction is adjusted in line with the change in the fair value with changes impacting on income.

There is no corresponding policy for cash-flow hedges under HGB. In accordance with the HGB accounting provisions, both the hedged underlying transaction and derivatives used to hedge against interest-rate risk remain unvalued in terms of the hedged risk. There are no provisions in HGB for the presentation of hedges for intended transactions. By contrast, under IAS 39, the hedge is carried at fair value under cash-flow hedge accounting. Changes in fair value are to be split into an effective portion accruing to the hedge and a non-effective portion which does not accrue to the hedge. The effective changes in value of the derivative are reported in the cash-flow hedge reserve with no impact on income. The ineffective portion of the gains or losses on valuation are recognized directly in the income statement. When the hedge relationship ends, the amounts report in the cash-flow hedge reserve are always transferred to the income statement if changes relating to the underlying transaction are recognized in the income statement. Depending on the category, the underlying transaction is reported at amortized cost or in the case of available-for-sale securities, at fair value.

Securities and derivatives

Securities categorized as available-for-sale are carried at fair value in accordance with IAS 39. Changes in value are reported in the revaluation reserve with no impact on income. Financial assets and selected financial liabilities held for trading purposes are reported as trading assets or trading liabilities. These are also carried in the balance sheet at fair value according to IAS 39, whereby gains or losses are recognized in the income statement irrespective of their categorization. Derivatives not used for hedging purposes are always reported as held-for-trading. Securities are carried at amortized cost according to German accounting provisions. Unrealized gains are not taken into account. Derivative financial instruments are not reported in the balance sheet under HGB.

If own bonds are repurchased, the amount carried in the balance sheet is reduced by the book value of the repurchased liability. If the repurchase price differs from the book value, the difference is recognized in the income statement. In such cases the book value is the average of the initial values. If a repurchased security is sold again at a later date, it is reported as a liability in certificate form in the amount of the sale price.

In accordance with HGB, repurchased own bonds are valued at cost or at the listed price on the date of conclusion if this was lower.

Risk provisions

In accordance with IFRS risk provisions are reported as a separate line item on the assets side of the balance sheet.

Intangible assets

Cost incurred in connection with self-produced non-current intangible assets may not be capitalized under German commercial law. In accordance with IAS 38, self-produced non-current intangible assets are capitalized when they meet the IAS recognition requirements.

Goodwill

In accordance with HGB, goodwill arising on capital consolidation is offset directly against revenue reserves. Under IFRS 3, the resultant goodwill arising from the acquisition of subsidiaries that have to be consolidated must be capitalized and subject to an impairment test at least once a year or as required; under HGB, the goodwill is amortized on a permanent basis.

Income taxes

In accordance with section 274 and section 306 HGB, deferred taxes are only recognized in consolidated financial statements under HGB for differences between the results under commercial law and tax law which level out in subsequent financial years (timing concept).

By contrast, IAS 12.5 and 12.24 prescribe a balance-sheet oriented temporary concept, whereby deferred taxes must be calculated for all temporary differences between the tax base and the base in the IFRS financial statements.

Under German commercial law, deferred taxes are calculated at the tax rates applicable as at the balance sheet date (deferral method). IAS 12.47, however, uses the tax rates likely to apply on reversal of the temporary differences (liability method). Changes in tax rates approved as at the reporting date must be taken into account. The recognized deferred taxes are adjusted in line with future tax-rate changes which can affect the tax rate applicable. Under German commercial law, deferred taxes are not adjusted retrospectively as a result of changes in the tax rate.

In accordance with section 274 HGB, deferred tax liabilities must be reported on the liabilities side of the balance sheet and there is an option to capitalize deferred tax assets. Tax assets and liabilities cannot be offset against each other.

Under IAS 12.34, deferred tax assets must be capitalized, as must deferred taxes for tax-loss carry-forwards and other tax-credit balances when it is anticipated that they will be used in subsequent years. If this is not the case, an appropriate impairment must be recognized. Deferred tax assets and tax liabilities may be offset against each other under certain conditions in line with IAS 12.74.

Provisions for pensions and similar obligations

In accordance with German commercial law, pension provisions are determined on the basis of the tax discount value method under section 6a EStG (Income Tax Act) and the discount rate of 6 % prescribed by the German Income Tax Act is applied to the valuation. This method does not provide for inclusion of future-oriented assumptions. Under IAS, the current capital-market interest rate is used as the discounting rate and future salary and pension increases and staff turnover are taken into account.

Other provisions

Unlike under German commercial law, IAS 37 distinguishes between provisions and accruals. For accruals, the uncertainty regarding the time or amount of the future expenses required is generally significantly lower than for provisions. The effects resulting from the first-time adoption of IFRS are reported in the revenue reserve.

Capital and reserves

Under IFRS, unrealized gains and losses from changes in value of available-for-sale assets and effective portions of cash-flow hedges are recognized in capital and reserves with no impact on income. The German accounting provisions do not provide for reporting with no impact on income.

Unlike HGB, gains and losses realized from own shares are not posted to the profit-and-loss account under IFRS, but recorded under capital and reserves with no impact on income. The reserve for own shares recognized under HGB is deducted from capital and reserves under IFRS. There is no separate line item for the portfolio under securities in accordance with IFRS.

The effects resulting from the first-time adoption of IFRS are reported in the revenue reserve.

Trust transactions

Under German commercial law, trust claims and trust liabilities are carried as self-balancing items in the balance sheet. Under IAS 30, trust transactions are not reported in the balance sheet. Details on trust transactions are given in the Other information section.

Premiums and discounts

Premiums and discounts are reported under deferred items under HGB. In accordance with IAS, however, they are reported directly under the corresponding balance sheet line item in which the claim or liability is reported.

NOTES TO THE INCOME STATEMENT

(26) NET INTEREST INCOME

in € million	2004	2003
Interest income from		
Real estate financings	4,936	5,368
Public finance	3,858	4,308
Other lending and money market business	327	374
Fixed-income securities and book entry securities	1,939	1,863
Current income from shares and other non fixed-income securities	0	0
Current income from participations and from non-consolidated affiliated companies	2	0
Other	0	0
Total interest income	**11,062**	**11,913**
Interest expenses for		
Liabilities in certificate form	5,532	6,410
Registered Pfandbriefe	1,891	2,144
Loans taken up	774	785
Other borrowings and money-market business	504	473
Subordinated liabilities	161	191
Participation certificates	36	39
Hybrid capital	38	24
Other liabilities	0	0
Current result from swap transactions (Balance of interest income and interest expense)	826	558
Total interest expenses	**9,762**	**10,624**
Total	**1,300**	**1,289**

Netting payments in relation to interest rate swaps with off market coupons are amortized on a straight line basis in interest income over the maturity of the swap.

(27) RISK PROVISIONS IN LENDING BUSINESS

Risk provisions consist of allowances and provisions for contingent liabilities in relation to lending business and are reported in the profit and loss account as follows:

in € million	2004	2003
Additions to risk provisions	475	622
Releases of risk provisions	175	211
Direct write-downs	40	19
Recoveries on loans previously written off	15	38
Use of guarantee	63	182
Total	**262**	**210**

Risk provisions reflect the use of the guarantees provided by the major shareholders for the existing lending portfolios of the three predecessor banks. Before usage of these guarantees, risk provisions amountd to € 325 million (previous year: € 392 million).

Where it refers to the portfolio classified as "financial assets at fair value through profit or loss", utilization of the guarantee is reported in the balance of other operating income/expenses.

(28) NET COMMISSION INCOME

in € million	2004	2003
Commission income		
Securities business	0	0
Lending and guarantee business	122	94
Other services	22	17
Total commission income	**144**	**111**
Commission expenses		
Securities business	4	4
Credit and guarantee business	60	72
Other services	1	1
Total commission expenses	**65**	**77**
Total	**79**	**34**

(29) RESULT FROM HEDGE ACCOUNTING

in € million	2004	2003
Result from hedge accounting		
from fair-value hedges	59	43
from cash-flow hedges	0	0
Total	**59**	**43**

(30) TRADING RESULT

in € million	2004	2003
Trading result excluding banking book derivatives	57	–106
Result from derivative financial instruments	–72	–55
Total	**–15**	**–161**

The financial instruments in the trading portfolio are measured at fair value. Unlisted transactions are based on net present values or option price models. The trading result is produced by offsetting trading income against the corresponding expenses. The results from fair-value measurement are included in the portfolios, i.e. unrealized price gains and losses are included in the result reported.

Claims in a defined portfolio which are allocated to the "financial assets at fair value through profit or loss" category are also recognized at fair value with impact on income. The resultant value changes are recorded in the trading result, excluding banking book derivatives.

(31) RESULT FROM FINANCIAL ASSETS

The proceeds from the disposal of available-for-sale securities are reported in the result from financial assets. In addition, expenses and income from the disposal of affiliated companies, companies not carried at equity and participating interests, are also shown here.

in € million	2004	2003
Result from participating interests and non-consolidated affiliated companies	0	1
Result from disposal of available-for-sale	24	22
Total	**24**	**23**

The available-for-sale portfolios are measured at fair value. However, if there is no liquid market price or no reliable relevant factors can be determined for the valuation model, shares in affiliated companies and participating interests are carried at cost.

(32) RESULT FROM AT EQUITY INVESTMENTS

The results from disposal and valuation of the investment in the joint venture RHEINHYP-BRE Bank Hipoteczny S.A. carried at equity are reported under investments in companies accounted for using the equity method.

in € million	2004	2003
Income from at equity investments		
Gains on disposal	3	–
Income from at equity valuation	–	0
Expenses for at equity investments		
Losses on disposal	–	–
Expenses from at equity valuation	–	–
Total	**3**	**0**

In 2004, there was a profit from the disposal of our participating interest in RHEINHYP-BRE Hipoteczny S.A. of € 3 million.

(33) RESULT FROM INVESTMENT PROPERTY

in € million	2004	2003
Income from investment property		
Rental income	7	7
Income from disposals	1	0
Write-ups	4	1
Other income	–	0
Expenses for investment property		
Building occupancy and office costs	6	10
of which: rented property	4	5
of which: vacant property	2	5
Expenses for disposals	2	0
Depreciation and impairment	38	1
Other expenses	0	0
Total	**–34**	**–3**

(34) ADMINISTRATIVE EXPENSES

in € million	2004	2003
Wages and salaries	**222**	**221**
Social-security contributions	**29**	**29**
Expenses for pensions and other employee benefits	**30**	**33**
Total staff expenses	**281**	**283**
Other administrative expenses	**186**	**198**
Depreciation, amortization and impairments on intangible assets, tangible assets and operating and office equipment		
Intangible assets	7	14
Tangible assets	16	13
Total write-downs	**23**	**27**
Total administrative expenses	**490**	**508**

Eurohypo reviews the method of depreciation or amortization used to date and residual useful life as at each balance-sheet date. If there are signs of impairment, an impairment test is carried out. Subsequent valuation in the financial year did not lead to any write-downs (previous year: € –).

(35) OTHER OPERATING INCOME

in € million	2004	2003
Other operating income		
Rental income	0	1
Realization gains from the disposal of certain assets	2	91
Income from the release of provisions	3	1
Realization gains from repurchased liabilities	11	8
Sundry other operating income	78	28
Total other operating income	**94**	**129**
Other operating expenses		
Realization losses from the disposal of certain assets	0	0
Additions to other provisions	–	0
Realization losses from repurchased liabilities	104	144
Sundry other operating expenses	23	52
Total other operating expenses	**127**	**196**
Total other operating income	**–33**	**–67**

Other operating income and expenses comprise items which cannot be allocated to other line items on the income statement, in particular realization gains and losses from the disposal of certain assets and repurchased liabilities. The utilization of a guarantee in 2004 relating to the portfolio of claims on customers categorised in accordance with the fair-value option is reported in sundry other operating income. The utilization amounted to € 64 million. In addition, income and expenses from releases of and additions to provisions, rental income and other operating income and expenses are reported here.

(36) AMORTIZATION OF GOODWILL

The total amount of amortization of goodwill amounted to € 7 million (previous year: € –).

Under IFRS, goodwill may no longer be amortized on a scheduled basis and must be subject to an impairment test at least once a year or as required and value adjusted accordingly. We will be applying the impairment-only approach for all goodwill as of the conversion date. Any gains or losses resulting from impairment at the time of first adoption are offset against the revenue reserve.

Details on extraordinary amortization in the financial year are given in the statement of changes in fixed assets.

(37) RESTRUCTURING EXPENSES

In addition to merger-related restructuring costs of € 12 million (previous year: € 109 million), restructuring expenses refer to expenses in connection with the new strategy in Retail Banking amounting to € 1 million (previous year: € 13 million).

in € million	2004	2003
Expenses for restructuring measures introduced	13	122
Total	**13**	**122**

(38) INCOME TAXES

Income taxes for the Group break down as follows:

in € million	2004	2003
Actual tax expenses/income		
Germany	−7	−22
Abroad	−56	−49
Deferred tax expenses/income		
Germany	−108	42
Abroad	−9	−47
Total	**−180**	**−76**
Actual tax expenses/income		
for the current year	−58	−46
for previous years	−5	−25
Total	**−63**	**−71**
Deferred tax expenses/income		
from temporary differences	−127	−6
from loss carryforwards and tax credit balances	10	1
Total	**−117**	**−5**

In addition to the current income taxes, deferred tax expenses/income are also reported as income taxes. These result from the recognition with impact on income of deferred taxes on the basis of temporary differences, the creation or utilization of loss carryforwards and adjustments to the value of deferred tax assets and changes in tax rates.

The current income tax payable on the net income for the year is reported in the relevant period as an expense in line with the tax legislation in the relevant jurisdiction.

As a result of the relocation of Eurohypo's head office in mid-2004 from Frankfurt/Main to Eschborn, the trade tax applicable to the German bank was reduced. This produces a change in the overall tax rate for the German bank from 41.42 % in 2003 to 38.96 % for 2004 and provisionally 37.62 % as of 2005.

Deferred taxes for the German bank and its fiscal subsidiaries are calculated using the expected nominal average tax rate of 37.62 %. This rate is based on a corporation tax rate of 26.38 %, including the solidarity surcharge, and an effective trade tax rate of 11.24 %. The trade tax rate of 11.24 % anticipates the tax impact of the relocation of the head office from Frankfurt to Eschborn.

The current and deferred taxes for Europäische Hypothekenbank S.A., Luxembourg, and the foreign branches are calculated using the tax rates applicable for the country in question.

The following table shows the reconciliation of the anticipated income-tax expenses (income) in the relevant financial year and the reported income-tax expenses (income).

To determine the anticipated income-tax expenses (income), the profit before tax is multiplied by the overall tax rate for the financial year of 37.62 %.

The overall tax rate already takes into account the impact of relocating the head office from Frankfurt to Eschborn.

in € million	**2004**	**2003**
Profit from normal operating activity under IFRS:	611	318
Group income-tax rate	37.62%	37.62%
Anticipated tax expenses (income)	−230	−120
Tax effects arising from		
previous years and tax-rate changes	1	−29
differing tax rates in Germany and abroad	−2	−42
changes in recognition and adjustments to deferred tax assets	−6	−2
income from guarantee payments by major shareholders not required to be reported for tax purposes	61	97
other tax-free income	11	28
non-deductible expenses	−7	−12
permanent account differences	−3	−2
other	−5	6
Reported tax expenses (income)	**−180**	**−76**

The main effect of the reconciliation refers to the guarantee payments by the major shareholders for the portfolio of non-performing loans, which for tax purposes are not reported as income but as a capital contribution.

As at December 31, 2004 corporation tax credit balances of € 9.4 million are still available for future distributions.

(39) EARNINGS PER SHARE

To calculate the earnings per share, the net income for the year is divided by the average number of shares outstanding during the financial year, whereby the average number of treasury shares is deducted.

in € million	2004	2003
Consolidated net income for the year	431	242
Average number of shares outstanding (in million)	351	351
Earnings per share in €	**1.23**	**0.69**

In principle, the diluted earnings per share are calculated using the same method, but taking into account the dilution effects from the exercise of outstanding rights for the subscription of Eurohypo shares. No such rights were in place as at the end of 2004. As a result, diluted earnings per share are equivalent to the earnings per share.

(40) SEGMENT REPORTING

INCOME STATEMENT ACCORDING TO SEGMENTS

	CBG € million		CIB-I-CE € million		CIB-I-UK € million		CIB-I-US € million		RB € million		PFGM € million		Cross-divisional positions € million		Eurohypo Group € million	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Net interest income[1]	477	474	197	188	71	82	48	36	308	336	199	173	0	0	1,300	1,289
Risk provisions in lending business	−208	−140	3	−4	−10	0	0	0	−65	−88	0	0	18	22	−262	−210
Net interest income after risk provisions	**269**	**334**	**200**	**184**	**61**	**82**	**48**	**36**	**243**	**248**	**199**	**173**	**18**	**22**	**1,038**	**1,079**
Net commission income	25	24	38	27	31	26	28	17	−8	−20	−2	−4	−33	−36	79	34
Result from hedge accounting	0	0	0	0	0	0	0	0	0	0	59	43	0	0	59	43
Trading result	0	0	0	0	0	0	4	0	54	−106	−73	−55	0	0	−15	−161
Result from financial investments	0	0	0	0	0	0	0	0	0	0	24	23	0	0	24	23
Result from at equity investments	0	0	0	0	0	0	0	0	0	0	0	0	3	0	3	0
Result from investment property	−32	−3	0	0	0	0	0	0	−2	0	0	0	0	0	−34	−3
Administrative expenses[2]	138	145	46	42	34	34	47	46	132	143	49	49	44	49	490	508
Balance of other operating income/expenses	−6	−6	−1	0	0	0	0	−2	−85	−11	−17	−62	76	14	−33	−67
Operating result	**118**	**204**	**191**	**169**	**58**	**74**	**33**	**5**	**70**	**−32**	**141**	**69**	**20**	**−49**	**631**	**440**
Amortization of goodwill	0	0	0	0	0	0	0	0	7	0	0	0	0	0	7	0
Restructuring expenses	0	11	0	0	0	0	0	0	1	39	0	1	12	71	13	122
Profit before taxes	**118**	**193**	**191**	**169**	**58**	**74**	**33**	**5**	**62**	**−71**	**141**	**68**	**8**	**−120**	**611**	**318**
	€ billion		€ billion		€ billion		€ billion		€ billion		€ billion		€ billion		€ billion	
Financing volume	41.3	43.9	15.2	14.8	5.1	6.2	2.8	1.7	31.2	33.5	123.7	127.3	0.0	0.0	219.3	227.4
Key ratios																
Average RWA (in € bn)	36.8	39.3	15.6	15.7	6.1	6.9	2.7	1.8	19.5	20.9	5.6	3.2	−5.7	−3.8	80.6	84.0
Average allocated equity capital (in € bn)	2.4	2.6	1.0	1.0	0.4	0.5	0.2	0.1	1.3	1.4	0.4	0.2	−0.4	−0.9	5.3	4.9
RoE before taxes (in %)	4.9	7.4	18.6	16.9	14.4	14.8	18.5	5.0	4.8	−5.1	–	–	–	–	11.4	6.5
CIR (in %)	27.5	29.1	19.6	19.5	33.3	31.5	61.8	86.8	44.0	45.3	24.9	29.0	–	–	35.5	38.4
Average staff capacity	514	586	124	110	64	58	74	54	618	664	74	80	1,159	1,212	2,627	2,764

[1] the revised accounting for spreads of participation certificates, subordinated capital and hybrid capital has been applied retroactively for the financial year 2003.

[2] in the comparative figures for the financial year 2003 the upgraded allocation of overhead costs has been taken into account.

INCOME STATEMENT ACCORDING TO GEOGRAPHIC REGION

	Germany € million		Europe without Germany € million		America € million		Eurohypo Group € million	
	2004	2003	2004	2003	2004	2003	2004	2003
Net interest income[1]	958	972	293	281	49	36	1,300	1,289
Risk provisions in lending business	−263	−206	1	−4	0	0	−262	−210
Net interest income after risk provisions	**695**	**766**	**294**	**277**	**49**	**36**	**1,038**	**1,079**
Net commission income	−12	−32	63	49	28	17	79	34
Result from hedge accounting	47	−17	12	60	0	0	59	43
Trading result	−9	−145	−10	−16	4	0	−15	−161
Result from financial investments	24	23	0	0	0	0	24	23
Result from at equity investments	3	0	0	0	0	0	3	0
Result from investment property	−34	−3	0	0	0	0	−34	−3
Administrative expenses[2]	359	381	83	81	48	46	490	508
Balance of other operating income/expenses	−32	−63	−1	−2	0	−2	−33	−67
Operating result	**323**	**148**	**275**	**287**	**33**	**5**	**631**	**440**
Amortization of goodwill	7	0	0	0	0	0	7	0
Restructuring expenses	13	122	0	0	0	0	13	122
Profit before taxes	**303**	**26**	**275**	**287**	**33**	**5**	**611**	**318**
	€ billion	€ billion	€ billion	€ billion	€ billion	€ billion	€ billion	€ billion
Financing volume	181.8	191.7	34.7	34.0	2.8	1.7	219.3	227.4
Average staff capacity	2,346	2,523	207	187	74	54	2,627	2,764

[1] the revised accounting for spreads of participation certificates, subordinated capital and hybrid capital has been applied retroactively for the financial year 2003.

[2] in the comparative figures for the financial year 2003 the upgraded allocation of overhead costs has been taken into account.

Segment reporting by Group units

The present segment reporting was prepared in accordance with the provisions of IAS 14. It is based on the internal management, information and planning systems of the Eurohypo Group and analyzes the relevant results and portfolios first by business division (primary reporting format) and then by geographic region (secondary reporting format).

On the sales side, the segment reporting by business division is based in principle on the responsibilities for the different customers. The divisions Corporate Banking Germany (CBG), Corporate and Investment Banking International Continental Europe (CIB-I-CE), United Kingdom (CIB-I-UK), United States (CIB-I-US) and Retail Banking (RB) as well as Public Finance/Global Markets (PFGM) are each headed by a member of the Board of Managing Directors as an independent division with its own profit centre.

The European activities in Real Estate Investment Banking are reported under CIB-I-UK.

The results for prompter AG are reported under Retail Banking. The regular expenses and income of CASIA GmbH and the other property realization companies are shown in the cross-divisional positions column. Income and expenses arising from the valuation of properties are allocated to the segments in which they originate.

Public Finance and Treasury are reported together with Money and Capital-Market business in PFGM. This segment also shows the business results of EUROHYPO Europäische Hypothekenbank S.A., Luxembourg, and its Dublin branch, as the subsidiary operates in similar business fields.

The overheads item shows all result components that cannot be directly allocated to the above segments or only on the basis of arbitrary conclusions. This item also reflects all the balance-sheet structural measures carried out as part of overall bank management. Overheads also include income from third party business carried out by EHS.

The secondary reporting format shows the results and portfolios by geographic region. Eurohypo shows its core regions of Germany, Rest of Europe and America.

The criterion used for segmentation is the registered office of the Group company or foreign branch. For centralized organizational units, the regional responsibility is used for segmentation purposes. In the remaining cases, segmentation is carried out using the same methods as for reporting by operating unit.

The regional segments are also shown on a consolidated basis, whereby unallocated overheads are generally reported under Germany.

The Germany segment therefore comprises CBG, RB and REIB Frankfurt, which is allocated to the UK segment, the German portion of PFGM and the unallocated overheads. The Europe segment includes CIB-I-CE and CIB-I-UK as well as Eurohypo Luxembourg and its Dublin branch. The America segment shows the activities of CIB-I-US and the Treasury Desk in New York.

The principles of segment reporting

The aim of segment reporting is to allocate the pre-tax profit from the income statement of the Eurohypo Group and the financing volume to the segments in which they originate.

As a first step, net interest income has been split on the basis of the market interest-rate method into the components of interest contribution and the maturity transformation contribution. The interest contribution is calculated separately for each individual client transaction and subsequently allocated to the customer segment in which it originates. The maturity transformation contribution is allocated to PFGM.

In addition to the interest contribution, the net interest income for the relevant segment also includes the calculatory income from the interest on the balance of non-interest-bearing balance-sheet positions (capital and reserves, provisions, tangible assets). The underlying interest rate corresponds to that of a risk-free investment in the long-term capital market.

This capital benefit is allocated to the segments in relation to the risk-weighted assets associated with the segment in accordance with BIS. In addition, PFGM receives a calculatory compensation payment for increased spreads that have to be paid for the procurement of subordinated capital, profit participation certificates and hybrid capital.

When breakage costs for prepaid loans are allocated, the customer segments are allocated the margin loss determined and Treasury the funding loss.

The risk provisions in credit business reported in the segments comprise both new provisions and the release of specific allowances, direct write-downs of claims and recoveries on loans written off. Portfolio allowances are reported in overheads. The guarantee from the major shareholders for the portfolios treated as "Loans and receivables" was allocated to the relevant segment of risk provisions and for the sold portfolio of non-performing loans to other operating income in the overheads item.

Net commission income is allocated directly to the segments. The expenses for balance-sheet and structural measures (securitization measures, global guarantees etc.) are generally shown in the overheads item.

The result from hedge accounting is allocated to PFGM.

In the trading result, the result from derivatives not included in hedge accounting is allocated to PFGM. Only the portion of the derivative result attributable to CMBS transactions is shown in CIB-I-US together with changes in valuation of the CMBS loans. The changes in value from the sold portfolio of non-performing loans are reflected in the segment result for Retail Banking.

Income and expenses from investment property are reported in the segment in which they originate.

Administrative expenses include personnel costs and operating expenses as well as depreciation and amortization of tangible assets and other intangible assets (excluding goodwill). Amortization of goodwill and restructuring expenses are shown below the operating result in pre-tax profit. Administrative expenses are allocated in line with their origin and in addition to direct expenses also includes indirect expenses from internal charges for services. For the service provider, this results in a corresponding credit entry. Results from transactions between segments are allocated on the basis of bilateral agreements. Intragroup service providers (corporate centres, Eurohypo Systems, CASIA) allocate their operating expenses to the relevant service recipient. The allocation criteria are specified by central Controlling in agreement with the business divisions and the service providers.

The segment profit is measured on the basis of pre-tax profit and the return on equity before tax and cost-income ratio (CIR).

The return-on-equity ratio shows the relevant segment result in relation to the average capital tied up in the segment.

This is calculated on the basis that risk-weighted assets (RWA) are backed by 6.6 % core capital further to BIS. Taking into account the hybrid capital, this produces a backing of approx. 7 % of the book capital.

The cost-income ratio (CIR) shows the relationship between administrative expenses and the total net interest and commission income.

Given the special funding practices in the mortgage business (macro funding by PFGM with no segment relationship), we have only shown an analysis of the financing volume and have not provided a detailed presentation of segment claims and liabilities, as the resultant information would not have been meaningful.

INFORMATION CONCERNING THE BALANCE SHEET (ASSETS)

(41) CASH RESERVE

in € million	2004	2003
Cash at bank	**0**	**0**
Credit balances with central banks		
At Deutsche Bundesbank	66	106
At other central banks	1	1
Bills	–	–
Total	**67**	**107**

Credit balances at Deutsche Bundesbank also serve to meet the minimum reserve requirements. The minimum credit reserve as at December 2004 amounts to € 97 million (previous year: € 136 million). As at the reporting date, there were no holdings of public-sector debt securities or bills eligible for refinancing at central banks.

(42) TRADING ASSETS

Claims assigned to the held-for-trading category are reported under trading assets, as are derivatives not used for hedging purposes.

All trading assets are recognized at fair value.

in € million	2004	2003
Claims	**762**	**101**
Positive fair values from derivatives (no hedge accounting)		
Interest rate-related transactions	4,240	3,765
Currency-related transactions	57	113
Other transactions	1	0
Total	**5,060**	**3,979**

(43) CLAIMS ON BANKS

in € million	2004	2003
Due on demand	**4,912**	**1,699**
Other claims		
Real-estate financing	152	98
Loans to public-sector entities	15,524	15,293
Other claims	3,573	3,417
Total	**24,161**	**20,507**
Germany	19,615	18,087
Abroad	4,546	2,420
Total	**24,161**	**20,507**

(44) CLAIMS ON CUSTOMERS

in € million	2004	2003
Real estate financing	94,671	99,856
Loans to public-sector entitities	62,062	68,298
Other claims	5	31
Total	**156,738**	**168,185**
Germany	128,411	137,759
Abroad	28,327	30,426
Total	**156,738**	**168,185**

(45) RISK PROVISIONS

The risk provisions in lending business are recognized in accordance with Group-wide standard regulations and cover all identifiable credit-standing and country risks. For risks which have arisen but for which no losses have yet been identified, portfolio allowances are recognized on the basis of historic values. There was no requirement to recognize any country risks.

	Specific allowances		Portfolio allowances		Total	
in € million	2004	2003	2004	2003	2004	2003
Balance as at 1.1.	**2,239**	**1,871**	**170**	**172**	**2,409**	**2,043**
Additions	**467**	**614**	**–**	**–**	**467**	**614**
Reductions	**309**	**301**	**18**	**26**	**327**	**327**
thereof amounts used	152	116	–	–	152	116
thereof amounts released	157	185	18	26	175	211
Other adjustments with no impact on income	**4**	**56**	**–**	**24**	**4**	**80**
Adjustments due to currency translation	**0**	**–1**	–	–	**0**	**–1**
Balance as at 31.12.	**2,401**	**2,239**	**152**	**170**	**2,553**	**2,409**

Taking into account direct write-downs, recoveries on receivables written-off, utilization of guarantees and additions to and releases of provisions, the additions and releases taken to the income statement produce risk provisions of € 262 million (previous year: € 210 million).

Risk provisions were allocated for:

in € million	31.12.2004	31.12.2003
Claims on banks	1	1
Claims on customers	2,552	2,408
Total	**2,553**	**2,409**

In addition to the risk provisions amounting to € 2,553 million (previous year: € 2,409 million) deducted from assets on the balance sheet, provisions of € 25 million (previous year: € 20 million) are carried under liabilities for contingent liabilities.

Total non-accrual loans amounted to € 4.4 billion (previous year: € 4.5 billion). As a result, an amount of € 139 million (previous year: € 164 million) was not recognized as interest income.

(46) FINANCIAL ASSETS

Financial assets comprise bonds, other fixed-income securities and shares and other non fixed-income securities as well as shares in affiliated companies and participating interests not included in the consolidated financial statements. At equity investments are shown under a separate line item.

in € million	2004	2003
Bonds and other fixed-income securities	**37,651**	**38,604**
Money-market paper	19	1,617
of public issuers	19	148
of other issuers	–	1,469
Bonds and notes	37,632	36,987
of public issuers	30,786	30,478
of other issuers	6,846	6,509
Shares and other non fixed-income securities	**3**	**3**
Participating interests	**8**	**19**
of which: measured at fair value	–	–
of which: measured at cost	8	19
Shares in other non-consolidated affiliated companies	**9**	**9**
of which: measured at fair value	–	–
of which: measured at cost	9	9
Total	**37,671**	**38,635**

Fair value of financial assets eligible for stock-market listing

	listed		unlisted	
in € million	**2004**	**2003**	**2004**	**2003**
Bonds and other fixed-income securities	37,300	36,845	312	1,717
Shares and other non fixed-income securities	3	3	–	–
Participating interests	–	–	–	–
Shares in non-consolidated affiliated companies	–	–	0	0
Total	**37,303**	**36,848**	**312**	**1,717**

(47) AT EQUITY INVESTMENTS

In financial year 2003, this item comprised our shares in RHEINHYP-BRE Bank Hipoteczny S.A. In financial year 2004, the holding in the company was sold.

The investment in the company accounted for using the equity method was reported on the basis of the most recent financial statements prepared in accordance with national regulations.

in € million	2004	2003
At equity investments	–	15
Total	**–**	**15**

	Listed		Unlisted	
	2004	2003	2004	2003
At equity investments	–	–	–	15
Total	**–**	**–**	**–**	**15**

(48) INVESTMENT PROPERTY

This item essentially comprises salvage acquisitions as part of collateral realization. For details see Note (51).

(49) INTANGIBLE ASSETS

in € million	2004	2003
Goodwill	135	142
Software		
Purchased software	9	13
Own software	4	1
Total	**148**	**156**

(50) TANGIBLE ASSETS

in € million	2004	2003
Advance payments on buildings under construction	–	120
Land and buildings	139	10
Advance payments on operating and office equipment	–	0
Operating and office equipment	35	35
Total	**174**	**165**

The change in advance payments on buildings under construction and land and buildings refers to the bank's building in Eschborn.

(51) STATEMENT OF CHANGES IN FIXED ASSETS

Amortization of goodwill is reported under a separate line item in the income statement. Amortization of software, other intangible assets and depreciation of land and buildings and operating and office equipment are shown in the item depreciation, amortization and value adjustment of intangible and tangible assets under administrative expenses.

Goodwill is the amount by which the Group's share of the fair value of the acquired net assets of a company exceeds the cost of its acquisition as at the date of acquisition.

Goodwill is recorded as an asset and subject to an impairment test at least once a year. A permanent impairment of goodwill exists when the book value of a reporting unit exceeds its estimated fair value. All permanent impairments are recognized immediately in the income statement.

All the goodwill is allocated to the cash-generating units. The cash-generating units of the Group correspond to the business divisions of the Group or a level below.

Since the date of first-time adoption, the Group carries out an intrinsic value test at least once a year or as required.

The annual impairment test for financial year 2003 did not indicate any permanent impairment of goodwill.

In financial year 2004, reporting unit prompter AG showed a permanent impairment of goodwill of € 7 million. The main reason for this was the failure to achieve strategic goals, particularly regarding the acquisition of new customers. The basis for the intrinsic value test was the cash-flow forecast based on the multi-year financial planning of prompter AG.

The amortization of goodwill by € 7 million was reported under the line item amortization of goodwill.

The cash-generating unit CIB-I-United Kingdom was allocated goodwill of € 34 million resulting from the contribution of REIB London by Deutsche Bank in 2002.

The cash-generating unit CIB-I-US was allocated goodwill of € 36 million resulting from the contribution of REIB US by Dresdner Bank in 2003.

The cash-generating unit Corporate Banking Germany was allocated goodwill of € 58 million from the contribution of the Real Estate Finance division of Deutsche Bank in 2003.

The cash-generating unit Public Finance Global Markets was allocated goodwill of € 7 million resulting from the acquisition of a minority interest of 10 % in EUROHYPO Europäische Hypothekenbank S.A., Luxembourg.

The impairment tests are based on corporate value calculations for the relevant cash-generating units carried out using the discounted cash-flow method to determine the utility value according to the income method.

The achievable amount of the assets of a cash-generating unit is determined as the higher of its fair value less costs of sale and its utility value.

The cash-flow projections are based on multi-year financial planning approved by the Board of Managing Directors and the Supervisory Board, prepared on the basis of past performance of the individual cash-generating units and the expectations of the Board of Managing Directors with regard to market trends.

The starting basis to determine the value of the basic assumptions for cash-generating unit Corporate Banking Germany is as follows:

- Active portfolio management and targeted reduction of value-eroding portfolios
- Reduction of risk costs and administrative expenses
- Stabilization of new business margins and commissions at the current level

The starting basis to determine the value of the basic assumptions for cash-generating unit Corporate Investment Banking UK is as follows:

- Increase in new business, improvement of renewals rate
- Acquisition of new advisory mandates
- Expansion of CMBS business without cannibalizing the lending business

The starting basis to determine the value of the basic assumptions for the cash-generating unit Corporate Investment Banking US is as follows:

- Expansion of syndicated loans business
- Expansion of conduit CMBS business
- Expansion of mezzanine business
- Enhancement of product range (CDO, real-estate securities investment)
- Improvement of CIR after start-up costs no longer apply and leveraging of economies of scale

The starting basis to determine the value of the basic assumptions for cash-generating unit Public Finance/Global Markets is as follows:

- Achieve trading book status and generate trading income
- Optimize portfolio results through targeted restructuring
- Generate additional income through product-related customer business

Today’s Eurohypo was formed in 2002 by the merger of three institutions; Eurohypo (old), Deutsche Hyp and Rheinhyp. To be able to provide a suitably long monitoring period, the planning for all cash-generating units apart from prompter AG was extended to include an outline budget phase for the years 2008 to 2011. The growth rate in terminal value was assumed to be 1 %.

The movement in non-current financial assets, investments in associates, investment property, intangible assets and tangible assets in financial year 2004 was as follows:

STATEMENT OF CHANGES IN FIXED ASSETS

	Non-current financial assets		At equity investments (companies)
in € million	Participating interests	Shares in non-consolidated affiliated companies	At equity investments (joint ventures)
Cost			
Balance as at 1.1.2004	20	12	17
Additions	0	0	–
Disposals	12	0	15
Reclassifications	0	0	–
Adjustments due to currency translation	–	–	–2
Balance as at 31.12.2004	**8**	**12**	**0**
Amortization			
Balance as at 31.12.2003	0	3	–
Scheduled amortization in financial year	–	–	–
Balance as at 31.12.2004	**0**	**3**	**0**
Book values			
Balance as at 31.12.2004	**8**	**9**	**0**
Previous year	**19**	**9**	**15**

STATEMENT OF CHANGES IN FIXED ASSETS

	Investment property	
in € million	Rescue acquisitions	Investment property
Cost		
Balance as at 1.1.2004	169	2
Additions	44	–
Disposals	13	–
Reclassifications	–	–
Accumulated changes from fair value or at equity measurement	–33	–1
Balance as at 31.12.2004	**167**	**1**
Amortization		
Balance as at 1.1.2004	–	–
Scheduled amortization in financial year	–	–
Extraordinary amortization in financial year	–	–
Write-ups in financial year	–	–
Reclassifications	–	–
Disposals	–	–
Balance as at 31.12.2004	**–**	**–**
Book values		
Balance as at 31.12.2004	**167**	**1**
Previous year	**169**	**2**

STATEMENT OF CHANGES IN FIXED ASSETS

in € million	Intangible assets	
	Goodwill	Other intangible assets
Cost		
Balance as at 1.1.2004	142	233
Additions	–	6
Disposals	–	0
Reclassifications	–	–
Accumulated changes from fair value or at-equity measurement	–	–
Balance as at 31.12.2004	**142**	**239**
Amortization		
Balance as at 1.1.2004	0	219
Scheduled amortization in financial year	–	7
Extraordinary amortization in financial year	7	–
Write-ups in financial year	–	–
Reclassifications	–	–
Disposals	–	0
Balance as at 31.12.2004	**7**	**226**
Book values		
Balance as at 31.12.2004	**135**	**13**
Previous year	**142**	**14**

STATEMENT OF CHANGES IN FIXED ASSETS

in € million	Tangible assets		
	Advance payments on assets under construction	Land and buildings	Operating and office equipment
Cost			
Balance as at 1.1.2004	121	17	119
Additions	0	12	16
Disposals	–	1	20
Reclassifications	–121	121	0
Accumulated changes from fair value or at-equity measurement	–	–	
Balance as at 31.12.2004	**0**	**149**	**115**
Amortization			
Balance as at 1.1.2004	–	7	84
Scheduled depreciation in financial year	–	2	15
Extraordinary depreciation in financial year	–	–	–
Write-ups in financial year	–	–	–
Reclassifications	–	–	–
Disposals	–	0	18
Balance as at 31.12.2004	**0**	**9**	**81**
Book values			
Balance as at 31.12.2004	**0**	**140**	**34**
Previous year	**121**	**9**	**35**

(52) OTHER ASSETS

Other assets comprise the following:

in € million	2004	2003
Positive fair value from hedges		
Fair value hedges	4,221	3,716
Cash-flow hedges	18	51
Collection documents	447	526
Deferred items	12	18
Sundry other assets	6	7
Total	**4,704**	**4,318**

The positive fair value from hedges refers in particular to derivatives used to hedge against market interest-rate risk.

INFORMATION CONCERNING THE BALANCE SHEET (LIABILITIES)

(53) TRADING LIABILITIES

Trading liabilities comprise negative fair values from derivative financial instruments not used as hedges under hedge accounting.

in € million	2004	2003
Negative fair values from derivatives (not hedge accounting)		
Interest rate-related transactions	4,756	3,878
Currency-related transactions	25	12
Other transactions	20	8
Total	**4,801**	**3,898**

(54) LIABILITIES TO BANKS

Liabilities to banks break down as follows:

in € million	2004	2003
Due on demand	574	595
Time-limited liabilities		
Loans taken up	6,384	8,027
Registered Pfandbriefe	5,436	6,660
Other liabilities	23,760	14,187
Total	**36,154**	**29,469**
Germany	26,150	21,516
Abroad	10,004	7,953
Total	**36,154**	**29,469**

(55) LIABILITIES TO CUSTOMERS

Liabilities to customers break down as follows:

in € million	2004	2003
Due on demand	399	353
Time-limited liabilities		
Loans taken up	9,592	9,328
Registered Pfandbriefe	27,730	29,719
Other liabilities	500	605
Total	**38,221**	**40,005**
Germany	37,561	39,296
Abroad	660	709
Total	**38,221**	**40,005**

(56) LIABILITIES IN CERTIFICATE FORM

in € million	2004	2003
Bonds issued	**126,529**	**143,028**
Bearer Hypothekenpfandbriefe	29,682	30,638
Öffentliche Pfandbriefe	72,029	85,774
Other bonds	24,818	26,616
Other liabilities in certificate form	**1,442**	**25**
Total	**127,971**	**143,053**

(57) PROVISIONS

in € million	2004	2003
Provisions for pensions and similar obligations	263	256
Other provisions	200	240
Total	**463**	**496**

Provisions for pensions and similar obligations

Provisions for pensions and similar obligations are based on defined-benefit and defined-contribution indirect pension obligations.

Provisioning plans for the period after retirement comprise contracts predating the merger of the predecessor institutions and Eurohypo commitments.

Statement of changes in pension obligations:

in € million	2004	2003
Net present value of pension obligations as at January 1 (DBO)	256	229
Unrecorded actuarial gain/loss	1	15
Unrecorded service cost to be allocated subsequently	–	–
Pension provisions as at January 1	**257**	**244**
Additions		
Service cost	6	5
Service cost to be allocated subsequently	–	–
Interest expenses	13	13
Impact of planned reductions and settlements	–	–
Payments for obligations not included in DBO as at 1.1.	–	6
Expenses for conversion to IAS	–	1
Utilization		
Pensions paid	13	13
Pension provisions as at December 31	**263**	**256**
Anticipated net present value of pension obligations as at December 31	**263**	**241**
Unrecorded actuarial gain/loss	−16	1
Unrecorded service cost to be allocated subsequently	–	–

In financial year 2004, Eurohypo reported additions to pension provisions and similar obligations of € 19 million.

The pensions provisions are determined on the basis of the following actuarial assumptions:

	2004	2003
Calculation method	Projected unit credit	Projected unit credit
Calculation base	1998 K. Heubeck guideline tables	1998 K. Heubeck guideline tables
Interest rate	5.0 %	5.5 %
Salaries – rate of increase	1.6 %	2.75 %
Pensions trend	1.5 %	1.5 %
Income threshold – rate of increase	1.6 %	2.75 %

Statement of changes in other provisions:

in € million	Provisions in lending business	Provisions for personnel matters	Restructuring provisions	Provisions for litigation risks	Sundry other provisions	Total
Balance as at 1.1.2004	20	16	156	8	40	240
Additions	9	1	17	5	19	51
Utilization	0	2	56	10	14	82
Releases	1	3	0	1	1	6
Reclassification	−3	0	0	8	−8	−3
Change in scope of consolidation	–	–	–	–	–	–
Adjustments due to currency translation	–	–	–	–	–	–
Balance as at 31.12.2004	**25**	**12**	**117**	**10**	**36**	**200**

Provisions for personnel matters essentially comprise provisions for bonuses and special remuneration as well as anniversary provisions.

Restructuring provisions refer primarily to merger-related restructuring expenses arising from the merger of Deutsche Hyp, Eurohypo (old) and Rheinhyp in 2002. This item also includes provisions for the new strategy in Retail Banking in 2003 and restructuring measures for the former Deutsche Hyp. The existing provisions cover future obligations in personnel for early retirement and age-related short-time working arrangements as well as rental agreements.

(58) INCOME-TAX OBLIGATIONS

Income-tax obligations and claims for current taxes result mainly from the predecessor institutions and refer to previous years. Payment obligations and refund claims which from the perspective as at year-end will arise for the current year were taken into account when establishing tax provisions.

Current income-tax provisions and income-tax claims which relate to the same tax jurisdiction and are identical in terms of nature and maturity are netted out.

Income-tax claims/obligations comprise the following:

in € million	2004	2003
Actual tax claims	184	223
Deferred tax claims	406	530
Actual tax liabilities	−132	−145
Deferred tax liabilities	−205	−238
Total	**253**	**370**

Deferred tax claims and deferred tax liabilities were recognized for the following items on differences between the tax base and the base under IFRS:

in € million	2004	2003
Tax claims		
Claims on banks and customers	4	0
Risk provisions	70	81
Financial assets	11	5
Investment property	2	8
Tangible assets	0	0
Other assets	1	1
Liabilities to banks and customers	218	73
Liabilities in certificate form	560	583
Derivatives with negative fair value	3,809	2,707
Provisions	32	49
Subordinated liabilities and profit participation certificates	39	–
Tax-loss carryforwards and tax-credit balances	98	18
Tax liabilities		
Claims on banks and customers	918	671
Risk provisions	244	86
Trading assets	2	–
Financial assets	922	734
Derivatives with positive fair value	2,502	1,688
Investment property	2	2
Tangible assets	36	36
Other assets	13	7
Provisions	4	4
Subordinated liabilities and profit participation certificates	0	5
Other liabilities	0	0
Total	**201**	**292**
Deferred income tax claims (+)/income tax obligations (–)		
Revaluation	−72	−99
Cash-flow hedge	21	21
Total	**−51**	**−78**

The deferred tax claims determined on temporary differences are only recorded when their realization is sufficiently probable.

As at December 31, 2004 the Group had corporate tax loss carryforwards of € 291 million (previous year: € 51 million) and trade tax loss carryforwards of € 321 million (previous year: € 70 million).

These refer essentially to German loss carryforwards of Eurohypo AG. The loss carryforwards have no time limit. Deferred tax assets were adjusted by tax loss carryforwards of € 31 million. This relates to losses concerning rescue acquisitions in subsidiaries (company exploiting third-party rights) whose future income situation does not permit capitalization from the current perspective.

No deferred taxes were recognized for reinvested profits and differences in values carried at consolidated subsidiaries, as no distributions or disposals are expected.

(59) OTHER LIABILITIES

Other liabilities comprise the following:

in € million	2004	2003
Negative fair values from derivatives (not hedge accounting)		
Fair-value hedges	8,695	7,380
Cash-flow hedges	116	135
Deferred items	32	42
Other liabilities	157	165
Total	**9,000**	**7,722**

The negative fair values from derivatives include derivatives used to hedge against market interest-rate risk in particular.

(60) SUBORDINATED LIABILITIES

Subordinated liabilities are own funds within the meaning of section 10 para. 5 a of the German Banking Act (KWG). In the event of insolvency proceedings on the assets of the bank or liquidation of the bank, the subordinated liabilities are not repayable until all non-subordinated creditors have been satisfied.

There can be no obligation for early repayment on the part of the issuer.

in € million	2004	2003
Bearer bonds	733	754
Registered paper	–	–
Loans taken out	2,228	2,141
Total	**2,961**	**2,895**

As at the balance sheet date there were no individual items which exceeded 10 % of the total subordinated liabilities.

Interest expenses of € 161 million (previous year: € 191 million) arose for subordinated liabilities.

(61) PROFIT PARTICIPATION CERTIFICATES

in € million	2004	2003
Profit participation certificates	675	700
Total	**675**	**700**

Breakdown of main profit participation certificate issues:

Year of issue	Nominal amount in € million	Interest rate	Date of maturity	Repayment	Special conditions*)
1992**)	107	9.000 %	31.12.2004	01.07.2005	Call right on 31.12.1997 at the earliest
1994	13	8.250 %	31.12.2004	30.06.2005	Call right on 31.12.1999 at the earliest
1995	122	6-month Libor plus 120 basis points	31.12.2005	30.06.2006	Call right on 31.12.2000 at the earliest
1997	133	6.875 %	31.12.2007	30.06.2008	Call right on 31.12.2002 at the earliest
1999**)	100	Euribor twelve-month deposits plus 110 basis points on 2nd working day prior to start of interest period	31.12.2004	30.06.2005	
2000**)	200	Euribor twelve-month deposits plus 150 basis points on 2nd working day prior to start of interest period	31.12.2012	01.07.2013	

*) The bank can call the profit participation certificates by giving at least 2 years' notice at the end of any calendar year, if a legal regulation is adopted, amended or applied in the Federal Republic of Germany in such a way that the bank would incur a tax charge on the interest payment, in the form of trade or corporation tax, or the profit participation capital cannot be deducted as debt items for wealth tax purposes.

**) When the Eurohypo AG merger came into force, the holders of participation certificates in the former Rheinhyp were granted equal participation certificates, with a corresponding payment commitment to the relevant holders, which are subordinate to all liabilities due to other creditors, but rank equally with profit participation certificates already issued.

Interest payable on the profit participation certificates for financial year 2004 amounts to € 36 million (previous year: € 39 million). € 35 million (previous year: € 39 million) was reported under other liabilities for pro rata interest.

The profit participation certificates grant holders the right to an annual distribution, which has priority over the share in profits of the shareholders; they are subordinate to liabilities to other creditors, provided that such liabilities are not likewise subordinated. Repayment takes place at the nominal amount, subject to the provisions concerning participation in losses.

AUTHORIZATION FOR THE ISSUE OF PROFIT PARTICIPATION CERTIFICATES

At the Annual General Meeting of May 19, 2003, the Board was authorized to issue on one or more occasions profit participation certificates up to a total of € 1,500,000,000 until May 17, 2008.

The profit participation certificates must comply with the conditions of section 10 para. 5 of the German Banking Act (KWG), according to which the capital contributed against the granting of profit participation certificates can be allocated to the liable capital. The term of the participation rights can be up to fifteen years. When utilizing the authorization, the Board of Managing Directors can exclude residual amounts from the shareholders' subscription rights.

In addition, the Board of Managing Directors was authorized to exclude shareholders' subscription right for an amount totalling up to € 750,000,000.00. This authorization can only be used, however, if the profit participation certificates are structured in the same way as bonds, which means that they do not convey any rights of membership or subscription or conversion rights to shares, or grant participation in liquidation proceeds, and that the level of interest is not geared to the net income for the year, the distributable profit or the dividend. In addition, the interest and the amount issued for the profit participation certificates in this instance must correspond to the current market conditions for comparable borrowings at the time of the issue. The Board of Managing Directors was authorized to determine the further details and terms of the issues, particularly the time of issue, the type, level and maturity of the claim to distribution and repayment, the issue price and term of the profit participation certificates.

If the subscription right is not excluded, issues of profit participation certificates shall be underwritten by a consortium of banks, with the obligation of offering them to the shareholders.

The Board of Managing Directors has made no use of the authorization to issue profit participation certificates during the reporting year.

(62) HYBRID CAPITAL

in € million	2004	2003
Hybrid capital	600	600
Total	**600**	**600**

Via Eurohypo Capital Funding LLC I, Delaware USA and Eurohypo Capital Funding Trust I, Delaware USA, Eurohypo issued hybrid capital with a nominal amount of € 600 million in 2003 at an interest rate of 6.445 %. The hybrid capital is due on May 23, 2033. There is a call option as at May 23, 2013.

(63) INFORMATION REGARDING CAPITAL AND RESERVES

Composition of capital and reserves

in € million	31.12.2004	31.12.2003
Subscribed capital	914	914
Capital reserve	3,991	3,991
Deduction item for own shares	0	0
Revenue reserve	526	340
Revaluation reserve	106	151
Reserve for cash flow hedges	–35	–35
Reserve for currency translation	0	–3
Distributable profit/loss	243	3
Minority interests	0	0
Total	**5,745**	**5,361**

Subscribed capital

The subscribed capital of Eurohypo AG as at December 31, 2004 was € 913,688,919.00 divided into 351,418,815 no par value shares. The shares are fully paid up.

	No. in thousands
Number of outstanding shares as at 31.12.2003	**351,375**
Plus: treasury shares as at 31.12.2003	44
Number of shares issued as at 31.12.2004	**351,419**
Less: treasury shares on reporting date	70
Number of outstanding shares as at 31.12.2004	**351,349**

The value of the issued shares outstanding and approved shares is as follows:

	31.12.2004		31.12.2003	
	€ million	No. in thousands	€ million	No. in thousands
Issued shares	**914**	**351,419**	**914**	**351,419**
Less: treasury shares	0	70	0	44
Outstanding shares (subscribed capital)	914	351,349	914	351,375
Plus: shares not yet issued from authorized capital	183	70,280	50	19,301
Total	**1,097**	**421,629**	**964**	**370,676**

As at December 31, 2004 the shareholding structure is as follows: the Deutsche Bank Group holds 37.72%, the Commerzbank Group 31.84% and the Allianz Group 28.48%. The remaining 1.96% is in free float.

The major shareholders have declared to the bank that they will not exert a controlling influence over the bank either severally or jointly, nor carry out joint management of the bank. Eurohypo AG is therefore to be seen as a joint-stock corporation that is independent of its major shareholders.

Capital reserve

The capital reserve shows the premium from the issue of shares including subscription rights which exceed the nominal or arithmetical value.

A deferred deduction item for own shares is reported under the capital reserve which contains the changes in value from own share transactions.

Revenue reserve

The revenue reserves comprise the statutory reserves and other revenue reserves.

The statutory reserves amount to € 4 million as at December 31, 2004 and are subject to a distribution restriction. Other revenue reserves include reinvested consolidated profit including accumulated amounts from consolidation effects impacting on income and the effects of first-time adoption of IFRS from the conversion date of January 1, 2003. The revenue reserves resulting from first-time application effects (IAS) include all changes arising from the changeover to different accounting procedures and are reported as a separate item in line with IFRS 1. They are therefore to be charged to revenue reserves with no impact on income.

in € million	31.12.2004	31.12.2003
Statutory reserves	4	4
Other revenue reserves		
Reinvested revenue reserves	638	452
First-time application effects (IAS)	−116	−116
Total	**526**	**340**

As at December 31, 2004 the Group had not issued any convertible bonds or bonds with warrants. There is therefore no requirement to split financial instruments into equity and debt components.

Revaluation reserve

The revaluation reserve comprised the unrealized gains and losses on the revaluation of available-for-sale financial instruments amounting to € 182 million as at December 31, 2004.

Deferred taxes arising on the revaluations of € –76 million were taken into account.

Reserve for cash-flow hedges

Changes in fair value of the effective portion of hedges amounting to € –56 million were taken into account for cash-flow hedges.

The deferred taxes arising on the hedges of € 21 million were taken into account.

Reserve for currency conversion

The reserve for currency conversion comprises the conversion gains and losses arising on capital consolidation.

(64) AUTHORIZED CAPITAL

On May 17, 2004, the General Meeting authorized the bank to increase the share capital of the bank in one amount or several partial amounts up until June 16, 2009, with the approval of the Supervisory Board, by a total of up to € 182,728,000.00 in the form of the issue of new no-par value bearer shares against cash or non-cash contributions. The Board of Managing Directors was authorized to exclude shareholders' subscription rights with the approval of the Supervisory Board, as long as the capital increase took place on the basis of contributions in kind for the purpose of the acquisition of companies, company divisions or units, or participating interests in companies. If the shareholders' subscription rights are not excluded, they shall be granted a subscription right, subject to the condition that the new shares should be underwritten by a consortium of banks with the obligation of offering them to the shareholders. In addition, the Board of Managing Directors was authorized to exclude share fractions from the shareholders' subscription rights, with the approval of the Supervisory Board.

(65) FOREIGN CURRENCY POSITIONS

As at December 31, 2004 the Group reported the following assets and liabilities (excluding fair values from derivatives) in foreign currencies:

in € million	USD	CHF	GBP	Other	31.12.2004 Total	31.12.2003 Total
Cash reserve	0	0	0	0	0	0
Claims on banks	581	907	279	53	1,820	1,844
Claims on customers	2,745	5,092	3,925	1,626	13,388	14,083
Risk provisions	–	−48	–	–	−48	−36
Trading assets	762	–	–	–	762	101
Financial assets	4,141	–	683	2,655	7,479	6,933
Other assets	11	1	2	–	14	13
Total assets in foreign currencies	**8,240**	**5,952**	**4,889**	**4,334**	**23,415**	**22,938**
Liabilities to banks	1,637	362	373	1,043	3,415	3,942
Liabilities to customers	43	39	48	31	161	94
Liabilities in certificate form	7,970	3,151	1,859	340	13,320	12,200
Other liabilities	30	3	12	1	46	44
Total liabilities in foreign currencies	**9,680**	**3,555**	**2,292**	**1,415**	**16,942**	**16,280**

INFORMATION CONCERNING FINANCIAL INSTRUMENTS

(66) DERIVATIVES

The value of derivatives used to transfer market and credit risks between various parties is derived from interest rates and indices as well as share prices and exchange rates. The main derivative product types used by Eurohypo are forward rate agreements, swaps, currency forwards, currency options and share and index-linked transactions.

Derivatives are used predominantly to hedge and manage interest-rate and exchange-rate risks. They are used to hedge interest-rate and currency risks on available-for-sale securities, mortgages, note loans and securitized liabilities in the form of fair-value and cash-flow hedges.

When derivatives do not form part of a hedge relationship and therefore part of hedge accounting, they are reported as trading assets and liabilities. Derivatives to hedge underlying transactions in hedge accounting are reported under other assets and liabilities.

If the market value does not reflect the fair value accurately or there are no listed prices (e.g. OTC derivatives), established estimating procedures (e.g. net present value method, option price model) are applied. The fair value of an unstructured derivative corresponds to the sum of all future cash flows discounted to the valuation date. Option price models are used for derivatives with option components. The following overview shows the notional value and residual life as well as the positive and negative fair values of derivative transactions concluded by the bank. The notional amounts do not represent any balance-sheet claims or liabilities.

Swaps and swaptions in Eurohypo's hedge portfolio are essentially used to hedge currency risks and premature terminations.

Breakdown of derivative transactions:

REMAINING TERM BREAKDOWN

in € million	Notional amount/remaining life					Fair value		Fair value	
	up to 1 year	1–5 years	over 5 years	Total 31.12.2004	Total 31.12.2003	Positive 31.12.2004	Negative 31.12.2004	Positive 31.12.2003	Negative 31.12.2003
Interest rate-related deals									
Forward-rate agreements	292	–	–	292	5,088	–	97	–	–
Interest-rate swaps	37,728	122,800	87,077	247,605	236,827	7,956	12,344	7,222	10,323
Interest rate futures	–	–	–	–	–	–	–	–	–
Interest-rate options	762	1,525	1,006	3,293	4,994	4	267	8	237
Other interest-rate contracts	1,255	2,606	974	4,835	3,677	24	93	48	77
Total interest rate-related deals	**40,037**	**126,931**	**89,057**	**256,025**	**250,586**	**7,984**	**12,801**	**7,278**	**10,637**
Currency-related deals									
Currency forwards	6,029	15	1	6,045	6,324	57	17	100	4
Cross-currency swaps	1,453	1,764	3,174	6,391	6,867	496	793	267	773
Total currency-related deals	**7,482**	**1,779**	**3,175**	**12,436**	**13,191**	**553**	**810**	**367**	**777**
Total	**47,519**	**128,710**	**92,232**	**268,461**	**263,777**	**8,537**	**13,611**	**7,645**	**11,414**

Derivatives breakdown:

	Notional 31.12.2004	Notional 31.12.2003	Fair value 31.12.2004	Fair value 31.12.2003
OECD banks	257,092	254,794	–5,461	–4,030
Other companies, private individuals	11,369	8,983	387	261
Total	**268,461**	**263,777**	**–5,074**	**–3,769**

(67) MARKET PRICE RISKS

Market risk means the danger of sustaining losses due to changes in market parameters. The main parameters of relevance for Eurohypo in the context of market risk are interest rates.

(68) INTEREST-RATE RISKS

The interest-rate risk is taken to mean the risk of loss arising when the benchmark interest-rate curve changes. Eurohypo uses the swap curve of the relevant currency as the benchmark interest-rate curve.

The interest-rate risk is quantified daily as part of the present value concept using the factors delta (interest-rate sensitivity), net directional and yield curve. In order to ascertain these indicators, the net present values of all assets and liabilities on the balance sheet and of all derivatives are calculated. The interest rates of the underlying benchmark interest-rate curve are then raised by one basis point in certain maturity ranges. The delta for a specific maturity band is the cash equivalent loss – or gain – incurred if the benchmark interest-rate curve rises. The net directional is the total of the deltas ranging across all maturity bands. At Eurohypo, a limit is set on this measurement of interest-rate sensitivity. The utilization rate on the cut-off date was 16 %.

A further means of quantifying the interest-rate risks is the value-at-risk method (VaR). The VaR quantifies risk as a negative deviation from the current value of all the bank's financial transactions. The VaR is calculated daily on the basis of the variance/co-variance approach. The variances and co-variances are estimated statistically, using market data with a history of 260 days. Eurohypo uses 99 % as confidence level. The holding period is set at one day. For the purposes of limiting market risks, the limit set on the VaR is € 40 million. The amount of the VaR on the cut-off date was € 10 million.

(69) CURRENCY RISKS

The currency risk is the risk of incurring losses due to changes in exchange rates. This risk is determined by means of balance overviews, in compliance with the provisions of the German Banking Act (KWG). This risk is restricted by means of a volume restriction which sets a limit on the balanced portfolio of open foreign-currency positions. The utilization rate on the cut-off date was 6 %.

(70) FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value is the amount at which a financial instrument can be traded between competent and willing contractual parties at market conditions. A financial instrument is a contract under which one contracting party establishes an asset and the other a liability or equity instrument.

The table below shows the fair values of the financial instruments compared with the book values.

in € billion	Fair value 31.12.2004	Book value 31.12.2004	Fair value 31.12.2003	Book value 31.12.2003
Assets				
Cash reserve	0.1	0.1	0.1	0.1
Trading assets	5.1	5.1	4.0	4.0
Claims on banks	24.5	24.2	21.1	20.5
Claims on customers	163.3	156.7	172.8	168.2
Financial assets	37.7	37.7	38.6	38.6
Other assets*	4.2	4.2	3.8	3.8
Liabilities				
Trading liabilities	4.8	4.8	3.9	3.9
Liabilities to banks	36.6	36.2	30.0	29.5
Liabilities to customers	41.7	38.2	42.0	40.0
Liabilities in certificate form	130.4	128.0	145.3	143.1
Other liabilities*	8.8	8.8	7.5	7.5
Subordinated liabilities	3.1	3.0	3.1	2.9
Profit participation certificates	0.7	0.7	0.7	0.7
Hybrid capital	0.7	0.6	0.6	0.6

* Only derivatives in hedge accounting

We determine the fair values using stock-exchange prices. When there are no stock-exchange prices that meet our stringent quality criteria, which with the exception of securities is the case with a large proportion of our financial instrument, valuation is carried out using normal market procedures based on market parameters specific to the instrument.

(71) ASSETS ASSIGNED AS COLLATERAL

Assets were assigned at the values indicated below as collateral for the following liabilities and trading liabilities:

in € million	31.12.2004	31.12.2003
Liabilities to banks	14,594	6,200
Total	**14,594**	**6,200**

The following assets were assigned as collateral for the above liabilities:

in € million	31.12.2004	31.12.2003
Financial assets	14,225	9,719
Total	**14,225**	**9,719**

The collateral was provided for funds raised as part of repo transactions and open-market transactions with Deutsche Bundesbank.

(72) MATURITY BREAKDOWN ACCORDING TO RESIDUAL TERMS

The residual term is the time between the balance-sheet date and the date of contractual maturity of the claim or liability. For claims and liabilities due in instalments, the residual term for each individual tranche is applied.

2004 in € million	Due on demand and unlimited	Residual term up to 3 months	Residual term 3 months – 1 year	Residual term 1 year – 5 years	Residual term over 5 years	Total
Claims on banks	4,923	4,195	1,960	10,976	2,107	24,161
Claims on customers	6,054	14,466	18,049	73,474	44,695	156,738
Bonds and other fixed-income securities (financial assets)	566	957	1,701	12,275	22,152	37,651
Total 2004	**11,543**	**19,618**	**21,710**	**96,725**	**68,954**	**218,550**
Liabilities to banks	574	15,874	9,289	7,502	2,915	36,154
Liabilities to customers	399	2,339	2,819	14,588	18,076	38,221
Liabilities in certificate form	–	13,752	19,288	71,469	23,462	127,971
Subordinated liabilities	–	147	159	339	2,316	2,961
Profit participation certificates	–	–	220	256	199	675
Hybrid capital	–	–	–	–	600	600
Total 2004	**973**	**32,112**	**31,775**	**94,154**	**47,568**	**206,582**

2003 in € million	Due on demand and unlimited	Residual term up to 3 months	Residual term 3 months – 1 year	Residual term 1 year – 5 years	Residual term over 5 years	Total
Claims on banks	1,699	5,125	1,095	9,622	2,966	20,507
Claims on customers	4,721	17,622	14,702	79,361	51,779	168,185
Bonds and other fixed-income securities (financial assets)	–	2,606	3,029	12,893	20,076	38,604
Total 2003	**6,420**	**25,353**	**18,826**	**101,876**	**74,821**	**227,296**
Liabilities to banks	595	15,341	2,581	7,370	3,582	29,469
Liabilities to customers	353	2,245	2,578	15,116	19,713	40,005
Liabilities in certificate form	–	11,129	17,724	87,727	26,473	143,053
Subordinated liabilities	–	–	67	471	2,357	2,895
Profit participation certificates	–	–	25	475	200	700
Hybrid capital	–	–	–	–	600	600
Total 2003	**948**	**28,715**	**22,975**	**111,159**	**52,925**	**216,722**

OTHER INFORMATION

(73) SUBORDINATED ASSETS

In the event of the bankruptcy or liquidation of the issuer, the subordinated assets rank after the claims of all other creditors.

in € million	31.12.2004	31.12.2003
Claims on banks	109	117
Financial assets	3	3
Total	**112**	**120**

(74) OFF-BALANCE-SHEET OBLIGATIONS

in € million	31.12.2004	31.12.2003
Liabilities under indemnities and guarantees	538	585
of which: credit guarantees	238	209
of which: other guarantees	300	376
of which: letters of credit	–	–
Other contingent liabilities	38	–
Other obligations		
Irrevocable credit commitments	8,988	6,914
of which: book credits	2,826	997
of which: mortgage loans/public finance	6,162	5,917
Sundry obligations	94	107
Total	**9,658**	**7,606**

(75) TRUST BUSINESS

Trust business breaks down as follows:

in € million	31.12.2004	31.12.2003
Claims on customers	112	136
Trust assets	**112**	**136**
of which liabilities to banks	10	17
of which liabilities to customers	102	119
Trust liabilities	**112**	**136**

(76) EMPLOYEES (AVERAGE)

	31.12.2004	31.12.2003
Total number	2,728	2,863
of whom: part-time	280	277

(77) RELATED PARTY DISCLOSURES

As part of standard operating activities, transactions are concluded with related companies and persons at normal market terms and conditions. The extent of these transactions is shown below. Whether or not the company is included in the consolidated financial statement of Eurohypo AG as a subsidiary or an associate is not relevant here.

Claims on and liabilities to affiliated and associated companies:

in € million	2004	2003
Trading assets	–	–
Claims on banks	1,328	1,007
Claims on customers	261	261
Financial assets	259	281
Total claims	**1,848**	**1,549**
Liabilities to banks	10	16
Liabilities to customers	20	36
Liabilities in certificate form	416	903
Subordinated liabilities	624	624
Profit participation certificates	–	–
Hybrid capital	–	–
Total liabilities	**1,070**	**1,579**

The related-party disclosures were prepared in accordance with IAS 24 (reclassified 1994). IAS 24 (reclassified in 2003 as part of the Improvement Project) is compulsory and must be applied for all financial years starting on or after January 1, 2005.

As a result, a related-party relationship is assumed as before to be in place not only when a parent company exerts a controlling influence on a subsidiary or there is material influence on an associated company, but also where there is joint control of partner companies under a joint venture.

In addition, defined-benefit payment plans and pension providers are to be classified as related parties. The companies providing the plans are to be taken into account. This includes BVV.

In future, non-executive directors will also be considered as members of management in key positions.

In addition to business transactions, claims and receivables between the reporting company and its related parties are also covered by the scope of the standard.

REMUNERATION OF THE BOARD OF MANAGING DIRECTORS AND THE SUPERVISORY BOARD

BOARD OF MANAGING DIRECTORS

The remuneration of the members of the Board of Managing Directors comprises the components of fixed salary, annual bonus and long-term incentive. The portion of fixed salary is 40 %, with annual bonus and long-term incentive each accounting for 30 %. In addition the members of the Board of Managing Directors receive the usual payments in kind as well as a pension commitment.

The annual bonus is obtained when targets are reached for the forecast performance of the bank as a whole, measured on the basis of to be established targets such as return on equity, together with the personal performance of the individual Board Member in his area of responsibility.

The long-term incentive component is paid out either in shares or in cash at the discretion of the company after a blocked period of 3 years, i.e. in 2008. Only when the shares are transferred will the members of the Board of Managing Directors have a profit entitlement and voting rights in line with the shares allocated. For financial year 2004, the basis for determining the number of shares to be allocated under the long-term incentive is a specified return on equity before tax target achieved at Group level. When the target is achieved, the members of the Board of Managing Directors will receive a certain number of shares based on the average stock-exchange price of the bank’s shares in financial year 2003. If the target is exceeded or not met, the number of shares to be allocated will increase or reduce by 25 % per percentage point. This ruling includes a cap. No account is taken of the price more than tripling during the time between determining the percentage and payment.

For financial year 2004, the emoluments of the active members of the Board of Managing Directors amounted to € 2,896,520.00 of which € 1,451,520.00 related to fixed salary and € 1,455,000.00 to the annual bonus. In addition, the members of the Board of Managing Directors have rights to a total of 117.014 no-par-value shares in Eurohypo. The members of the Board of Managing Directors cannot dispose of these shares for a period of three years from the end of the Annual General Meeting in 2005.

The amounts paid to the individual Board Members are listed below:

in €	Fixed salary	Variable bonus (cash)	Number of rights to shares accrued
Bernd Knobloch	376,320.00	343,000.00	26,130
Dirk Wilhelm Schuh	268,800.00	288,000.00	22,721
Jochen Klösges	268,800.00	263,000.00	22,721
Joachim Plesser	268,800.00	288,000.00	22,721
Henning Rasche	268,800.00	263,000.00	22,721

The total emoluments of former members of the Board of Managing Directors and their dependants amounted to € 7,278,270.95. Pension provisions of € 62,268,360.00 were made for this group of persons.

THE SUPERVISORY BOARD

The remuneration of the Supervisory Board is regulated in the Articles of Association. The Annual General Meeting on May 17, 2004 adopted an amendment which came into force on entry into the commercial register on June 28, 2004. Up until this date, the fixed emolument for each member of the Supervisory Board for the whole financial year was € 2,500.00. In addition, every member received a statutory variable emolument which amounted to € 2,000.00 per € 0.05 dividend per share, as long as a dividend of more than € 0.15 per share was distributed to the shareholders. The Chairman received double and the deputy and committee members received one and a half times this amount. With registration of the amendment to the Articles of Association, each member of the Supervisory Board receives an annual fixed emolument of € 15,000.00 plus a variable emolument which amounts to € 1,000.00 per 0.25 percentage points by which the return on equity before tax reported in the relevant consolidated financial statements exceeds 8 % for the financial year. This remuneration rises by 25 % for each membership of a committee which was active in the financial year. For the Chairman of such a committee, the rate of increase is 50 % in each case. The Deputy Chairman of the Supervisory Board receives double the emolument and the Chairman triple the emolument. If a member of the Supervisory Board is active on several committees, the overall emolument for a full member of the Supervisory Board is limited to double the amount described above, for the Deputy Chairman of the Supervisory Board triple the amount and for the Chairman of the Supervisory Board quadruple the amount. In the past financial year the members of the Supervisory Board received their emoluments in accordance with the two provisions of the Articles of Association indicated above on a pro rata basis. The company refunds the expenses incurred by the Supervisory Board members in carrying out their duties, including any VAT which may arise on the emoluments and refunded expenses. If a member of the Supervisory Board does not sit on the Board for a full year, he receives the emoluments on a pro-rata basis.

(Excluding VAT)

in €	Fixed emolument	Variable emolument
Dr. Joachim v. Harbou	33,101.10	36,087.43
Brigitte Siebert	20,993.86	24,510.92
Jürgen Fitschen	10,850.41	17,748.63
Dr. Clemens Börsig	9,528.69	6,352.46
Dr. Hugo Banzinger	11,413.94	18,124.31
Wolfgang Barth	9,497.95	16,846.99
Herbert Bayer	8,886.61	12,934.43
Peter Birkenfeld	11,413.94	18,124.31
Martin Blessing	11,413.94	18,124.31
Dr. Andreas Georgi	11,413.94	18,124.31
Klaus Müller-Gebel	13,329.92	19,401.63
Cornelia Pielenz	8,886.61	12,934.43
Hans Schumacher	11,413.94	18,124.31

LOANS TO MANAGEMENT BODIES

Loans granted to members of the Board of Managing Directors amounted to € 365,568.70 as at December 31, 2004. There were also loans in the amount of € 150,023.88 to members of the Supervisory Board.

(78) SECURITIZATION OF LOANS

Securitization is an important core element of our equity and risk management. The aim is to reduce the bank's risk-weighted assets, free up the equity-capital base and create scope for new business with higher margins and thereby achieve a higher return on equity. Under securitization, we sell claims in the form of loan portfolios to the capital market. The assets assigned are securitized by the special-purpose vehicles acquiring the loans and sold to third parties.

(79) OTHER OBLIGATIONS

The Eurohypo Group is a lessee under operating leases. As at December 31, 2004 a variety of non-terminable operating leases were in place for properties and other tangible assets (vehicles, copiers) which are used to carry out the bank's operating activities. The main leases include extension options and exit clauses, which are in line with market conditions for business properties and which link adjustments in the lease payments to the price index. The minimum obligations under non-terminable leases for properties and other tangible assets will lead to expenses of € 16 million in financial year 2005, € 81 million for financial years 2006 to 2009 and € 74 million for the period from 2010 onwards.

SUPERVISORY BOARD MANDATES

MANDATES IN SUPERVISORY BOARDS OR COMPARABLE GERMAN AND INTERNATIONAL SUPERVISORY BODIES PURSUANT TO SECTION 285 NO.10 OF THE GERMAN COMMERCIAL CODE (HGB)

Name, Profession	Mandates in other Supervisory Boards (of German companies) to be established under law	Membership of comparable German and international supervisory bodies of commercial companies
Dr. Joachim v. Harbou Frankfurt/Main Chairman Lawyer	Nestlé Deutschland AG, Frankfurt/Main RÜTGERS AG, Essen Fraport AG, Frankfurt/Main equinet Corporate Finance AG, Frankfurt/Main (Chair)	–
Brigitte Siebert Eschborn Deputy Chairwoman Bank employee	–	–
Jürgen Fitschen (until September 15, 2004) Frankfurt/Main Deputy Chairman Member of Group Executive Committee of Deutsche Bank AG	Schiffshypothekenbank zu Lübeck AG Lübeck (Chairman)* Deutsche Bank Privat- und Geschäftskunden AG, Frankfurt/Main*	Deutsche Bank A.S., Istanbul, (Chairman of the Board of Directors)* Deutsche Bank S.A.E., Barcelona* Deutsche Bank S.p.A., Milan* Deutsche Bank Trust Corporation, New York (Chairman of the Board and CEO)* (until September 16, 2004) Deutsche Bank Trust Company Americas, New York (Chairman of the Board and CEO)* (until December 16, 2004) New York Clearing House, New York AKA Ausfuhrkredit-Gesellschaft m.b.H., Frankfurt/Main Chairman (until March 31, 2004) ILV Immobilien-Leasing Verwaltungsgesellschaft Düsseldorf mbH, Düsseldorf (until January 16, 2004) Nissay Deutsche Asset Management Europe Ltd., London
Dr. Clemens Börsig (since September 30, 2004) Deputy Chairman Frankfurt/Main Member of the Board of Managing Directors of Deutsche Bank AG	Heidelberger Druckmaschinen AG, Heidelberg	Foreign & Colonial Eurotrust plc., London Deutsche Bank Trust Company Americas, New York, Member of the Board of Directors* Deutsche Bank Trust Corporation, New York, Member of the Board of Directors*

* internal Group mandate

Name, Profession	Mandates in other Supervisory Boards (of German companies) to be established under law	Membership of comparable German and international supervisory bodies of commercial companies
Dr. Hugo Banziger London Chief Credit Officer of Deutsche Bank AG	Eurex Frankfurt AG, Frankfurt/Main Eurex Clearing AG, Frankfurt/Main	Eurex Zurich AG, Zürich Deutsche Bank S.p.A., Milan* (since April 30, 2004)
Wolfgang Barth Frankenthal Bank employee	–	–
Herbert Bayer Frankfurt/Main Union Secretary ver.di	Deutsche Wertpapierservice Bank AG Deutsche Börse AG, Frankfurt/Main	–
Peter Birkenfeld Bad Homburg Full-time Works Council member	–	–
Martin Blessing Frankfurt/Main Member of the Board of Managing Directors of Commerzbank AG	AMB Generali Holding AG, Aachen comdirect bank AG, Quickborn (Chairman)* Heidelberger Druckmaschinen AG, Heidelberg ThyssenKrupp Services AG, Düsseldorf Commerzbank Inlandsbanken Holding AG, Frankfurt/Main (Chairman)*	COMMERZ PARTNER Beratungsgesellschaft für Vorsorge- und Finanzprodukte GmbH, Frankfurt/Main (Chairman)*
Dr. Andreas Georgi Frankfurt/Main Member of the Board of Managing Directors of Dresdner Bank AG	Asea Brown Boveri Aktiengesellschaft, Mannheim Deutsche Schiffsbank AG, Hamburg/Bremen (Deputy Chairmann) Deutscher Investment-Trust Gesellschaft für Wertpapieranlagen mbH, Frankfurt a.M.* Rheinmetall AG, Düsseldorf RWE Dea AG, Hamburg	Allianz Dresdner Global Investors Deutschland GmbH, München (Supervisory Board) Dresdner Bank Luxembourg S.A., Luxemburg (Vice President Conseil d' Administration)* Dresdner Bank (Schweiz) AG, Zürich (President of Administrative Board)* Dresdner Mezzanine Verwaltungs GmbH Frankfurt/Main (Deputy Chairman) Reuschel & Co., München (Deputy Chairman of Administrative Board)* Felix Schoeller Holding GmbH & Co. KG, Osnabrück (Advisory Board)

* internal Group mandate

Name, Profession	Mandates in other Supervisory Boards (of German companies) to be established under law	Membership of comparable German and international supervisory bodies of commercial companies
Klaus Müller-Gebel Bad Soden Lawyer	comdirect bank AG, Quickborn (Deputy Chairman) Commerzbank AG, Frankfurt/Main Deutsche Schiffsbank AG, Bremen/Hamburg Holsten-Brauerei AG, Hamburg (until March 25, 2004)	–
Cornelia Pielenz Berlin Lawyer	AGIS Allianz- Dresdner Informationssysteme GmbH, München	–
Hans Schumacher Cologne Bank employee	–	Kamps Autohaus Gruppe, Bergkamen CASIA Immobilien-Management GmbH, Eschborn*

* internal Group mandate

MANAGEMENT BOARD MANDATES

MANDATES IN SUPERVISORY BOARDS OR COMPARABLE GERMAN AND INTERNATIONAL SUPERVISORY BODIES PURSUANT TO SECTION 285 NO. 10 OF THE GERMAN COMMERCIAL CODE (HGB), INCLUDING MANDATES PURSUANT TO SECTION 340 A PARAGRAPH 4 NO. 1 HGB

Name, Profession	Mandates in other Supervisory Boards (of German companies) to be established under law	Membership of comparable German and international supervisory bodies of commercial companies
Bernd Knobloch Chairman	–	Eurohypo Investment Banking Ltd., United Kingdom*
Dirk Wilhelm Schuh Deputy Chairman	GEWOBA Wohnen und Bauen AG, Bremen**	EUROHYPO Europäische Hypothekenbank S.A., Luxembourg, Chairman of the Administrative Board*/** RHEINHYP-BRE Bank Hipoteczny S.A., Warsaw Member of the Supervisory Board (until August 24, 2004)*/** CASIA Immobilien-Management GmbH, Eschborn, Chairman of the Administrative Board*
Joachim Plesser	DEUTSCHBAU Immobilien-Dienstleistungen GmbH, Düsseldorf (until April 1, 2004) prompter AG, Mainz*	HypZert Gesellschaft zur Zertifizierung von Immobiliensachverständigen für Beleihungswertermittlungen GmbH, Berlin Deutsche Interhotel Holding GmbH & Co KG, Berlin (Chairman of the Shareholder's Advisory Board) moderne stadt Gesellschaft zur Förderung des Städtebaus und der Gemeindeentwicklung mbH, Köln (Deputy Chairman of the Supervisory Board) CASIA Immobilien-Management GmbH, Eschborn*
Henning Rasche	eXtrahyp.de AG, Frankfurt a. M.* (until November 30, 2004)	EUROHYPO Europäische Hypothekenbank S.A., Luxemburg (Chairman of the Administrative Board)*/** Eurohypo Systems GmbH, Eschborn*
Jochen Klösges	prompter AG, Mainz*	CASIA Immobilien-Management GmbH, Eschborn*

* internal Group mandate
** mandate in large corporations pursuant to Section 340 a Paragraph 4 No. 1 HGB

STAFF MANDATES

MANDATES PURSUANT TO SECTION 340 A PARAGRAPH 4 NO. 1 OF THE GERMAN COMMERCIAL CODE (HGB) IN SUPERVISORY BODIES TO BE ESTABLISHED UNDER LAW OF LARGE CORPORATIONS (SECTION 267 PARAGRAPH 3 HGB)

Name	Mandates in other Supervisory Boards (of German companies) to be established under law	Membership of comparable German and international supervisory bodies of commercial companies
Dr. Bernhard Fuhrmann	–	Eurohypo Systems GmbH, Eschborn*
Wolfgang Groth	–	EUROHYPO Europäische Hypothekenbank S.A., Luxembourg (Member of the Administrative Board)*
Lissimahos Hatzidimoulas	–	Eurohypo Systems GmbH, Eschborn*
Dr. Peter Otto	–	VBW Bauen und Wohnen GmbH, Bochum (since January 28, 2005)
Stephan Overbeck	–	VBW Bauen und Wohnen GmbH, Bochum (until December 31, 2004)
Christian Schaarschmidt	Agaplesion gemeinnützige AG, Frankfurt/Main	–

* internal Group mandate

MANAGEMENT BODIES

SUPERVISORY BOARD

Dr. Joachim v. Harbou
Chairman
Lawyer, Frankfurt/Main

Brigitte Siebert[1)]
First Deputy Chairwoman
Eschborn

Dr. Clemens Börsig
Additional Deputy Chairman
SINCE SEPTEMBER 30, 2004
Member of the Board of Managing Directors of Deutsche Bank AG
Frankfurt/Main

Jürgen Fitschen
Additional Deputy Chairman
UNTIL SEPTEMBER 15, 2004
Member of the Group Executive Committee of Deutsche Bank AG
Frankfurt/Main

Dr. Hugo Banziger
Chief Credit Officer of Deutsche Bank AG, London

Wolfgang Barth[1)]
Frankenthal

Herbert Bayer[1)]
Union Secretary ver.di
Frankfurt/Main

Peter Birkenfeld[1)]
Bad Homburg

Martin Blessing
Member of the Board of Managing Directors of Commerzbank AG
Frankfurt/Main

Dr. Andreas Georgi
Member of the Board of Managing Directors of Dresdner Bank AG
Frankfurt/Main

Klaus Müller-Gebel
Lawyer
Frankfurt/Main

Cornelia Pielenz[1)]
ver.di union lawyer
Berlin

Hans Schumacher[1)]
Cologne

BOARD OF MANAGING DIRECTORS

Bernd Knobloch
Chairman
Eschborn

Dirk Wilhelm Schuh
Deputy Chairman
Eschborn

Jochen Klösges
Eschborn

Joachim Plesser
Eschborn

Henning Rasche
Eschborn

[1)] Emloyee Representative

LIST OF AFFILIATED COMPANIES AND PARTICIPATING INTERESTS

FULLY CONSOLIDATED COMPANIES

AGV Allgemeine Grundstücks-verwaltungs- und Verwertungs-gesellschaft mbH GmbH
D-67059 Ludwigshafen/Rhine

GVG Gesellschaft zur Verwertung von Grundbesitz mbH
D-67059 Ludwigshafen/Rhine

IVV Immobilien-Verwaltungs- und Verwertungsgesellschaft mbH
D-67059 Ludwigshafen/Rhine

CASIA Immobilien-Management GmbH
D-65760 Eschborn

Forum Immobiliengesellschaft mbH
D-65760 Eschborn

Futura Hochhausprojekt-gesellschaft mbH
D-65760 Eschborn

Unica Immobiliengesellschaft mbH
D-65760 Eschborn

EUROHYPO Europäische Hypothekenbank S.A.
1736 Luxembourg – Senningerberg

Eurohypo Capital Funding LLC I
Delaware, USA

Eurohypo Capital Funding Trust I
Delaware, USA

Eurohypo Systems GmbH
D-65760 Eschborn

Frankfurter Gesellschaft für Vermögensanlagen mit beschränkter Haftung
D-60329 Frankfurt/Main

FHB Immobilienprojekte GmbH
D-60329 Frankfurt/Main

Fi Pro-City GmbH
D-60329 Frankfurt/Main

GBG Verwaltungs- und Verwertungs-gesellschaft für Grundbesitz mbH
D-60329 Frankfurt/Main

Messestadt Riem »Office am See I« GmbH
D-60760 Eschborn

Messestadt Riem »Office am See II« GmbH
D-65760 Eschborn

Messestadt Riem »Office am See III« GmbH
D-65760 Eschborn

Nordboden Immobilien- und Handelsgesellschaft mbH
D-65760 Eschborn

SB Bauträger GmbH & Co. Urbis Hochhaus KG
D-60329 Frankfurt/Main

SB Bauträger GmbH & Co. Urbis Verwaltungs KG
D-60329 Frankfurt/Main

SB-Bauträger Gesellschaft mit beschränkter Haftung
D-65760 Eschborn

WESTBODEN-Bau- und Verwaltungsgesellschaft mbH
D-65760 Eschborn

G-G-B Gebäude- und Grundbesitz GmbH
D-60329 Frankfurt/Main

gr Grundstücks GmbH Objekt Corvus & Co. Sossenheim KG
D-65929 Frankfurt/Main

gr Grundstücks GmbH Objekt Corvus
D-60489 Frankfurt/Main

prompter Aktiengesellschaft
D-55122 Mainz

Property Invest GmbH
D-60329 Frankfurt/Main

SPECIAL EUROHYPO SERVICER GmbH
D-60323 Frankfurt/Main

Wohnbau-Beteiligungsgesellschaft mbH
D-60329 Frankfurt/Main

Westend Grundstücksgesellschaft mbH
D-60329 Frankfurt/Main

NON-CONSOLIDATED COMPANIES

Eurohypo Investmentbanking Limited
London EC2N 2DB

121 KHS Limited
London, UK

Ampton BV
Amsterdam, Netherlands

EHY Sub Asset LLC
Delaware, USA

BACUL Immobiliengesellschaft mbH
D-60329 Frankfurt/Main

BAMUS Vermietungsgesellschaft mbH i.L.
D-40227 Düsseldorf

BARIS Vermietungsgesellschaft mbH i.L.
D-40227 Düsseldorf

BELUS Vermietungsgesellschaft mbH
D-40227 Düsseldorf

CAMPANIA Vermietungsgesellschaft mbH
D-40215 Düsseldorf

RHEINHYP BANK Europe plc. i.L.
Dublin 1, IFSC

RHEINHYP FINANCE N.V. i.L.
1016 CJ Amsterdam

PARTICIPATING INTERESTS

BATOR Vermietungsgesellschaft mbH
D-40215 Düsseldorf

BATOR Vermietungsgesellschaft mbH Objekt Nürnberg KG
D-40215 Düsseldorf

BGB-Gesellschaft Kornmarkt Speyer with registered office in Munich, comprising
- **Bayerische Landesbank Girozentrale**, Munich and
- **GVG Gesellschaft zur Verwertung von Grundbesitz mbH**
  Ludwigshafen/Rhine

BNL-Beteiligungsgesellschaft Neue Länder GmbH & Co. KG i. L.
D-10178 Berlin

BONUS Vermietungsgesellschaft mbH
D-40215 Düsseldorf

Bürgschaftsgemeinschaft Hamburg GmbH
D-22305 Hamburg

BWF Beteiligungsgesellschaft Wirtschaftsförderung mbH
20457 Hamburg

CAP Kiel Betriebs-GmbH
24114 Kiel

CETERA Vermietungsgesellschaft mbH & Co. Objekt Weinheim KG
D-40227 Düsseldorf

CHRISTA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Rottweil KG
D-40215 Düsseldorf

Dr. Gubelt Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Dortmund KG
D-40227 Düsseldorf

Dr. Gubelt Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Duisburg KG
D-40227 Düsseldorf

Dr. Gubelt Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Stuttgart KG
D-40227 Düsseldorf

GAG Gemeinnützige Aktiengesellschaft für Wohnungs-, Gewerbe- und Städtebau
D-67061 Ludwigshafen/Rhine

GEWOBA Aktiengesellschaft Wohnen und Bauen
D-28195 Bremen

GUSTO Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Hamburg KG
D-40215 Düsseldorf

Inter IKEA Center Grundbesitz GmbH & Cie. KG
D-80333 Munich

ILLIT Grundstücks-Verwaltungsgesellschaft mbH & Co. KG
D-82031 Grünwald

Interessengemeinschaft Frankfurter Kreditinstitute GmbH
D-60311 Frankfurt/Main

Korona Grundstücks-Verwaltungsgesellschaft mbH & Co. KG
D-82031 Grünwald

LECTIO Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Essen KG
D-40227 Düsseldorf

Liquiditäts-Konsortialbank GmbH
D-60311 Frankfurt/Main

MAECENA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Bremen KG
D-40215 Düsseldorf

MAECENA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Dortmund KG
D-40227 Düsseldorf

MANICA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Neustraubing KG
D-40227 Düsseldorf

MARIUS Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Hannover KG
D-40227 Düsseldorf

MARTINA Grundstücks-vermietungsgesellschaft mbH & Co. Objekt Hamburg KG
D-40227 Düsseldorf

Merino Grundstücks-Verwaltungsgesellschaft mbH & Co.KG
D-82031 Grünwald

MIDAS Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Langenhagen KG
D-40227 Düsseldorf

MINERVA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Radolfzell KG
D-40215 Düsseldorf

Mondo Grundstücks-Verwaltungsgesellschaft mbH & Co.KG
D-82031 Grünwald

NESTOR Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Landau KG
D-40227 Düsseldorf

Nossia Grundstücks-Verwaltungsgesellschaft mbH & Co.KG
D-82031 Grünwald

PHOENIX Hotelinvestitions GmbH & Co. KG
D-30853 Langenhagen

SARIO Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Nürnberg KG
D-40215 Düsseldorf

SARIO Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Würzburg KG
D-40215 Düsseldorf

Ski Leasing No 1 ltd.
London, UK

Ski Leasing No 2 ltd.
London, UK

SOREX Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Hamburg KG
D-40215 Düsseldorf

TABA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt München KG
D-40215 Düsseldorf

True Sale International GmbH
D-60329 Frankfurt/Main

VBW Bauen und Wohnen GmbH
D-44803 Bochum

Wohnungsbaugesellschaft Lubeca GmbH i.L.
D-23552 Lübeck

WOHNSTADT Stadtentwicklungs- und Wohnungsbaugesellschaft mbH
D-34117 Kassel

ZEPAS Beteiligungs GmbH & Co. Vermietungs-KG
D-80538 Munich

The list of the participations further to the German Commercial Code Section 313 No. 2 (HGB) has been lodged with the Amtsgericht Frankfurt/Main (HRB 45701). The important subsidiaries are included in this list.

Eschborn, March 15, 2005
Eurohypo Aktiengesellschaft

The Board of Managing Directors

Bernd Knobloch

Dirk Wilhelm Schuh

Jochen Klösges

Joachim Plesser

Henning Rasche

AUDITOR'S REPORT

"We have audited the consolidated financial statements, comprising the balance sheet, the income statement and the statements of changes in shareholders' equity and cash flows as well as the notes to the financial statements prepared by Eurohypo Aktiengesellschaft for the business year from January 1 to December 31, 2004. The preparation and the content of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements is examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the business year in accordance with International Financial Reporting Standards.

Our audit, which also extends to the Group management report prepared by the Company's management for the business year from January 1 to December 31, 2004, has not led to any reservations. In our opinion on the whole the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the Group management report for the business year from January 1 to December 31, 2004 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the Group management report in accordance with German law."

Frankfurt/Main, March 15, 2005

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Wohlmannstetter	Bors
Auditor	Auditor

Head Office of the Bank

Commerzbank Aktiengesellschaft
Kaiserplatz
60261 Frankfurt am Main
Germany

The Company

Commerzbank Capital Funding LLC I
c/o Commerzbank AG, New York Branch
2 World Financial Center
New York, New York 10281
USA

The Trust

Commerzbank Capital Funding Trust I
c/o Commerzbank AG, New York Branch
2 World Financial Center
New York, New York 10281
USA

Property Trustee

The Bank of New York
101 Barclay Street
New York, New York 10286
USA

Delaware Trustee

The Bank of New York (Delaware)
White Clay Center
Newark, Delaware 19711
USA

Principal Paying and Calculation Agent

Commerzbank Aktiengesellschaft
Kaiserplatz
60261 Frankfurt am Main
Germany

Irish Paying Agent

Commerzbank Europe (Ireland)
Commerzbank House
Guild Street, IFSC
P.O. Box 7616
Dublin 1
Ireland

Irish Listing Agent

NCB Stockbrokers Limited
3 George's Dock
IFSC
Dublin 1
Ireland

Joint Lead Managers

Commerzbank
Aktiengesellschaft
Kaiserplatz
60261 Frankfurt am Main
Germany

Deutsche Bank AG,
London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

Dresdner Bank AG
London Branch
PO Box 16075
Riverbank House
2 Swan Lane
London EC4R 3UX
United Kingdom

Morgan Stanley & Co.
International Limited
25 Cabot Square
Canary Wharf
London, E14 4QA
United Kingdom

Legal Advisors to the Bank

Central Legal Department
of Commerzbank Aktiengesellschaft
Kaiserplatz
60261 Frankfurt am Main
Germany

As to Delaware Law
Richards, Layton & Finger
One Rodney Square, 10th Floor
Wilmington, New Castle County
Delaware 19801
USA

Legal Advisors to the Managers

As to German Law
Freshfields Bruckhaus Deringer
Taunusanlage 11
60329 Frankfurt am Main
Germany

As to United States Federal Law
Freshfields Bruckhaus Deringer LLP
520 Madison Avenue
34th Floor
New York, NY 10022
USA