

***annual report 2002***

**COMMERZBANK** 

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## **highlights of commerzbank group**

\*) excluding cash flow hedges

# **annual report 2002**

**COMMERZBANK GROUP**

**COMMERZBANK** 

## **commerzbank's social commitment**

The society in which we live has certain expectations of companies. We take our responsibility towards society seriously, initiate projects of our own and support efforts which we consider to merit sponsorship. In this report, we offer a representative selection of these activities, the emphasis being on issues supported by the Commerzbank Foundation. In addition, we describe our cooperation with German national parks, and report on the assistance we provided for the victims of both September 11 and last summer's flood catastrophe. We also show pictures of this year's awards in connection with the initiative to thank people holding honorary functions in sport, which we launched in conjunction with Deutscher Sportbund.

### **Commerzbank Foundation**

It was set up on the hundredth birthday of Commerzbank AG in Hamburg, the city where the Bank was formed, on February 26, 1970. It was endowed with a capital of DM5m. In the tradition of a civic foundation, its object was quite consciously defined broadly, enabling the Foundation to become active in all areas of public benefit. In the course of the next three decades, its capital was gradually increased in line with its growing functions, reaching DM50m by end-2000. With uncommitted reserves included, it currently stands at almost €30m.

The goals of the Foundation have also been adapted and extended several times to reflect developments in society, the topics culture and historical monuments being added in 1984, and protection of the environment and nature in 1992. Unlike more recent institutions with more narrowly defined goals, the Commerzbank Foundation has consistently pursued its original objective of being active in all areas that are of public benefit. In the 33 years of its existence, it has devoted itself to providing support in the following areas: the promotion of universities, (non-university) scholarship and research, basic vocational and further training, churches, charity and healthcare, cultural sponsorship and the protection of historical monuments. In the meantime, it provides support of roughly €1.2m each year. All told, the Commerzbank Foundation has donated €12.8m since it was set up.

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EUROPE

COMM

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**Klaus-Peter Müller**

Chairman of the Board  
of Managing Directors

April 2003

*Dear shareholders,*

We know that you cannot be content with the picture presented of Commerzbank. We are not content either, because we find the darker tones of this picture exaggerated and feel that our share price is out of touch with reality. This reality is something we are actively tackling; we are doing all that we can to alter this picture, to brighten it up and to show it in a better light with the aid of convincing facts.

Last year, our main activity was to remould the Commerzbank Group into a lean, flexible and modern provider of financial services at the heart of Europe. We have moved quite a long way in that direction, but we have also been obliged to recognize that the path we have chosen is stony, passing through inhospitable territory.

In all our measures it was important for us not to overtax or place undue strain upon our relationships with customers – in other words, the very basis of our business – but, on the contrary, to build upon these. More than ever, we are convinced that any promising business model for a bank rests upon long-term relationships with its customers. Put in contemporary terms, this means that we continue to see the consistent relationship-banking approach as superior to deal-based transaction banking.

We present in detail the individual aspects and the progress made with the restructuring of Commerzbank on the following pages of our annual report. Having read it, you will come to the conclusion that we have achieved some things more quickly than originally expected. Other projects have not made such rapid progress, as the hostile economic climate and the weakness of the stock markets have even grown worse rather than improving.

In addition, the mistrust of the media, analysts and investors towards Germany and also towards the entire German banking industry has increased, and in mutually reinforcing waves so to speak has hit the individual institutions. We continue to believe that transparency and frank communication are the only effective antidotes. At the same time, the Federal Financial Supervisory Authority, the Bundesbank and the

Association of German Banks have helped to ensure that *Finanzplatz Deutschland* did not suffer even greater damage. For this, they deserve our special gratitude.

In the interest of providing information as soon as possible, we presented our provisional figures for the 2002 financial year to you and to the public at large at the start of February, and thus very early – not least in order to take the wind out of the sails of speculation. It was especially important that, by disclosing our liquidity ratios, we proved that we have ample liquidity reserves over the long term. What is more, we were apparently able to convince the markets of the soundness of our policy as regards risk and to show that we have adhered to a conservative course in forming valuation allowances. While we had to accept further setbacks on the earnings side, we even managed to exceed our ambitious targets as far as costs are concerned.

We have also systematically reduced our risk-weighted assets – partly by deconsolidating Rheinhyp, and partly by securitizing risks and loans. This policy has led to an improvement in our core capital ratio from 6.0% at end-2001 to 7.3%, a respectable figure even by international comparison. It is our express goal to hold this ratio at no less than 7%. It underlines the Bank's solidity and financial strength, and for this reason it is closely watched by rating agencies in particular.

Given our sound liquidity position and good capital base, we remain committed to the goal of achieving better figures soon and, as a result, of being able to present a more attractive picture of Commerzbank, despite the persistently difficult conditions. I hope that I will be able to report further progress to you at our Annual General Meeting in the Frankfurt Festhalle on May 30, 2003.

*Yours, Klaus-Peter Nierow*

**Ideen nach vorne | COMMERZBANK**

**Der Anlass**

Ehrenamt ist die tragende Säule des organisierten Sports in Deutschland. Durch ehrenamtliches Engagement in Vereinen und Verbänden werden unzählige Leistungen für die Menschen und unser Land erbracht. Gemeinsam mit dem Deutschen Sportbund möchten wir Ihnen eine Plattform anbieten, um Ihre Ideen für den Sport zu präsentieren.

**Der Preis**

Der DSB hat dies im Jahre 2000 erstmals getan und einen Preis zur Förderung des Ehrenamts im Sport zu vergeben. Der Preis wird jährlich an Persönlichkeiten verliehen, die sich durch ihr Handeln und Engagement für den Sport und die Gesellschaft verdient gemacht haben.

Der Preis wird in drei Kategorien vergeben:

- Politik**
- Wirtschaft**
- Medien**

Senden Sie Ihre Vorschläge PRO EHRENAMT bis spätestens 31. Mai 2005 an:

**Deutscher Sportbund**  
**Geschäftsbereich Breiten Sport**  
**PRO EHRENAMT**  
**60525 Frankfurt am Main**

Die Verleihung der Preise erfolgt in einer feierlichen Zeremonie im Rahmen einer öffentlichen Veranstaltung des Deutschen Sportbundes.

**ehrenamt-im-sport.de**

**Klaus-Peter Müller**  
Vorstand des Vorstandes der Commerzbank AG

**WODAK EPP 6005**

**IDEEN NACH VORNE | COMMERZBANK**

## survey of the commerzbank group

### World economy: still no upswing

World-economic growth was again disappointing in 2002. The US economy certainly moved out of recession more quickly than expected and at 2.4% registered a much stronger rise in real GDP than a year earlier. In Western Europe, however, the revival of economic activity lost momentum, yielding average growth of only 1% in 2002. Mounting tensions in the Middle East increased the risk premium on the oil price; confidence in the sustainability of the US recovery disappeared and equity prices plunged once again, not least due to accounting scandals in the United States.

Seen over the year as a whole, the stagnation in Germany which had begun in mid-2000 continued. Economic growth, at 0.2%, again fell short of that in other EU countries. This was largely due to the unique financial burdens imposed by German unification, whose impact can still be felt. Construction investment shrank further last year and was even lower than in 1991. The very heavy burden of taxes and social-security contributions – only in part the result of unification – was not eased. This led to the loss of 396,000 jobs in the course of the year and the number of unemployed rose by 262,000 to 4.2 million. At the same time, company insolvencies reached a new record level of 38,000.

No major improvement is likely in 2003. Again, economic growth in Germany will remain below 1%. Only once the uncertainty generated by the Iraq crisis is over will the forces of growth prevail. However, far-reaching structural reforms in the public finances, social-security schemes and labour market are essential over the medium term in order to realize higher growth and more jobs.

### Commerzbank balance sheet reflects Rheinhyp deconsolidation and reduction of risk-weighted assets

The Commerzbank Group's balance-sheet total contracted by 15.8%, or €79.2bn, to €422.1bn in the course of 2002, due in large measure to the deconsolidation of Rheinhyp and its subsidiaries. In addition, the weak US dollar caused the balance-sheet total to shrink by about €15bn.

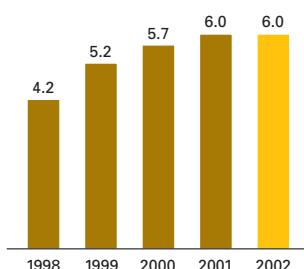
Last year, we also systematically reduced our risk-weighted assets, including market risk, by €43.4bn to €160.2bn. Adjusted for Rheinhyp, interbank lending was €5.8bn lower at €54.3bn; claims on customers were trimmed by €12.2bn to €148.5bn – partly through the issue of asset-backed securities.

The €21.4bn rise in assets held for dealing purposes to €117.2bn was due exclusively to the positive fair values of derivative instruments, which were substantially higher thanks to the widening of the spread between fixed and floating interest rates in the wake of last year's fall in rates.

Our investments and securities portfolio contracted by €19.9bn to €84.6bn. No less than €17.4bn of this was caused by the deconsolidation of Rheinhyp. By contrast, the €2.7bn increase in investments in associated companies mainly reflects the inclusion for the first time of EUROHYPO AG, which we consolidate on an at equity basis.

### Customers with the Commerzbank Group

in millions



The decline in our customer base caused by the deconsolidation of Rheinhyp was offset by expansion at several of our subsidiaries, above all at BRE Bank.



### Encouraging growth of savings deposits

Whereas interbank borrowing grew by 5.4% to €115.0bn, liabilities to customers – without Rheinhyp – were reduced by €6.9bn to €95.7bn. Remarkable here is the 12.8% increase in savings deposits to €12.1bn. Undoubtedly, this form of investment is currently attractive to many customers who have been unsettled by the stock-market situation. We reduced securitized liabilities sharply, by €97.9bn to €92.7bn. Of this decrease, Rheinhyp accounted for €53.6bn.

### Capital ratios on high level

While subordinated liabilities shrank, due to the deconsolidation of Rheinhyp and expiring issues, our profit-sharing certificates outstanding virtually remained at their year-ago level.

Our equity, however, was 25.1% lower at end-2002 than a year earlier. For one thing, the revaluation reserve of plus €189m had become a minus of €769m. The greatest impact here stemmed from the lower fair values of our interests in Banco Santander Hispano, Banca Intesa and Generali. The measurement of cash flow hedges also registered a marked negative change, from minus €397m to minus €1,248m, mainly on account of the decline in the interest-rate level.

Despite the lower level of equity in the balance sheet, there was a sharp rise in our capital ratios; here the full impact of reducing risk-weighted assets was felt. The core capital ratio according to BIS – including market risk – climbed from 6.0% at end-2001 to 7.3% at end-2002. The own funds ratio advanced from 10.3% to 12.3%. In the medium term, we will hold our core capital ratio at no less than 7%, while the overall capital ratio should not fall below 12%.

### Income statement reflects difficult environment

Briefly summarized, our income statement for 2002 reveals that we have achieved a lot with our cost-cutting offensive and have managed to prune operating costs substantially. What we lack is income, which primarily collapsed due to lacklustre economic performance and the protracted weakness of the stock markets.

At €3.1bn, the Commerzbank Group's net interest income alone was practically half a billion euros lower in 2002 than a year earlier. This decline had various causes. For one thing, since August Rheinhyp has been integrated into the new EUROHYPO and no longer appears in our figures; up to July, it had contributed roughly €38m per month to our interest income. In addition, we have launched asset-backed securities programmes for a credit volume of €4.4bn. While this reduced our risk-weighted assets, it also caused our net interest income to fall. Finally, interest income from the dollar area was much lower in the final quarter due to the appreciation of the euro.

At mid-year, we had put provisioning at just over €1.3bn for the year as a whole; maintaining a sufficiently prudent approach, we were able to hold this level. However, this was almost €400m more than in 2001. As a major bank with nationwide operations, we could not shrug off the general trend, which means

**Commerzbank's shareholdings in the non-financial sector**  
5% of capital and above,  
as of December 31, 2002

<b>Alno AG</b>	
Pfullendorf/Baden	29.3%
<b>Buderus AG</b>	
Wetzlar	10.5 <sup>2)</sup>
<b>Ferrari S.p.A.</b>	
Modena	10.0%
<b>Heidelberger Druckmaschinen AG</b>	
Heidelberg	10.0% <sup>1)</sup>
<b>Linde AG</b>	
Wiesbaden	10.0%
<b>MAN AG</b>	
Munich	6.8% <sup>1)</sup>
<b>Neschen AG</b>	
Bückeburg	6.8%

1) held indirectly and directly;

2) held indirectly

that last year's record wave of insolvencies in Germany did not leave us unscathed either. It was encouraging, though, that in the final quarter we required an amount 26% lower than in the previous quarter.

All told, our provisioning ratio of 0.77% is quite presentable; even by international comparison, this is a respectable figure.

#### **Successful sales of open-ended property funds**

The decline in net commission income was limited, even though equity markets gave no cause for joy. In securities business, we achieved great sales successes with our open-ended property fund Haus-Invest, thereby almost compensating for our customers' lack of interest in equities. Gains were registered in foreign commercial business, payment transactions and commissions on guarantees. By contrast, syndicated and asset-management business were weaker. All in all, net commission income was down by €147m, or 6.5%, to €2.1bn.

Lower interest rates produced a negative result on hedge accounting of €56m, compared with a plus of €63m a year earlier.

The dismal state of the capital market hit our trading profit in particular hard in 2002, more than halving it in a year-on-year comparison to €544m. In Securities alone, where all our securities and foreign-exchange activities are now bundled, earnings were down by practically €500m.

The result on our investments and securities portfolio, which shows a negative balance of €88m, was affected by various extraordinary factors last year. This includes write-downs on T-Online, on various investment-fund certificates and on private-equity investments. On the positive side, there is the income from our Crédit Lyonnais transaction.

#### **Sharp reduction in operating expenses**

Not even our successes on the cost side were able to offset the decline in operating income. All the same, though, our operating expenses fell by €700m to €5.15bn. This means that we more than achieved our target under the cost-cutting offensive launched in 2001, which was to get costs down to below €5.5bn.

The 12.6% decrease in personnel costs was primarily due to the shedding of jobs; at Group level, the workforce contracted by almost 3,000 in the course of the year to 36,566. In addition, the lower bonuses for 2002 also had a cost effect here, which were on average down by a good third.

Other operating expenses receded by 13.9% to €1.9bn. The impact of our economy measures can now also be seen in the depreciation on office furniture and equipment and real property; instead of climbing further, it fell by 3.1% to €538m.

#### **Structure of provision for possible loan losses**

Commerzbank Group, in € m	2002	2001	2000	1999	1998
Germany	946	555	529	522	395
Abroad	365	325	148	89	394
Global provision	10	47	8	78	92
Total net provision	1,321	927	685	689	881



The balance of other operating income and expenses strongly reflected the income from our Rheinhyp transaction in 2002; it reached €768m compared with minus €104m a year earlier. This balance also includes the write-down of €170m on our subsidiary Montgomery Asset Management.

Regular amortization of goodwill, which now appears as a separate item in the income statement, was down slightly, by 6.9%, to €108m.

As we did last year, we have recognized restructuring expenses for our various structural and personnel measures in the financial statements for 2002; they amount to €209m. Apart from the €32m announced in the interim report as of September 30 for the restructuring at comdirect bank, this also includes substantial amounts for our new strategic positioning in the Retail Banking and Securities areas. Notable amounts have been set aside as well for the restructuring of organization, business facilities management and also the credit and personnel areas.

#### **Proposed dividend of €0.10 per share**

After restructuring expenses have been taken into consideration, the balance on all income and expenses items yields a pre-tax result of minus €372m in 2002. Once tax income of €103m has been taken into account and after minority interests of €29m have been deducted, we have a consolidated loss of €298m.

Despite this unsatisfactory result for the year, we will propose to the Annual General Meeting on May 30 that a dividend payment of €0.10 per share be paid. The overall dividend payout amounts to €54m and will be realized from the net profit of the Parent Bank in accordance with HGB. In the consolidated financial statements, however, this amount must be withdrawn from retained earnings. Incidentally, the holders of our profit-sharing certificates will receive a full distribution.

Our dividend proposal is an expression of confidence that we will turn the corner in 2003. In our 2002 financial statements, we have made adequate provision to enable us to tackle the current year as unencumbered as possible. We expect to draw further support from the measures of the second cost-cutting offensive, which we are now rapidly implementing. Our target is to limit operating expenses to €4.9bn in 2003.



### Segment reporting with profit split for first time

In our 2002 financial statements, we present segment reporting in a new form. We no longer show a "profit contribution from business passed on" for individual business lines; rather, we directly divide up earnings, thus ensuring that they are not shown twice over. The year-ago figures have been adjusted accordingly. The performance of a segment is measured on the basis of its operating result (before extraordinary factors, regular amortization of goodwill and restructuring expenses), its pre-tax profit and the figures for its return on equity and cost/income ratio.

Retail banking has returned to the black after a distinct loss of €243m in 2001. Last year, its operating profit was raised to a plus of €53m, giving it a return on equity of 3.2%. However, we had to take into consideration restructuring expenses of €97m here.

In Asset management, we just managed to achieve a profit on business operations; but sizeable extraordinary charges of €247m had to be shouldered. With regular amortization of goodwill and restructuring expenses of €10m, a pre-tax result of minus €330m was registered.

The Corporate customers and institutions segment was adversely affected last year by almost €450m higher provisioning costs, which practically halved its operating result. Only to a minor extent did extraordinary factors have to be taken into account that reduced earnings.

Securities, which now includes foreign-exchange dealing as well, clearly reflects the depressed state of the equity markets. After a plus of €256m in the previous year, the operating result dropped to a minus of €296m in 2002. In addition, restructuring expenses of €52m were incurred for the new strategic orientation in investment banking.

Group Treasury, comprising liquidity management and capital-structure management, achieved €169m compared with €199m in 2001. It did not have any extraordinary charges to bear.

Up to July, the Mortgage banks segment included Rheinhyp – in addition to Hypothekenbank in Essen and Erste Europäische Pfandbrief- und Kommunalkreditbank Luxemburg. Since August, EUROHYPO AG, in which we hold a 34.6% interest through the integration of our subsidiary Rheinhyp Rheinische Hypothekenbank AG, has been consolidated at equity. The operating profit reached €281m, as against €439m a year earlier.

Within the Group as a whole, we achieved – before extraordinary factors of minus €247m, regular goodwill amortization of €108m and restructuring expenses of €209m – an operating result of €192m. This translates into a return on equity of 1.6% and a cost/income ratio of 77.3%, marking a slight improvement on 2001.

### Mortgage banks

	2002
Equity tied-up (€m)	1,931
Operative return on equity	14.6%
Cost/income ratio in operating business	22.4%



### Corporate governance

On February 26, 2002, a government commission presented the German Corporate Governance Code. This code of best practice 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. It is intended to make the German system of corporate governance transparent and understandable, and also to promote the trust of investors, customers, employees and the general public in the management and supervision of listed companies.

Commerzbank expressly welcomes and supports the German Corporate Governance Code and the goals and objectives which it pursues. Last year, the Board of Managing Directors and the Supervisory Board presented the Corporate Governance Code of Commerzbank AG, which has been published since November on the internet at [www.commerzbank.de](http://www.commerzbank.de). In future, the Bank will declare every year whether the recommendations of the Commission have been complied with and which recommendations were not applied – fully in keeping with the “comply-or-explain” principle. This declaration of compliance may also be found on the internet and it appears in the Notes to the consolidated financial statements, on page 168, as well.

The Bank has also adapted its articles of association and the procedural rules for the Board of Managing Directors and the Supervisory Board to the rules of the Corporate Governance Code. The Annual General Meeting on May 30, 2003 will resolve the amendments to the articles of association, which are documented in the agenda to the AGM.

At its meetings last year, the Supervisory Board dealt intensively with the topic of corporate governance; details in this connection can be found in the report of the Supervisory Board on pages 178-182. In addition, for reasons of greater transparency, the Board of Managing Directors provides a detailed report on the type and composition of its remuneration, and also on the remuneration of the Supervisory Board in the Notes to the consolidated financial statements.

## Quarterly results

<b>2002 financial year</b>					
in € m	1 <sup>st</sup> quarter	2 <sup>nd</sup> quarter	3 <sup>rd</sup> quarter	4 <sup>th</sup> quarter	Total year
Net interest income	873	861	721	678	3,133
Provision for possible loan losses	-254	-308	-436	-323	-1,321
Net interest income after provisioning	619	553	285	355	1,812
Net commission income	575	554	501	490	2,120
Net result on hedge accounting	-32	51	-21	-54	-56
Trading profit	313	104	36	91	544
Net result on investments and securities portfolio (available for sale)	92	60	-531	291	-88
Other operating result	12	40	884	-168	768
Regular amortization of goodwill	28	29	26	25	108
<i>Income</i>	<b>1,551</b>	<b>1,333</b>	<b>1,128</b>	<b>980</b>	<b>4,992</b>
Operating expenses	1,398	1,308	1,229	1,220	5,155
<b>Profit from ordinary activities before restructuring expenses</b>	<b>153</b>	<b>25</b>	<b>-101</b>	<b>-240</b>	<b>-163</b>
Restructuring expenses	-	-	32	177	209
<b>Profit from ordinary activities after restructuring expenses</b>	<b>153</b>	<b>25</b>	<b>-133</b>	<b>-417</b>	<b>-372</b>
Extraordinary profit	-	-	-	-	-
<b>Pre-tax profit</b>	<b>153</b>	<b>25</b>	<b>-133</b>	<b>-417</b>	<b>-372</b>
Taxes on income	52	6	-20	-141	-103
<b>After-tax profit</b>	<b>101</b>	<b>19</b>	<b>-113</b>	<b>-276</b>	<b>-269</b>
Profit/loss attributable to minority interests	-29	-17	-16	33	-29
<b>Net profit</b>	<b>72</b>	<b>2</b>	<b>-129</b>	<b>-243</b>	<b>-298</b>



## Quarterly results

<b>2001 financial year</b>					
in € m	1 <sup>st</sup> quarter	2 <sup>nd</sup> quarter	3 <sup>rd</sup> quarter	4 <sup>th</sup> quarter	Total year
Net interest income	905	929	859	888	3,581
Provision for possible loan losses	-152	-177	-242	-356	-927
Net interest income after provisioning	753	752	617	532	2,654
Net commission income	613	603	569	482	2,267
Net result on hedge accounting	2	11	15	35	63
Trading profit	312	290	58	537	1,197
Net result on investments and securities portfolio (available for sale)	129	50	-74	114	219
Other operating result	-33	47	26	-144	-104
Regular amortization of goodwill	23	28	31	34	116
<i>Income</i>	<i>1,753</i>	<i>1,725</i>	<i>1,180</i>	<i>1,522</i>	<i>6,180</i>
Operating expenses	1,430	1,479	1,459	1,487	5,855
<b>Profit from ordinary activities before restructuring expenses</b>	<b>323</b>	<b>246</b>	<b>-279</b>	<b>35</b>	<b>325</b>
Restructuring expenses	-	-	-	282	282
<b>Profit from ordinary activities after restructuring expenses</b>	<b>323</b>	<b>246</b>	<b>-279</b>	<b>-247</b>	<b>43</b>
Extraordinary profit	-	-	-	-	-
<b>Pre-tax profit</b>	<b>323</b>	<b>246</b>	<b>-279</b>	<b>-247</b>	<b>43</b>
Taxes on income	120	92	-104	-222	-114
<b>After-tax profit</b>	<b>203</b>	<b>154</b>	<b>-175</b>	<b>-25</b>	<b>157</b>
Profit/loss attributable to minority interests	-27	-28	-16	16	-55
<b>Net profit</b>	<b>176</b>	<b>126</b>	<b>-191</b>	<b>-9</b>	<b>102</b>

## *Help for flood victims*

Last August, a flood catastrophe threatened the existence of hundreds of thousands of people in the eastern part of Germany. Commerzbank branches and their staff were also affected.

Four branches were complete write-offs, namely the main branch in Dresden and the branches in Döbeln, Meissen and Pirna. Eight others were partially damaged or temporarily had to suspend their business activities due to lack of electricity. The financial loss to the Bank was altogether €950,000. By mid-October, all the branches were able to operate again on at least a provisional basis. The final repairs were carried out during the winter. In one instance alone, work will probably continue until end-April.

The flood catastrophe also destroyed the possessions of many employees and their families. In addition to the many support measures privately initiated by colleagues, the Board of Managing Directors organized an "employees help employees" donation scheme, through which the Group and about 4,000 Commerzbankers raised €1.3m. €87,000 of this amount was paid out during the first days after the catastrophe to provide immediate assistance, a further €860,000 was distributed when reports of the actual damage came in.





Commerzbank – partner of  
Germany's national parks

The protection of nature, and consequently of human beings and of the foundations of their existence, is the prime task in securing our future. Thanks to the creation of thirteen national parks, large sections of ecologically valuable areas have been placed under protection in Germany, providing endangered fauna and flora with a habitat and at the same time preserving national parks as recreation areas for human beings.

It was against this background that the German national parks and Commerzbank joined forces in 1990 to introduce the "environmental internship". The point of the pedagogical work performed by the young people gaining practical experience is to make both tourists and local residents aware of the importance and also of the special features of these natural landscapes. At the same time, this activity is designed to give young people who are interested in protecting nature and the environment valuable on-the-spot experience.



## **shouldering responsibility**

### **COMMERZBANK SUBSCRIBES TO SUSTAINABILITY**

"Commerzbank's commitment to sustainability goes back farther than its signing of the UNEP declaration in 1992; in fact, we included commitment to environmental protection in our basic corporate principles, which had appeared two years earlier. This commitment on our part has given rise to a variety of activities at our Bank.

We continue to see the topic of sustainability as an important task and challenge in connection with our responsibility towards society. We hope that it will lead to broader acceptance of this global topic and, above all, to the corresponding changes in people's behaviour."

Klaus-Peter Müller,  
Chairman of the  
Board of Managing Directors  
Commerzbank Aktiengesellschaft

13,000 innovative ideas  
through COMIDEE, the Bank's  
internal suggestions scheme

The concept of sustainability has been redefined in recent years. It now no longer merely stands for environmental-friendly behaviour for the benefit of coming generations, but also for behaviour geared to the interest of society and the benefit of business over the long term. We want to report on such activities in the following, where we present not only instances of ecological sustainability but also examples of the social and economic type, as illustrations of sustainability as practised at Commerzbank.

#### **Education and knowledge**

Education and knowledge are set to increase in importance over the next few years. For Germany as a business location in particular, the topic plays an important role. At Commerzbank as well, this has been reflected for many years, in basic training, in-house advanced training, and also in the promotion of innovative ideas.

#### **Suggestions scheme**

The knowledge of a company's employees is the key factor behind its success. Studies have revealed that staff who swap their experiences in their place of work or are able to put forward new ideas for improving work processes are far more motivated and committed and can therefore provide fresh impulses for the company. For this reason, COMIDEE, Commerzbank's internal suggestions scheme, was created in 1998. Since then, over 13,000 innovative ideas and proposals for improvement have been submitted. In return, cash prizes amounting to roughly €1.1m have been distributed among the Bank's staff. The benefit realized through the suggestions is many times greater.

#### **Environmental protection in basic training**

Since 1998, the topic of environmental protection has formed part of basic training. Our trainees have taken on various environmental themes in numerous projects. The results range from suggestions for improving work procedures to questions of image and motivation and to the development of new products.

#### **Knowledge manager of the year**

Under the patronage of the German Ministry of Economics, the "Knowledge Manager of the Year" prize was offered by Commerzbank, the magazine impulse and Financial Times Deutschland for the first time in 2002. Out of 60 or so applicants, the winners in three categories were awarded prizes totalling altogether €30,000. The new competition begins in April 2003.

For more and more companies, knowledge management is proving to be an increasingly important aspect in competing successfully. Our hypothesis in developing the prize, namely that knowledge-oriented management boosts commercial success and the ability to cope with the future, was impressively confirmed by our prize-winners.

**Awarding of the  
"Knowledge Manager of the  
Year" prize**



### Teachers' information club

As part of our commitment to education policy, we have founded a teachers' information club. Here, teachers may obtain free of charge via internet teaching materials on the topics banking and business. Commerzbank cooperates closely for this purpose with the German foundation Stiftung Lesen.

[www.commerzbank.de/konzern/  
oeffentl/lehrer\\_club/](http://www.commerzbank.de/konzern/oeffentl/lehrer_club/)

### School project

For several years now, in order to ensure an intake of younger staff on a long-term basis, Commerzbank has pursued alternative routes to the traditional recruitment of young people. One of these is the project "So mobil ist Schule". In an attempt to get pupils at school interested in training to become bank employees, Commerzbank has become a sponsor of this nationwide school competition. The competition aims to promote action and project-oriented lessons in the 11 to 13-year-old age group throughout Germany. Through this commitment to social policy, Commerzbank is helping to improve school education in general, and to teach pupils to assume responsibility for their actions, acquire knowledge on their own initiative and to think in a cross-disciplinary manner. These are the qualities which we expect of young bankers.

## Commerzbank's work environment

For us, a climate of fairness, transparency and accepted responsibility creates the basis for a sustainable and employee-oriented personnel policy. In this spirit, we have introduced a number of personnel measures over the past few years in order to create working conditions geared to the needs of our staff and, at the same time, to lay the foundation for our corporate success. Even in difficult times, we set store by living up to this guiding principle.

### Equal opportunity

Since the eighties, we have occupied ourselves intensively with the topic of equal opportunity in implementing a personnel policy in the interests of our employees. In the areas of family and career, women in modern banking and role diversity in career and private life, we have produced a series of innovations and measures which Commerzbank has combined under the heading "consens". Above all, three points are relevant here:

- making it easier to combine family and career,
- training more women to take over higher specialist and managerial positions,
- creating a broadly-based awareness and openness for the topic of equal opportunity within the Bank.

The possibility of combining family and career in particular represents a central task on the way to equal opportunities. We have managed to make great progress within our company thanks to a series of different schemes. These include measures within the Bank to promote childcare, such as financial

**Distinction for Commerzbank:**  
Family-friendly company

subsidies towards the cost of having children looked after, regulations covering special leave and the provision of advisory and agency services by special companies (Familienservice). The success of these efforts is underlined by Commerzbank being voted a family-friendly company.

**Kids & Co.**

One novelty in the field of company support for childcare is Kids & Co. – an idea that has since been taken up by many other companies in Germany.

If the normal childcare arrangements break down or there is a clash with professional appointments, many parents find it difficult to combine family and career. This is why Kids & Co. – a cooperation between Commerzbank and Familienservice – has specialized in spontaneously taking care of the children of employees at short notice. If temporary bottlenecks occur at home, a team of trained pedagogic experts look after children between the ages of six months and twelve years at special day-care facilities. This service is free for Commerzbank parents.

Since its launch in Frankfurt, this childcare service has been constantly extended; in the meantime, Familienservice has set up similar facilities at seven other locations within Germany.

**Change management**

In virtually all sectors of the economy, restructuring processes and far-reaching changes are everyday affairs. It is striking that in many companies only a small number of all changes live up to expectations. The reasons for this are complex and many-faceted. It is certainly the case that many transformation processes fail because staff are not sufficiently involved in the process of change and are therefore unable to generate the necessary willingness to accept change or the ability to cope with it.

For this reason, Commerzbank has devoted intensive study to the topic of change management for over half a decade and attaches key importance to related activities. These range from strategic advice before the process of change begins, to the development of a change-management architecture and active involvement during the implementation phase. The objective is to put units in a position to shape the process of change themselves.

Workshops for employees and executives, measures for developing newly formed teams, counselling and coaching to improve the level of qualifications and to help individuals are further aspects of our change-management philosophy. Thanks to these activities, we have been able to guarantee the quality of the measures related to necessary restructuring measures and also to make our staff more willing to accept change and able to deal more successfully with it.



## Product design

Taking account of environmental business risks and opportunities in product design is also a contribution towards sustainable development. In this way, ecology and economics can even be combined in traditional banking business.

### Risk becomes opportunity

The environmental risks of a borrower represent a credit risk for the Bank. In order to avert this risk, Commerzbank has worked out its own assessment system for business customers, who have to provide information on environmental indicators. These are reflected in the creditworthiness and credit ratings.

However, it is not only a matter of measuring and avoiding risk, but also of seizing opportunities. Our branches in northern Germany are specialists in the financing of wind-power plants, making Commerzbank the leading bank in this area, thanks to their market share of over 30%. The renewable energies centre of competence has become an interface for the spread of expertise.

Commerzbank also plays a leading role in putting customers in touch with government programmes for promoting environmental protection.

30% market share in financing wind-power plants

### Investing in sustainability

The market for financial investments devoted to sustainability is still a niche market. The need for information continues to be great as a result. This is why Commerzbank supports the internet platform [www.nachhaltiges-investment.org](http://www.nachhaltiges-investment.org), which came about through an initiative of the Institute for Environmental Management and Business Administration at the European Business School, with the support of the German Ministry of Education and Research. The Commerzbank share itself is currently represented in three sustainability indices.

### Commerzbank in sustainability indices

ESI – Ethibel Sustainability Index

FTSE4GOOD

Humanix Ethical Index

[www.nachhaltiges-investment.org/](http://www.nachhaltiges-investment.org/)

### Our investment funds

By developing and marketing ecological and ethical investment funds, we support companies whose activities promote sustainability. At the same time, we are able to offer our customers attractive investment products. Commerzbank's UK subsidiary Jupiter Asset Management can draw upon many years of experience in this area. At end-2002, it was managing €853m of such funds. In Germany, too, interest in ecological funds has grown considerably. In the form of ADIG Fund NewPower (German securities code no. 591 978), we offer an equity-based fund focusing on the development and realization of renewable energy conceptions. Its assets under management had reached €18m by end-2002. Since March 2002, customers in Germany have been able to buy Jupiter Global SRI Fund (German securities code no. 764 935), a fund which invests worldwide, applying environmental and ethical criteria.



Project received International Sponsoring Award in 2001

**Positive energy balance:**  
35% lower energy consumption in Europe's highest office tower thanks to environmental technology

**Measures for reducing paper consumption:**  
through electronic forms, Listen-Online, etc., we save 95 million sheets of paper annually

**Our vision**

## Commitment to environment and nature

### Protection of nature

Since 1990, Commerzbank has been a partner of the German national parks. We have concentrated on providing support for the creation of greater environmental awareness and PR activities. Through our many projects in these areas, we pursue a selective approach which substantially helps improve the acceptance and development of Germany's national parks.

Our "environmental internship", through which over 60 students per year help increase the enthusiasm of both tourists and local residents for these valuable natural landscapes, has proved very successful.

Our special exhibition designed to promote the use of solar energy, which can be seen throughout Germany at Commerzbank branches, presents practical environmental protection by showing ways of conserving energy.

### Ecology at company level

Our appointment of the first environmental officer at a major German bank in 1990 marked the start of our activities in the area of environmental protection at company level. The aim is to save resources and to cut costs.

Even when buildings are being constructed or their fittings are being installed, guidelines and standards apply which prescribe environmentally-friendly materials and furniture, for example. The results of our eco-audits, however, also lead to new contracts for managing premises and sites. Facility management evaluates the energy and water consumption of large buildings, seeking specific weak points. By means of ecologically sound techniques, we attain a level of energy consumption at our new Commerzbank head-office building in Frankfurt am Main, completed in 1997, that is about 35% lower than for traditional towers.

Paper is one of the major consumer goods in a service-industry company. Thanks to the use of modern information technology, fanfold lists can be printed on both sides or paper can be eliminated entirely; Listen-Online, for instance, supplies data directly to monitors. Complemented by our electronic form system, this enables us to save 95 million sheets of paper and €4m per year. Consumption will be reduced this year by a further 23 million sheets through the use of electronic circulars.

A large amount of intranet information on this and further topics related to the environment and nature encourages staff to behave in an ecologically responsible manner. This is complemented by regular information in the staff newsletter Commerzielles.

Commerzbank is supported in this area by Bundesdeutscher Arbeitskreis für Umweltbewusstes Management, B.A.U.M. ("the German working group for ecologically-aware management") in Hamburg, of which we have been a member since 1988.

Building on our existing basis, we intend to devote more attention to sustainability. In the future, a new centre of competence will coordinate all the activities and develop more ambitious goals and programmes.



## structure of commerzbank group





## *Support for the terror victims of September 11, 2001*

In the midst of the Bavarian Alps lies the picturesque village of Ettal, with its famous monastery.

A world far removed from the bustle of New York and Washington, full of rural hospitality and peaceful tranquillity. It is to this location that Commerzbank invited 300 US citizens as its guests last summer, relatives of victims and people suffering as a result of the terrorist attacks of September 11, 2001, and also firefighters.

The aim was not simply to hand over donations but to provide active support, by offering people relaxation and distraction.

The programme of the 14-day stays included visits to the Zugspitze, the royal castles of Linderhof and Neuschwanstein, and the Hofbräuhaus, shopping in Munich and Garmisch-Partenkirchen and the musical "Ludwig II.", as well as a traditional Bavarian evening.

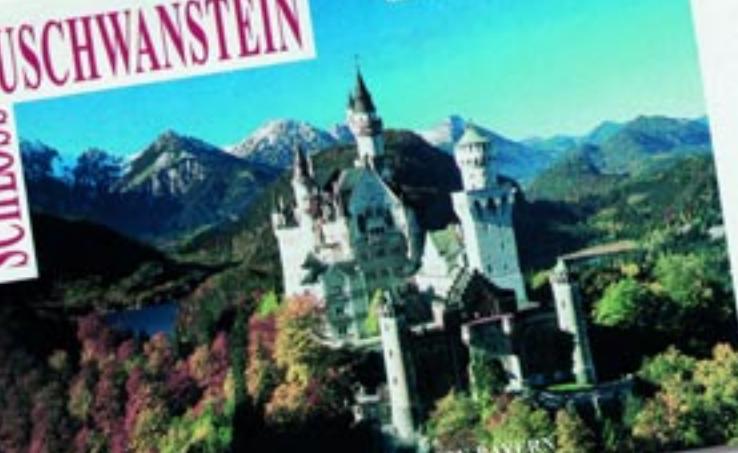


The US visitors clearly enjoyed the varied programme and the beautiful landscape; as one of them said, summing up for the others, it was "like on a postcard".

**NEUSCHWANSTEIN**

**SCHLOSS**

Bayerische  
Schlossverwaltung



ERBAUT 1869 - 1886 VON LUDWIG II. KÖNIG VON BAYERN

ERW English

TOURNUMMER

**505"**

EINIGESZT

**17:45 UHR**

080270230001 7.00 EUR  
008/WT 19/05/2002 15:13

Ihre Tournummer wird am  
Eingang des Schlosses angezeigt.  
Your tour number is displayed  
at the entrance of the castle.  
Votre numéro de tour est affiché  
à l'entrée du château.  
Il vostro turno è visualizzato  
all'entrata del castello.



**Castle Neuschwanstein July 2002**

**COM**



## ***retail banking and asset management***

For several years now, the business lines which form the corporate division Retail Banking and Asset Management have had to cope with marked changes in their customers' needs. We have responded to these new demands by means of numerous restructuring measures which called for considerable investment. While the process is not yet complete, we are already well on the way towards regaining sustained profitability in these areas.

### **Retail Banking and Private Banking departments**

#### **Retail Banking department**

	<b>2002</b>
Equity tied-up (€m)	1,644
Operative return on equity	3.2%
Cost/income ratio in operating business	89.8%

#### **Marked improvement in results, despite persistently difficult market setting**

2002 was also characterized by a very difficult capital-market environment. The downward movement in equity markets starting in 2000 after an historically unique bull market, accompanied by falling interest rates worldwide and low inflation, was spurred by a growing aversion to risk. In addition to revised profit forecasts and valuations, securities markets were also hit by a massive loss of trust on the part of investors, triggered for example by accounting scandals at US companies. The German Dax index and Eurostoxx 50 lost roughly 40% in value between January and December 2002. Naturally, this development directly influenced business involving our retail customers.

Investors' flight to low-risk forms of investment (money-market funds) caused another decline in commission income from securities transactions. In the deposits area, however, it was not only possible thanks to such special products as "Extra-Zins" to gain new customers, but also to raise the earnings on savings deposits by more than 4% compared with a year earlier. In addition, the decline in earnings, affecting equities business in particular, was at least partially offset by an encouraging result for open-ended property funds, investment funds and structured products.

In our lending, we kept earnings steady at a good level and held our valuation allowances within reasonable limits thanks to a consistent risk policy. In this way, we managed to earn over €2bn with these business areas in 2002, despite unfavourable market conditions.

#### **Improvement of around €300m in operating result**

The numerous measures for bringing about a sustained improvement in results have been effective above all on the cost side. After a loss of €243m before taxes and restructuring expenses in 2001, the Retail Banking segment registered an operating profit of €53m in 2002, representing a return on equity of 3.2%. The sustainability of the measures is underlined by the fact that in retail business Commerzbank managed, despite adverse market conditions, to attain a positive operating result in all four quarters of 2002. In order to achieve the targeted pre-tax return on equity of a good 17% in the medium term, we have accelerated the measures under the cost-cutting offensive and CB 21, making it possible to conclude major projects even by end-2002. The full impact on results, therefore, will already be felt in 2003.



### **Lower costs through streamlining and differentiated approach to branch network**

The marked decline in costs is largely attributable to the streamlining of our branch network. With its 727 branches, Commerzbank now has a powerful and efficient network in Germany, covering all the key regions and target groups in retail banking. No further closures are planned.

Parallel to this, we were able to implement the decision to pare down the workforce without straight dismissals more rapidly than planned and in a socially acceptable manner.

### **Success through high-quality advice and solutions in line with needs**

The example of the Neuer Markt, which has suffered especially hard, underlines the importance of a clean portfolio structure not least, or even above all, in business involving retail customers. Thanks to improved consulting modules, we now have one of the most modern and efficient customer information systems, enabling us to boost customer satisfaction and loyalty further, even though the stock market is no longer booming. We can offer our customers an updated check of their custody account at any time; the allocation in the customer's account is compared daily with the model allocation of Commerzbank for the relevant class of risk. On the basis of charts, deviations can be discussed and, if necessary, corrected.

Our successes in investment-fund business are also due to our "best-choice" approach to consulting, which – building upon a structured and objective selection process – picks the best products for the customer from the funds of our subsidiary COMINVEST and third-party fund companies. This is what we understand by objective and customer-oriented advice.

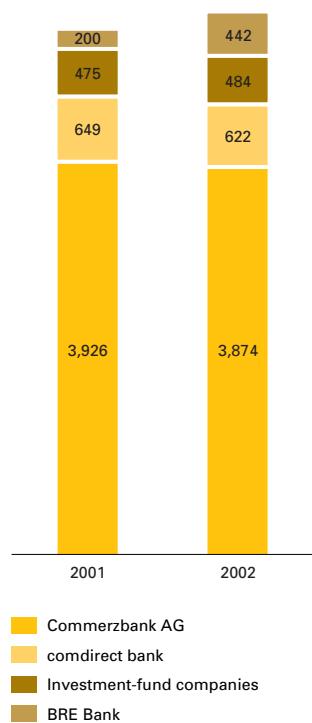
Using an open fund architecture, we not only placed successful ADIG funds but also more than doubled sales of non-Group products to roughly a third of the net inflow into funds (excluding money-market funds) in 2002. At the same time, Commerzbank is one of the most innovative providers of structured products in Germany. The "best start" certificate, introduced in mid-2002, represents a solution for the investment needs of the retail customer, for which none of our competitors have managed to offer anything similar up to now.

We sold a record volume of €1.5bn for our flagship, Haus-Invest, which is the only German open-ended property fund to be given five stars by Moody's. This proved instrumental in the fund's success in attracting 25% of the overall inflow into German open-ended property funds.

Through the introduction of mechanical scoring instruments, we are making lending decisions quick and uncomplicated. This support for sales staff that is geared to customers and reflects their needs has strengthened Commerzbank's position in the difficult market environment and has helped to make earnings more stable.

Clearly-defined demands as regards customers' creditworthiness and the profitability of our business have led to a distinctly improved average margin for our existing loan portfolio, while reducing the volume of new business compared with 2001. On the other hand, we achieved a substantial increase in business for which we act as intermediaries. Our consumer-loan portfolio contracted somewhat on account of the economic situation. We maintained our volume in lending to business customers, while achieving an improvement in quality thanks to the respective credit-approval systems.

**The Commerzbank Group's retail customers  
in thousands**



**"play to win" programme successfully launched**

March 2002 saw the launch of the "play to win" programme in retail banking, designed to ensure a sustained rise in profitability. For this purpose, 15 coordinated projects were initiated, covering not only short and medium-term measures on the cost and income sides but also the strategic expansion of Commerzbank's retail-customer business. Our goal is to make Commerzbank's retail-customer activities easily the best choice for performance-oriented people seeking to put their financial opportunities to successful use with us.

We are confident that our business model will enable us to achieve a sustained pre-tax return on equity of 17% and thus an annual result of around €300m in retail business. By 2005, the "play to win" programme will make a contribution of €150-200m, closing the earnings gap that still exists. In addition to the factors which produced last year's turnaround in results, therefore, the play to win projects are the guarantee for attractive and commercially successful retail-banking activities in the future.

**Private banking established as a growth area**

Since 1997, we have offered banking services for affluent private customers through specially trained consultants. At our 20 main branches and in other suitable branches, we have installed private-banking teams. The success of these activities and the estimated potential of 40,000 private-banking clients among our existing customers have prompted us to set up a separate department for this group.

Private Banking is integrated far more than in the past into the private-customer activities of our branches. We pursue a constant holistic consulting approach; the private-banking account manager is supported by securities and real-estate specialists as well as by asset managers.

**commerzbanking.de off to a good start**

With the launch of our internet branch last May, we created a further component in Commerzbank's multi-channel range of services. At [www.commerzbanking.de](http://www.commerzbanking.de), retail customers can conduct online banking transactions smoothly and simply, obtain in-depth information on products, check prices, charts and independent analysts' opinions and facilitate their decision-making with the aid of various financial calculators.

The customizable homepage offers a special service. Immediately after logging in, customers get an overview of the state of their current and custody accounts, individually selected indices and news. Further functionalities such as a newsletter, access to Commerzbank's research centre, to its forms centre and various opportunities to enter into a dialogue with and contact Commerzbank complete the range of services.

The positive response to this new distribution channel is steadily growing. This is revealed by the rising number of participants; with comdirect included, there are now well over a million of them.



### Bancassurance activities expanded further

Commerz Partner, a joint venture with our bancassurance partner Aachen-Münchener Versicherung, successfully expanded its activities in 2002. All told, 250 employees are now providing advice on old-age provision and financing. This year, a further 150 are to join them.

Together with Aachen-Münchener, we see as yet untapped potential in bancassurance business, which we will explore together.

### comdirect bank successful with extensive programme for the future

comdirect bank has consolidated its market position as Germany's largest online broker, with over 622,000 customers. comdirect Ltd, its UK subsidiary, more than doubled its customer base and has moved from eighth to fourth place in the list of the United Kingdom's most popular online brokers.

The earnings performance of comdirect mirrors the weakness of securities markets for the third year in a row. Customers' reluctance to place orders led to a 17% fall in net commission income. Due among other things to lower money-market rates, net interest income before provisioning was down by 13.8%. All the same, the pre-tax profit and the profit from ordinary activities of the comdirect bank Group registered a marked improvement on the previous year. The pre-tax profit in 2002 was minus €18.6m compared with minus €150.5m in the same period of 2001. At group level, comdirect was the only German online broker to achieve a profit from its ordinary activities – namely €4.7m after a loss of €52m in the previous year. comdirect has impressively demonstrated, therefore, that online brokerage is a viable business model even in difficult times.

Primarily, this is due to the bank's extensive programme for the future, "com one", for which the necessary restructuring expenses were already booked in the third quarter of 2002. The measures introduced to cut costs are having an impact. The service centre in Kiel has been closed down, the reduction of 300 full-time staff announced last September was completed two months earlier than planned. At the same time, functions have been combined and corporate structures as a whole have been made considerably leaner. The third component of com one is the stabilization of earnings. With a pricing model in brokerage that is geared to market conditions and a balanced product portfolio, focusing more strongly on derivative financial instruments and fund products, comdirect had already improved its average margin by year-end.

Quickborn is developing into the Commerzbank Group's centre of competence for direct banking. Through the relocation to Quickborn of the call centre of Commerz Service Gesellschaft (CSG), the telephone-based facility for



Commerzbank's retail customers, better use can be made of the existing technical resources of the Commerzbank Group, without the partners involved – comdirect und CSG – forfeiting their identity. With this relocation, CSG continues to exist as an independent company, conducting business activities for its own account. As a result, the difference in business focus of the two companies is documented inside and outside the Bank.

#### **Ambitious plans for retail business**

Last year, we already achieved 50% of the improvement in results planned by end-2004 – without any help from the markets. All the measures for cutting costs are being implemented and those for boosting income are beginning to produce results. Our employees have understood the ambitious play to win programme and are supporting it. All of this makes us confident that we will attain our goal of becoming qualitatively the best and most successful retail-customer bank in Germany.

### **Asset Management department**

#### **Asset Management department**

	<b>2002</b>
Equity tied-up (€m)	799
Operative return on equity	1.6%
Cost/income ratio in operating business	97.4%

#### **Core market Europe**

Asset Management was managing assets of €102.5bn at the end of last year, with the European companies accounting for over three-quarters of this total. The formation of COMINVEST in the past financial year laid the foundation for even stronger concentration on the German market together with selected core European countries. The company manages roughly half of the total assets under management.

#### **COMINVEST as the new umbrella**

Last September, our asset-management activities in Germany were decisively strengthened by the formation of COMINVEST Asset Management GmbH. The retail-fund subsidiary, ADIG Allgemeine Deutsche Investment-Gesellschaft mbH, the subsidiary for non-publicly-offered funds, Commerzbank Investment Management GmbH, and Commerz Asset Managers GmbH, the portfolio-management and research unit, were bundled to form the new company. Parts of the Asset Management department were also integrated. The combination of retail and institutional operations will permit COMINVEST to respond even more quickly and better to the needs of its customers. In addition, the resources released by synergies and improved efficiency will be invested in a selective expansion of marketing and sales activities in Europe, which will strengthen both market position and earnings performance considerably.

#### **Difficult environment for retail funds**

In a difficult market environment, the retail funds sold by ADIG registered net outflows last year. Its actively and passively managed funds amounted to €22.7bn at end-2002; the volume of the ADIG fund of funds stood at €1.2bn. It managed to raise its market share to 7.6%, representing once again fifth place among German retail-fund companies.



In the ever more important area of custody services, the "easy architecture" introduced as of January 1, 2003 has made it possible to handle the funds of other investment companies as well in an ADIG custody account. COMINVEST is therefore the first capital investment company to offer its distribution partners this service.

As regards products, guaranteed funds will be an important topic this year as well. COMINVEST is a leading source of guaranteed investment funds in Germany, which were introduced in 1996 under the motto "Fully insured on the stock exchange". At present, €1.3bn is being managed in this segment in 17 funds; the product range offers five lines, covering all the important investment regions.

#### **Consulting contracts compensate for outflows in institutional business**

At year-end, COMINVEST's institutional section was managing a total volume of €25.9bn in non-publicly-offered funds, free portfolio management and investment funds, as well as €2.7bn in consulting contracts. In 2002, 18 new contracts were acquired with a volume of €942m. At the same time, existing contracts were increased by €1.2bn. Due to the difficult situation in the capital market and the shaken confidence of institutional investors, the high net inflows of previous years were not attainable. Structural changes in the market for non-publicly-offered funds caused losses in volume. However, these could be very largely offset by the acquisition of new consulting contracts. At the end of last year, altogether 381 non-publicly-offered funds totalling €22.5bn, 30 discretionary contracts mainly for foreign institutional clients totalling €2.5bn and 29 consulting contracts totalling €2.7bn were being managed. In the 12 investment funds with a total volume of €849m at year-end, about 1,000 *Mittelstand* investors were being looked after.

In European Bank for Fund Services GmbH (ebase), COMINVEST has a settlement platform specializing in custody and IT services. At end-2002, ebase was managing altogether 865,167 custody accounts with an overall volume of €3.7bn. Thanks to its experience in handling large numbers of custody accounts and to its existing IT expertise, ebase is ideally prepared to face the ever keener competition to secure cooperation partners, most of whom have not yet committed themselves to a specific platform.

#### **Good performance at European subsidiaries**

Last year as well, our UK subsidiary Jupiter International Group plc produced strong relative fund performance, thereby boosting its brand. The fund-of-funds business acquired from Lazard was successfully integrated in 2002. A further innovative product was launched in the form of the Emerging European Opportunities Fund. At year-end, Jupiter was managing assets of about €14bn.

The French Caisse Centrale de Réescompte (CCR) ended 2002 with €12.4bn of assets under management. A decline in the volume of equity-based and mixed funds was offset by inflows into money-market funds. In equities management, CCR benefited from its specialization on the value approach; it registered inflows of funds there.

ADIG-Investment Luxemburg was managing an overall volume of €11.5bn in its core business, fund service, at end-2002. The company has also taken over the administration of a further €1.3bn for non-Group associates. In the field of

shareholder services, 28,608 custody accounts with a volume of €854m are looked after. The custody accounts of banks and asset managers in the Benelux states now amounts to €233m – an increase of 65% on 2001. For the newly formed Generali Asset Managers S.A., ADIG-Investment Luxemburg was able to demonstrate its service orientation as a business integrator. Further extension of the cooperation with the Generali Group is envisaged for the current year.

Despite difficult markets, the Spanish Afina maintained its growth strategy in 2002, doubling its assets under management to €400m. In certain segments, such as individual funds-of-funds, Afina is even one of Spain's fastest-growing asset managers.

#### **Withdrawal from US, turnaround in Asia**

In view of the focus on Europe, most of the assets managed by Montgomery Asset Management in San Francisco were sold to Wells Capital Inc. in the final quarter of 2002. Their transfer will not be concluded until the first half of this year. This marks the complete withdrawal of Commerzbank's asset-management group from the US.

The asset-management companies in Asia achieved a turnaround last year. Their assets under management rose from US\$5.7bn to 7.5bn and a profit of US\$2.1m was achieved. Cost savings, a review of the services offered and closer cooperation among the Group's Asian companies lifted the sales of products, also generating higher earnings. Apart from further cost-cutting, the focus this year will mainly be on the expansion of sales activities.

2002 was entirely devoted to a refocusing of Asset Management. Companies that no longer fit into the European strategy of this business line were disposed of, procedures were pared down and the product range was streamlined. With large extraordinary expenses incurred, therefore, a sound basis was created in 2002 for future expansion and above-average increases in earnings.



## Group companies and equity participations in the Retail Banking and Asset Management division

### Retail Banking department

<b>comdirect bank AG</b>	<b>Commerz Service Gesellschaft für Kundenbetreuung mbH</b>	<b>COMMERZ PARTNER Beratungsgesellschaft für Vorsorge- und Finanzprodukte mbH</b>
Quickborn	Essen	Frankfurt am Main

58.7%<sup>2)</sup> 100.0% 50.0%

### Private Banking department

<b>Commerzbank International S.A.</b>	<b>Commerzbank International Trust (Singapore) Ltd.</b>	<b>Commerzbank (South East Asia) Ltd.</b>	<b>Commerzbank (Switzerland) Ltd</b>
Luxembourg	Singapore	Singapore	Zurich

100.0%<sup>2)</sup> 100.0%<sup>1)</sup> 100.0% 100.0%<sup>2)</sup>

<b>Hispano Commerzbank (Gibraltar) Ltd.</b>			
Gibraltar	50.0%		

### Asset Management department

<b>COMINVEST Asset Management GmbH</b>	<b>European Bank for Fund Services GmbH (ebase)</b>	<b>ADIG-Investment Luxembourg S.A.</b>	<b>AFINA Bufete de Socios Financieros, S.A.</b>
Frankfurt am Main	Munich	Luxembourg	Madrid

100.0%<sup>2)</sup> 100.0%<sup>2)</sup> 100.0%<sup>1)</sup> 48.7%

<b>Caisse Centrale de Réescompte, S.A.</b>			
Paris	Taipei	Dublin	Taipei

100.0% 24.3%<sup>1)</sup> 100.0%<sup>2)</sup> 100.0%<sup>2)</sup>

<b>Commerzbank Asset Management Asia Ltd.</b>			
Singapore	Rome	Dublin	Tokyo

100.0%<sup>2)</sup> 96.6% 40.0% 100.0%<sup>2)</sup>

<b>Jupiter International Group plc</b>			
London	Seoul	San Francisco	

100.0%<sup>2)</sup> 45.0% 97.2%

1) The Parent Bank holds some of the interest indirectly.

2) The Parent Bank holds the interest indirectly.

3) The greater part of the company was disposed of in the final quarter; the transaction will be concluded in the first half of 2003.



## Otto-von-Guericke University Magdeburg

Founded in 1993, the Otto von Guericke University in Magdeburg is one of Germany's most recent universities. It has its roots in the three tertiary institutions, the Technical University, College of Education and Medical Academy of Magdeburg. This year, after a phase of intensive integration, the Otto von Guericke University is celebrating its 10<sup>th</sup> anniversary. It is now a full-scale university with nine faculties and 56 different courses. It has almost 10,000 students, 10% of whom are from outside Germany.

In the spirit of its namesake, the Otto von Guericke University systematically espouses scientific innovation and international cooperation. The Otto von Guericke research prize for outstanding achievements by university staff serves this end, as does the new, much highlighted course in European Studies. It is intended to prepare students for new types of career in the enlarged European Union and to enable its graduates to assume international, cross-border functions in private or public-sector institutions.

# Bucerius Law School Hamburg

Especially in Germany, the role of lawyers in business and administration is undergoing far-reaching changes. German universities have responded to the tendencies towards specialization and a stronger international orientation by broadening the range of their courses and arranging bilateral cooperation. For the most part, the traditional main focus on a career as a German judge or lawyer has remained intact. The Bucerius Law School, which was launched in autumn 2000, does not deviate

from the time-tested pattern of training either, but it extends this considerably. After a concentrated three-and-a-half-year course of studies with an obligatory period of study abroad, the students of the Bucerius Law School do not only take the first part of the state law examination, but also acquire the international Bachelor of Law title (LL.B). The graduate of Bucerius Law School can then immediately become active in international legal consulting, in government or supranational administration, at companies or with trade associations.



## ***corporate and investment banking***

Corporate and Investment Banking looks after all the relationships with companies and institutions, the relevant products and dealing activities, and the Bank's real-estate and leasing business.

The deployment of regional board members – four in Germany, two in Europe and one each for America and Asia – has proved to be the right decision. Their presence improves the relationship with the client and fresh impulses are generated for sales.

The development of our corporate business, especially with small and medium-sized enterprises, continues to have outstanding strategic importance. With a strict customer orientation and a range of quality products, we want to profile ourselves as the most important relationship bank for successful SMEs, or *Mittelstand* companies.

### **Corporate Banking department**

#### **Corporate Banking and Institutions**

	<b>2002</b>
Equity tied-up (€m)	5,339
Operative return on equity	8.5%
Cost/income ratio in operating business	45.9%

Sluggish economic activity, the wave of insolvencies and higher provisioning as a result all made the going more difficult in our corporate business. This is revealed among other things by the fact that, with demand for credit generally weak, our lending declined. Here, however, the stronger securitization of claims – to ease the strain on regulatory capital – also played an important role.

In view of the adverse conditions, the result achieved by this business line was quite satisfactory. But we will do all we can to reduce valuation allowances in the years ahead and also to secure a further improvement in our earnings. This includes both a wider average margin in our lending and a higher profit contribution from other services in order to make the individual client relationship more profitable. We are tackling such topics offensively in our dialogue with customers.

To provide support for sales, above all those of modern investment-banking products, we have set up so-called financial engineering centres in Berlin, Hamburg, Düsseldorf and Frankfurt. With the local corporate relationship managers, their personnel work out the need for structured financing and capital-market products and offer specially-tailored financing solutions together with investment-banking specialists.

#### **Rating-oriented advice for *Mittelstand***

In order to promote stronger links with *Mittelstand* firms, we have offered qualified, independent advice under the heading "commerzbank rating:coach" since last autumn for all issues related to company ratings. On a fee basis, our specialists analyse the corporate data and prepare a historical financial analysis, a sectoral comparison and an analysis of strengths and weaknesses. In this way, possible weak points can be recognized in good time and strategies for improvement can be worked out. Through confidential contact with the company,



specific recommendations are made and counter-measures are introduced, creating fresh scope and activating unused potential. This very well-received advisory service takes on added significance with a view to the requirements and opportunities created by "Basel II".

#### **Internet portal now for large corporates as well**

Following last May's successful introduction of our *Mittelstand* internet portal, "companydirect", which now already has 16,000 users, we also launched a portal for large corporates, "companyworld", in September. Via "companydirect", smaller businesses can handle standard products, such as German and cross-border payments, as well as requesting banking products related to the investment of funds and financing. They also have access to the services of Group and third-party financial associates, for instance in order to finance investment using leasing or factoring solutions.

For the *Mittelstand*, "companydirect" is a reasonably-priced online supermarket, covering their daily needs in financial services. By contrast, "companyworld" is a virtual delicatessen, focusing on cash management, foreign-currency dealing, treasury, liquidity analysis and currency management. It is our declared goal to become the leading provider for corporate clients in Germany.

#### **Covering eventualities ever more important**

Especially in economically difficult times, more flexible working times are one of the major labour-market challenges. With its special products for securing credit balances deriving from working-time accounts, Commerzbank in conjunction with professional partners boasts a good market position. An encouraging upward trend can be noted in the balances secured with us. We assume that there is substantial business potential here in the years ahead as well.

#### **Export financing fares well**

In medium and long-term export financing, the positive development of the past few years was maintained. Even though the repercussions of September 11, 2001 can still be felt, aircraft financing has performed well. There was particularly brisk demand for structured trade financing, where we were able to improve our market position.

#### **com:pany.news – newsletter for corporates**

We have introduced com:pany.news as a topical and informative service for our corporate clients. The quarterly newsletter reports on practical topics related to investment, financing and transaction management. Above all, it seeks to give corporate customers concrete recommendations which they can implement. The online version of this newsletter makes direct dialogue possible with our customers. com:pany.news is part of our marketing and communication strategy for stepping up contact with our clients.

## Financial Institutions department

The main function of the Financial Institutions department is to look after relations with banks and other providers of financial services, central banks and countries. We are able to provide our national and international clients with extensive services tailored to their needs. This function also entails responsibility for our representative offices worldwide.

### Now 17% share of German external trade

The more exotic the market, the more important professional support becomes for companies with worldwide activities. We form the bridge between our domestic business clients and local banks on the spot. For this purpose, we cooperate with more than 6,000 banks worldwide in virtually every country, and in many cases we have done so for decades. This almost unique dense network enables us to play an effective role in handling the financial side of German external trade. Our clients appreciate this service. That is why we were able once again to raise our market share in export and import business to a sizeable 17%.

Our strength in foreign business is reflected not only in our handling of payment transactions in more than 70 national currencies, but also in covering L/C and guarantee claims and a complete range of products for financing external trade. In cross-border payments, we have consolidated our position as a leading European transaction bank and a major player in the euro clearing systems.

### Fresh involvement in South-East Europe

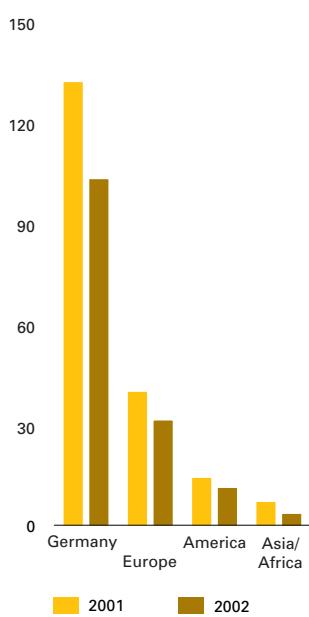
While our business focus is on Europe, we have a global sales network thanks to our foreign branches, Group companies, representative offices and major equity holdings. At present, Commerzbank is directly represented in 43 countries. Last year, we closed down our offices in Warsaw and Rio de Janeiro. However, we still have a presence in the two countries through our interest in BRE Bank and Unibanco, respectively, and a representative office in São Paulo.

In South-East Europe, we have strengthened our position through participation in local microfinance banks. The first venture of this type in 2000 was a participation – together with other international financial institutions – in Micro Enterprise Bank Kosovo. In the meantime, we hold stakes in other institutions in Serbia, Bosnia-Hercegovina, Albania, Bulgaria, Romania and Georgia. In addition to contributing expertise and experience, Commerzbank, as the commercial partner of these institutions, is also responsible for handling international payments and foreign commercial business.

### Uneven success abroad

Our foreign units active in commercial business achieved rather uneven results in a mostly difficult environment. Our four North American branches, for example, were able to raise their after-tax net profit by more than 40% to a new record of about US\$250m, which translates into a return on equity of over 25%. This exceptional result was primarily due to successful asset/liability management and secondary-market activities; at the same time, costs were cut by more than a tenth.

**Geographical spread of risk-weighted assets according to BIS, Commerzbank Group, in € bn**





The situation was different at most European outlets. This was very evident in Poland, for example, where BRE Bank, in which we have a 50% interest, posted a loss after years of high profits. Sizeable provisioning, write-downs on securities portfolios and weaker earnings led to a negative result of €95m. We are confident, though, that the restructuring measures which have been introduced will ensure a return to the black in the current year.

In Western and Southern Europe, we are systematically expanding our corporate business. The goal here is to make more efficient use of our existing European network, above all for cash-management and payment services. At the same time, we are continuing to concentrate on large corporates and multinationals.

### Securities department

Following the integration of part of the Bank's associated corporate-finance activities into the Securities department in the previous year, foreign exchange was also transferred from Treasury to the unit in mid-2002. Securities can now offer clients the full range of products and services in the area of equities, bonds and foreign currencies and derivatives, as well as M&A advice, from a single integrated platform.

The result achieved by this business line, especially in equities, was disappointing. Not even the shift of emphasis to profitable lines, such as fixed income, and sizeable cost cuts were sufficient to offset the poor performance of the international stock markets.

More than half of the agreed reduction by at least 425 in the number of front-office staff in investment banking – combined with recruitment of up to 75 new staff in profitable areas – has now been realized. The cuts have mainly affected the overseas locations of New York, Tokyo and Singapore, where some product lines were discontinued entirely and others were scaled back to the minimum level needed to maintain business relationships with corporate customers. Once this restructuring is complete, our workforce in investment banking will be almost 30% smaller. The promising start to 2003 shows that we have successfully repositioned our operations.

### Securities department

	2002
Equity tied-up (€m)	1,302
Operative return on equity	-22.7%
Cost/income ratio in operating business	136.1%



### **Systematic client orientation**

At the same time, we are gearing our range of products and services even more systematically to sophisticated risk advisory and capital structuring. Capital Markets, for instance, has been positioned to enable it to offer comprehensive financing solutions combining debt, equity, derivatives and M&A advice. This has also created more effective links with commercial-banking business, one of our main strategic goals.

### **Brisk activity in bonds and asset-backed securities**

As in the previous year, issuance and trading activity in fixed-income securities and syndicated loans was successful. We acted as mandated lead arranger for ThyssenKrupp, Infineon, Vodafone and Bombardier. Our special strength in this market segment was acknowledged when we were voted European ABS Research House of the Year by a leading industry publication. In December alone, we led three mortgage-backed issues with a total volume of €4bn.

In the bond market, key deals were Volkswagen's €1.5bn benchmark offering and the first two issues by Iran since 1979 with a total volume of €1bn. For one of these transactions, Commerzbank was awarded the much-coveted Sovereign and EEMEA Bond of the Year.

### **Cooperation in M&A activities**

Our European-oriented M&A business remains a key feature of our spectrum of investment-banking services. We have entered into an exclusive alliance with the US firm Compass Partners International for advising on medium and large-sized M&A transactions in the US and Germany. This service will enable us to provide strong support for the activities of our German corporate clients in the US market. Statistics show that this is by far the most important foreign market, attracting over 30% of all German direct investment.

### **Derivatives increasingly important**

For our derivatives group, 2002 was a successful year. A major factor here was the decision to combine all aspects of credit trading, such as credit default swaps, to form a single risk platform. In addition, we created a new Corporate Trading team, integrating the Credit Trading, Equity Derivatives Trading and Convertible Bonds groups. For our convertible bond activities, we were ranked first in every category in the Thomson Extel Survey 2002.

### **European research**

In research, we are concentrating on European equities and corporate bonds, interest rates and foreign exchange, as well as asset-backed securities. One main area of focus is independent research on a sectoral basis, specifically on German corporates.

In 2002, the integration of equity and debt research gave rise to our first multi-asset research note, on France Telecom, which was very well received by the market. In the Extel survey, our European research moved up to seventh place, improving its position for the fourth year in succession.



## Group Treasury

Our Group Treasury was reorganized at the start of last year. Following the transfer of the foreign-exchange and local-markets units to Investment Banking, it is concentrating even more strongly on asset/liability management. It now bears responsibility Group-wide for all the interest-rate, currency and price risks of the banking book and is in charge of raising funds in the money and capital markets, including ensuring that the Group meets the required capital ratios and has sufficient liquidity. Frankfurt, London and Luxembourg cover all the European locations, while New York and Tokyo serve the North American and Asian units.

The figures needed for steering the Group are established by the Asset/Liability Committee (ALCO), whose members include the chairman of Board of Managing Directors and the board members responsible for treasury and finance. In order to reflect local aspects more strongly, ALCOs have been set up on the spot at the more important units worldwide.

Our Treasury was confronted with great challenges last autumn when unfounded rumours were circulating that Commerzbank had liquidity problems. In fact, at the time we had an especially large liquidity reserve, which ultimately helped calm the markets down again.

Despite these problems, Group Treasury managed to achieve another good net result, repeating the successes of previous years.

## Group Treasury

	2002
Equity tied-up (€m)	168
Operative return on equity	100.6%
Cost/income ratio in operating business	29.3%

## Real Estate department

Our Real Estate department comprises CommerzLeasing und Immobilien AG (CLI), Düsseldorf, one of the leading German leasing companies, and Commerz Grundbesitz Gesellschaft mbH (CGG), Wiesbaden. It managed to improve its results by roughly 50% last year to just over €100m.

### Record result for CLI

Despite the difficult environment and uncertainties regarding tax, 2002 was the most successful year in the more than 30-year history of the CommerzLeasing und Immobilien Group. The group consists of CLI AG, 13 subsidiaries and equity



participations as well as 900 individual property companies. With its four segments, Structured Investments, Own Investments, CFB Funds and Moveable Goods Leasing, and also its service units, it covers the entire spectrum of leasing and real-estate business.

New business expanded by practically a third last year to €2.4bn, with real estate accounting for €1.8bn and moveable goods €0.6bn. This growth is all the more remarkable since overall business investment and also leasing investment both declined over the same period. Most new business in real estate was generated abroad; but in Germany as well, we achieved an encouraging increase of almost 16%. In moveable goods, new business was a fifth higher.

The following important transactions last year are worthy of mention:

- In structured investments, a €370m US lease for a municipal drainage plant and also the €120m financing of a complete production facility.
- Integration of a New York office building, with a volume of US\$300m and capital of US\$107m, into a CFB fund. Within a few weeks, all of the East Building – New York fund had been sold to over 3,000 investors, increasing the amount of equity placed by CFB in connection with closed-end funds to €3.2bn.
- The most important event in the leasing of moveable goods was the formation of ComSystems GmbH in the field of IT financing, a joint venture with DaimlerChrysler.

#### **Commerz Grundbesitz German market leader**

In 2002 as well, the Commerz Grundbesitz Group registered disproportionately strong sales successes. Under the roof of a holding company, the group consists of Commerz Grundbesitz-Investmentgesellschaft mbH (CGI), which manages the open-ended property fund Haus-Invest, and Commerz Grundbesitz-Spezialfondsgesellschaft mbH (CGS), which looks after business related to non-publicly-offered funds.

Last year almost €2.9bn of new funds flowed into Haus-Invest – roughly a quarter of the entire net inflow for all of Germany's open-ended property funds. This record inflow was immediately invested in attractive real estate. At year-end, the fund was managing properties in nine countries and 57 cities; the non-German share of these assets rose once again to reach around 76%. Haus-Invest's assets now exceed €10bn, making it the largest fund of this type in Germany with a market share of a good 14%.

CGS, formed in 2001, has launched two property funds especially for institutional investors, acquiring for these funds 15 properties overall, for which it invested an amount of about €280m.



## Group companies and equity participations in the Corporate and Investment Banking division

### Corporate Banking department

BRE Bank SA Warsaw 50.0%	Commerzbank (Budapest) Rt. Budapest 100.0%	Commerzbank (Eurasija) SAO Moscow 100.0%	Commerzbank (Nederland) N.V. Amsterdam 100.0% <sup>2)</sup>
Commerzbank International (Ireland) Dublin 100.0% <sup>2)</sup>	Commerz (East Asia) Ltd. Hong Kong 100.0%	P.T. Bank Finconesia Jakarta 51.0%	Banque Marocaine du Commerce Extérieur, S.A. Casablanca 10.0%
<b>Unibanco – União de Bancos Brasileiros S.A.</b> São Paulo 8.6% <sup>1)</sup>			

### Securities department

CBG Commerz Beteiligungs-gesellschaft Holding mbH Bad Homburg v.d.H. 100.0%	Commerzbank Capital Markets Corporation New York 100.0%	Commerzbank Capital Markets (Eastern Europe) a.s. Prague 100.0%	Commerz Futures, LLC Chicago 100.0% <sup>1)</sup>
<b>Commerz Securities (Japan) Company Ltd.</b> Hong Kong/Tokyo 100.0%			

### Real Estate department

Commerz Grundbesitz-gesellschaft mbH Wiesbaden 100.0%	CommerzLeasing und Immobilien AG Düsseldorf 100.0%
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1) The Parent Bank holds some of the interest indirectly.

2) The Parent Bank holds the interest indirectly.

**commerzbank worldwide**



## *Josefs-Gesellschaft e.V. Cologne*



Josefs-Gesellschaft was founded by Heinrich Sommer at Bigge in 1904. In the course of almost 100 years, his formulated goal of "healing, care and commercial training" has impressively demonstrated its effectiveness and vitality.

Today, Josefs-Gesellschaft is Germany's largest Catholic sponsoring authority of institutions for rehabilitating the disabled. In 12 locations with 50 service facilities, it offers various types of support and forms of accommodation, kindergartens, schools, and both medical and vocational rehabilitation for over 4,000 people.

The quality of the work performed is underlined by one figure in particular. The vocational training facility of Josefs-Gesellschaft offers roughly 1,000 apprenticeships for 12 groups of occupations and 46 individual professions; permanent employment was found for 149 of the 196 young people from one year's batch of apprentices who had successfully completed their apprenticeships.



## staff and welfare report

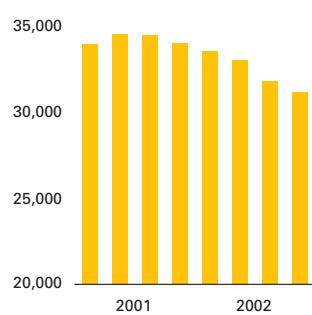
The 2002 financial year was characterized by the need to lower personnel costs substantially. For this reason, we pressed ahead with our cost-cutting policy introduced the year before. This inevitably led to serious reductions. One important aspect in this connection was to implement all the necessary measures as quickly as possible, with the approval of the central staff council and in a socially acceptable manner.

Despite all the problems, our employees worked with great commitment once again in 2002, and we wish to take this opportunity to thank them.

### Cutting costs

By reducing the various bonus payments, including the special Christmas payment, abandoning the linear increase for individually negotiated salaries and also scaling down additional benefits, we have already lowered personnel costs considerably. However, cuts in benefits alone were not enough to ensure the necessary reduction in costs, as only about 10% of personnel expenses can be steered flexibly. By far the larger part is contractually fixed. As a result, expenditure could only be brought down further by a substantial reduction of the workforce.

### Changes in full-time permanent staff Commerzbank Group, quarterly figures



Extensive staff reductions were resolved under our first cost-cutting offensive. The job cuts, begun in 2001, were continued last year, reducing the Commerzbank Group's full-time staff by 2,796 to 31,046 in the course of 2002. Here the deconsolidation of Rheinhyp per July 2002, involving 788 full-time personnel, should be noted.

### Reducing staff

In addition to a recruitment freeze, it was decided in 2001 to shed 3,400 of the Group's full-time staff as part of the cost-cutting offensive. By end-2002, 2,640 full-time staff were to have been removed. With 2,502 fewer full-time employees since the cost-cutting offensive was launched in June 2001, the target was attained almost exactly. In addition, Rheinhyp was deconsolidated, taking another 788 full-time staff out of the Group's workforce.

A major factor in implementing the resolved staff reductions according to plan was the social compensation plan agreed with our employee representatives. Its core principle was that the Bank would not dismiss people provided that staff reductions occurred within an agreed schedule. Checks were performed, applying set criteria, on June 30, September 30 and December 31, 2002, to find out whether the cuts were progressing according to plan. In order to realize the necessary measures as quickly as possible, diverse instruments were used. Apart from individual and collective reductions in the time worked, a marked revival of the Bank's internal job market and the selective use of natural staff turnover, recourse was had to early retirement and part-time work for older staff, as well as group outplacement models. This new instrument offers all employees of the Bank who of their own accord sign an agreement to annul their existing contract the opportunity to take part before they leave in a five-day intensive course, giving them a fresh orientation and enabling them to prepare themselves for the job market.



### Data on Commerzbank's personnel\*)

	2002	2001	Change in %
<b>Total staff Group<sup>1)</sup></b>	<b>36,566</b>	<b>39,481</b>	<b>-7.4</b>
<b>Permanent staff Group<sup>2)</sup></b>	<b>33,224</b>	<b>36,053</b>	<b>-7.8</b>
<b>Total staff Parent Bank<sup>1)</sup></b>	<b>28,343</b>	<b>30,021</b>	<b>-5.6</b>
including: based abroad	2,604	2,552	2.0
including: trainees	1,530	1,651	-7.3
<b>Permanent staff Parent Bank</b>	<b>25,303</b>	<b>26,693</b>	<b>-5.2</b>
Years of service			
more than 10	53.2%	50.8%	
more than 20	21.0%	22.2%	
Total pensioners and surviving dependants	11,267	10,892	3.4
including: those retiring during the year	446	519	-14.1
those entering early retirement	291	182	59.9
Older staff on part-time scheme	316	235	34.5

\*) 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.

### Restructuring measures

In addition to meeting the requirements of the cost-cutting offensive, important restructuring measures were tackled. The reorganization of credit business and asset management, the hiving-off of business facility management and repositioning in retail banking similarly involved a marked reduction in the workforce.

With the measures mentioned above – cost-cutting, the shedding of jobs and restructuring – personnel costs in the past financial year were lowered by €387m to €2,679m, representing a 12.6% reduction.

### We thank our staff

Staff cuts can only be implemented in a rapid and targeted manner given constructive cooperation between management and employee representatives. Here, we should like to thank the local staff councils, the central staff council and also the senior staff spokesmen's committee, the representatives of the physically disabled and of the Bank's younger staff for the responsible way in which they cooperated to develop mutually acceptable solutions, which were in the interest of both the Bank and its employees.

### Manager training in times of upheaval

In economically strained times in particular, the managerial quality of superiors plays a crucial role in unfailingly meeting the mounting demands of a constantly changing environment. This is reflected in our rigorous development of executive personnel, realized through the systematic use of selection procedures and the subsequent management circles (A to C). Here, standards are defined across all levels of management and the development of in-house potential is encouraged.

In management circle C, 236 people are currently acquiring their qualification; of these, 102 joined last year after passing the selection procedure. In management circle B, from which we recruit the executives for middle management, 55 were newcomers. At present, it consists of 119 members altogether, 22% of whom are women.

In order to ensure a high level of planning in the replacement of personnel, top managerial positions have been filled internally for two and a half years now exclusively by members of management circle A and the preceding one-day management audit with board involvement. At present, this circle has 28 members, four of whom are women.

The international management circle C – the counterpart to the national management circle C – entered its fourth generation last year and represents a major element in training executives for international assignments. By end-2002, 62 young executives had been successful in the required selection procedures.

#### **Commerzbank Feedback System**

The Commerzbank Feedback System is a standardized and anonymous procedure permitting feedback on a person's assessment by employees, colleagues, superiors and customers. The aim is to improve internal communication, cooperation and the readiness to serve our internal and external customers. In a pilot project run last April in the Kiel main branch, a sizeable 83% of staff participated, reflecting both a large degree of acceptance and high expectations. Given the difficult conditions that prevail at the moment, this is remarkable. We intend to continue the project in other areas as well, in this way gradually placing it on a broader basis.

#### **Training younger staff**

Last year, altogether 577 young people began their training at Commerzbank. While this figure is lower than a year previously, the fresh recruitments underline the fact that Commerzbank offers young people training facilities even in difficult times. The new trainees opted for careers as qualified bank employees (442), office-communication specialists (20), bank information scientists (18), clerical personnel (19), or for tertiary training at either the vocational academy (67) or a university specializing in banking (11). Women accounted for 64% of the intake of young people.

The high quality of the Bank's internal training is revealed by the results: over 98% of the trainees completing their courses last year were successful, a third of them even getting good or very good marks.

#### **Healthcare management**

The health of our employees is a valuable asset. In the past financial year, we intensified the medical care provided by the Bank. Since 2001, Commerzbank has worked together with the prominent occupational medicine service Deutsche Bahn Gesundheitsservice GmbH. This has made it possible to achieve a marked qualitative improvement in company healthcare and a much higher degree of professional medical skill, without significant increases in costs.



### **From equality of opportunity to diversity**

For more than a decade, Commerzbank has successfully championed the equality of men and women in the workplace. The development of a series of innovative instruments has enabled us to help make it easier to combine family and career, giving women the chance to move up systematically into higher specialist and managerial positions.

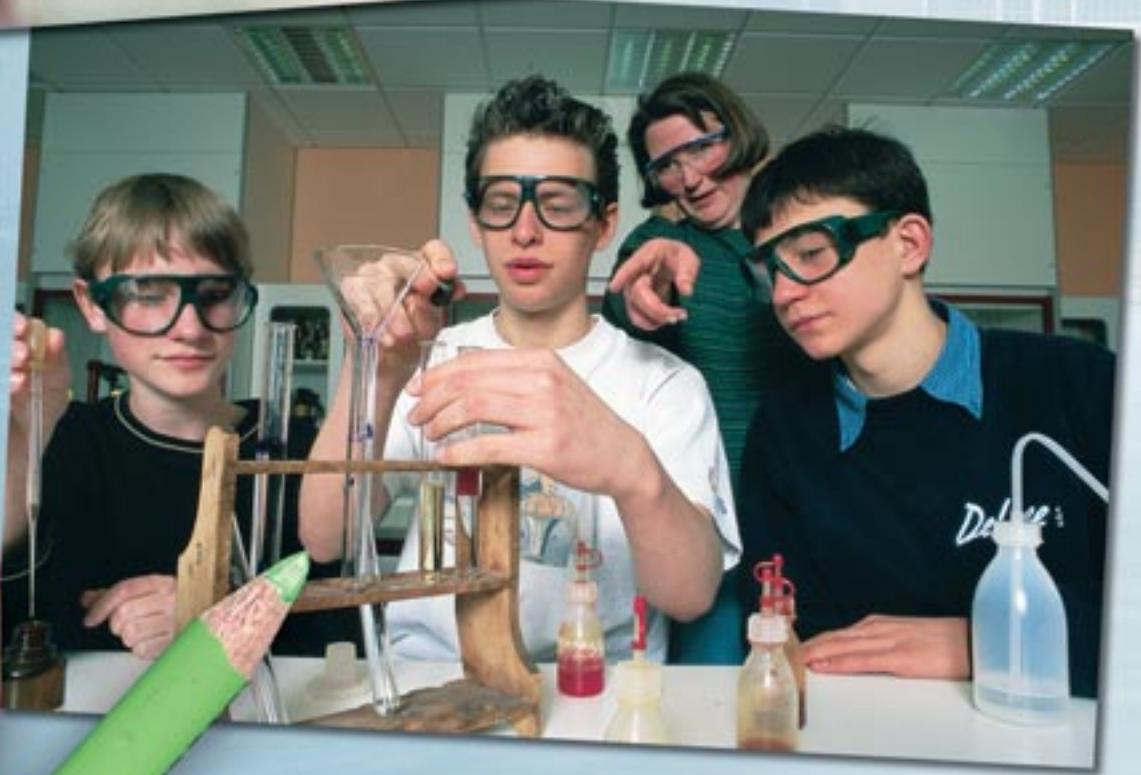
We have always been keen to raise the level of acceptance of our staff towards the broad range of different life styles. This thinking also provides the basis for our new project "Diversity: living with variety". The variety of individual personalities makes it possible to view problems from different perspectives, develop creative solutions and thus increase our competitiveness. Tolerance and respect in inter-personal relationships are a major component in the success of our company. Through our project Diversity: living with variety, we want to make clear that we consider the differences in culture, nationality, age, gender, religion and the physical condition of our staff, and also in their attitudes and life styles, as something that is positive and in the interest of our company.

### **Internal suggestions scheme**

The wealth of ideas and innovative power of our employees take on key importance in connection with the cost-cutting offensive. The more staff we can involve in the process of internal optimization, the greater the success and gain for both sides. That is why we continued to sponsor COMIDEE, Commerzbank's internal suggestions scheme, last year as well. The 14% rise to 3,670 in the number of suggestions received is evidence that our employees' acceptance of COMIDEE has steadily increased.

As in past years, just under 10% of the suggestions won a prize and were consequently implemented. All told, awards amounting to roughly €200,000 were paid out. We spent roughly €60,000 on non-cash prizes, awarded as a token of recognition. Last year's highest individual prize was €25,000. Overall, the cost savings that were achieved can be put at practically one million euros.





... für jeden das Beste.

... the best for everyone.

## *Christliches Jugenddorfwerk Deutschlands e.V.*

Since 1947, Christliches Jugenddorfwerk Deutschlands has supported people in need of help and assistance with a perspective for the future. CJD's activities range from running institutions for the disabled to promoting the highly talented.

Since its formation, CJD has provided more than 2.4 million young people with the basis for leading fulfilled lives. In 150 locations, CJD's staff of 8,000 look after about 90,000 pupils, participants in the programme and residents of institutions every year. Since 1977, CDJ Jugenddorf-Christophorusschule für Hochbegabte has existed in Brunswick. It follows the

motto "Not the same for all people, but the best for everyone" as an all-day secondary school for currently 550 pupils.

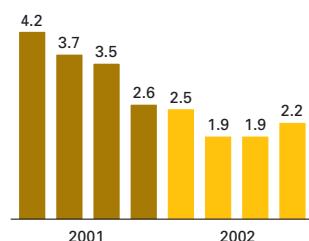
One interesting feature, and typical of CDJ, is that the school complex includes two further schools which prepare pupils for vocationally-oriented and other official school-leaving certificates. Special facilities also exist for disabled pupils or those with speech impediments. This is integration according to the maxim of the founder of CDJ, Arnold Dannenmann, that "No one shall be given up as lost".



## ***our share, strategy and outlook***

Last year, the level of the German Dax index was halved: from over 5,155 points at the start of 2002, the index plunged to a low of 2,519 in October – a level last seen by investors in 1996, when the early signs of a major bull market were emerging. German financials in particular registered sharp price losses, in some cases falling well below their book values.

**Turnover in  
Commerzbank shares**  
Quarterly figures, in € bn



In the first half of 2002, the Commerzbank share managed to shrug off the bad stock-market situation; however, it became clear by summer at the latest that sentiment would deteriorate further. The pressure on Commerzbank increased from two sides at once. Apart from the weakness of the stock market and the related decline in commissions and trading profits, the economic situation of German companies also worsened. The macroeconomic setting did not make it easy for the Bank, as the record insolvencies show. As a result, provisioning was raised further, at the expense of earnings. Analysts repeatedly reacted to the currently unattractive earnings situation and the absence of brighter prospects by downgrading our share in their reports.

**Nasty rumours**

On top of this, there were malicious speculations in some cases and apparently quite consciously placed bogus reports in the London financial press last October directed against Commerzbank but lacking any foundation whatsoever. It was claimed that the Bank had liquidity problems, that it had violated international capital standards, or had serious problems with its credit derivatives. When the situation began to develop a really dangerous momentum of its own, the Bundesbank and ultimately the German Financial Supervisory Authority (BAFin) as well intervened quite decisively, declaring that the liquidity of German banks was not in doubt nor was there cause for the banking supervisory authorities to worry; the downward plunge of our share was brought to a halt.

**Commerzbank's 361,000 shareholders**

share of capital held  
(as of December 31, 2002)

**Abroad**

- 15.5% Institutional investors
- 0.8% Intesa
- 1.6% Mediobanca
- 3.7% SCH
- 9.9% Generali
- 4.0% Private investors

**Germany**

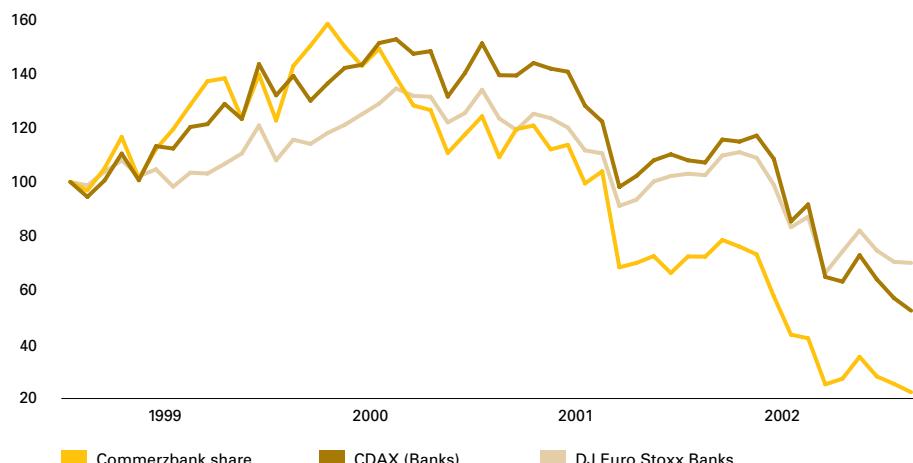
- 14.0% Institutional investors
- 5.5% WCM
- 10.4% Munich Re
- 34.6% Private investors





### Performance of the Commerzbank share

Month-end figures, January 1999 = 100



But what was frequently referred to as the “campaign against Commerzbank” did not fail to have an impact. Apart from considerable damage to its reputation – evident in the share price which, at €5.04, fell to a level last seen in the 80s – the Bank had to shoulder a further increase in funding costs, even though the market had calmed down again.

### Stable business relationships

We wish to thank our customers and business associates around the world, who did not allow themselves to be put off by the nasty rumours and impressively demonstrated their loyalty towards our Bank.

### The year's IR highlight: Investors' Day 2002

Commerzbank's Investors' Day, held for the first time in 2002, marked a welcome change from all the year's negative news. Roughly 80 analysts and fund managers from Germany and elsewhere accepted the invitation to come to Frankfurt and receive information on the latest developments within the Bank, its strategy, the progress made by the cost-cutting offensive and much more besides. The positive response of the financial community, confirmed for the Bank in a large number of discussions, gives us confidence for the coming year and also shows that interest in Commerzbank remains strong.

### Cost-cutting offensive

Commerzbank reacted to the change in market trend, resolving a series of measures which will enable the Bank to produce satisfactory results again. Direct and rapid action was possible first and foremost on the reduction of costs. Consequently, operating expenses contracted by around €700m, or 12%, in 2002 to €5.15bn, thereby easily improving on the target of €5.5bn. Apart from the deconsolidation of Rheinhyp, the main factors here were both personnel expenses – the reduction of staff by 3,400 under the 2001 cost-cutting offensive has largely been completed – and non-personnel costs. The economies range from the purchase of materials to rental charges for premises and to IT projects.

The so-called cost-cutting offensive plus, resolved at the end of the first quarter of 2003, goes far beyond the measures described; its impact will be felt even in the course of 2003. Costs are to be pushed down to well below the €5bn mark. By end-2004, we expect a cost base of around €4.5bn, almost €1.5bn lower than in 2001.

#### Five-point programme for raising efficiency

- |                                     |   |
|-------------------------------------|---|
| Cost-cutting offensive              | <input checked="" type="checkbox"/> implementation better than planned  |
| Credit check                        | <input checked="" type="checkbox"/> problem loans identified and solutions set in motion                                      |
| Pricing offensive                   | <input checked="" type="checkbox"/> first positive effects through wider margins, termination of special terms and conditions |
| Structural und personnel measures   | <input checked="" type="checkbox"/> Some new recruitments for key positions   |
| Disposal of non-strategic interests | <input checked="" type="checkbox"/> Interests in financial and industrial companies reduced or sold                           |

#### The Commerzbank share

Bearer shares	803 200
Reuters	CBKG.DE
Bloomberg	CBK GR
ISIN	DE0008032004

#### Capital-market communication

Last year as well, we used all the available instruments to enable us to respond adequately to the increased demands for communication that meets the needs of the capital market. Apart from Investors' Day 2002, these included a number of analysts' meetings and events for investors, conference calls and roadshows, as well as group and individual discussions.

At the same time, the number of private investors wishing to be actively included in our investor relations activities also continued to rise. We see this as an opportunity to broaden Commerzbank's shareholder base and to cater more than in the past to the demands of this target group. Primarily, we use the internet and e-mail services for this purpose.

#### Internet

Our internet re-launch last year marked a further extension and improvement in the service we provide for analysts and shareholders. With our new corporate design and under the Commerzbank slogan "ideas ahead", our website is now even easier to navigate and user-friendly. We are seeking in this way not only to step up communication with our stakeholders, but also to cultivate the dialogue with our private and institutional investors. The internet will become even more important in this connection. As the figures for internet participation over the past few years reveal, the trend towards following both analysts' meetings and parts of the AGM live on the screen is unbroken.



### Commerzbank's 2003/2004 financial calendar

May 7, 2003	Interim report as of March 31, 2003
May 30, 2003, 10.00 a.m.	AGM, Festhalle, Frankfurt am Main
August 6, 2003	Interim report as of June 30, 2003
November 11, 2003	Interim report as of September 30, 2003
February 18, 2004	Annual results press conference 2004
May 12, 2004	Interim report as of March 31, 2004
May 12, 2004	AGM, Jahrhunderthalle, Frankfurt am Main
Early August 2004	Interim report as of June 30, 2004
Early November 2004	Interim report as of September 30, 2004

All the major Commerzbank corporate news items are also available from "Investor Relations" on our homepage: [www.commerzbank.com](http://www.commerzbank.com).

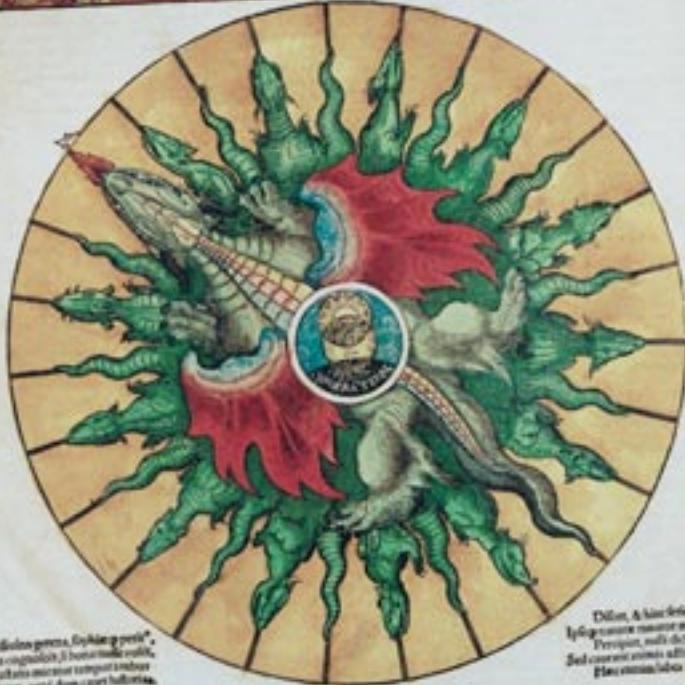
### Strategic decisions

2003 will be a decisive year for Commerzbank. In the present phase, the management has taken a clear decision to maintain the adopted course; the Bank will become even more aware of its strengths and will increase concentration on its core competencies in order to return to profitability. This is why we have stated quite unequivocally that everything, without exception, is up for scrutiny that does not help us reach our target of earning the cost of capital of around 10% in each business line.

In addition to the already-described cost-cutting offensive, an overhaul of our investment portfolios is needed, for both our industrial and financial shareholdings, and the Bank's risk-weighted assets have to be kept stable, with the aim of holding the core capital ratio (Tier 1) constant at no less than 7%.

Commerzbank will continue to be active in its home market, Germany, and in highly promising and especially strong-growth regions in Europe – complemented by a few profitable overseas units, particularly in the United States.





Mitserum, diuina genita, exulta p' p'ri,  
Hic s'c'c'og'li'c' il bon' m'nd' m'nd'  
Nam p'rt'li'c' m'nt' r'g'li'c' h'li'c'  
D'li'c'li'c', v'c' d'm'c'v' h'li'c'  
Ap'li' f'li'c' p'f'li'c' m'nd' m'nd'

D'li'c', & h'li'c' d'li'c' l'c'c' l'c'  
l'c'c' l'c'c' m'nd' m'nd' m'nd'  
P'c'c'c', m'nd' d'li'c' d'li'c'  
S'c'c' c'c' c'c' m'nd' m'nd' m'nd'  
H'li'c' h'li'c' h'li'c' h'li'c'



Marienbibliothek  
zu Halle an der Saale  
gegründet 1552

heilsamen  
Teutschelands/  
essen der heilsamen Küst  
zusamē getragen/Durach  
bunm Hoggelium/der  
oetom zu Basel.



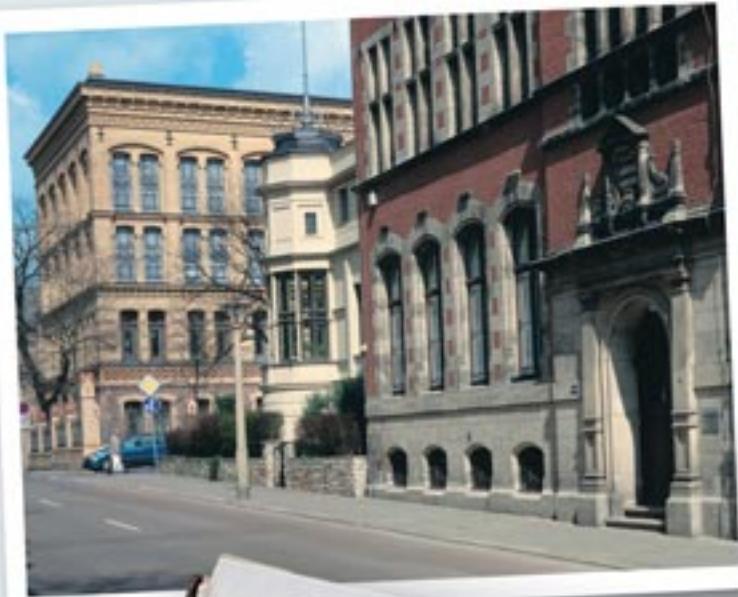
## Marienbibliothek Halle

In 1552, Halle's town council had a library set up for the scholars and citizens of the town. It was modelled on Martin Luther's treatise of 1524 "To the councillors of all German towns", in which he gave precise instructions for building up libraries for academic and general education purposes. In addition to editions of the Bible and commentaries on it, they should comprise works of all the contemporary areas of knowledge: philosophy, philology, mathematics, astrology, astronomy, medicine, and above all "chronicles and histories ... for these are extremely useful for recognizing and steering the course of the world." Today, the Marienbibliothek has around 30,000 volumes of virtually

inestimable value, including roughly 600 incunabula, autographs and first editions.

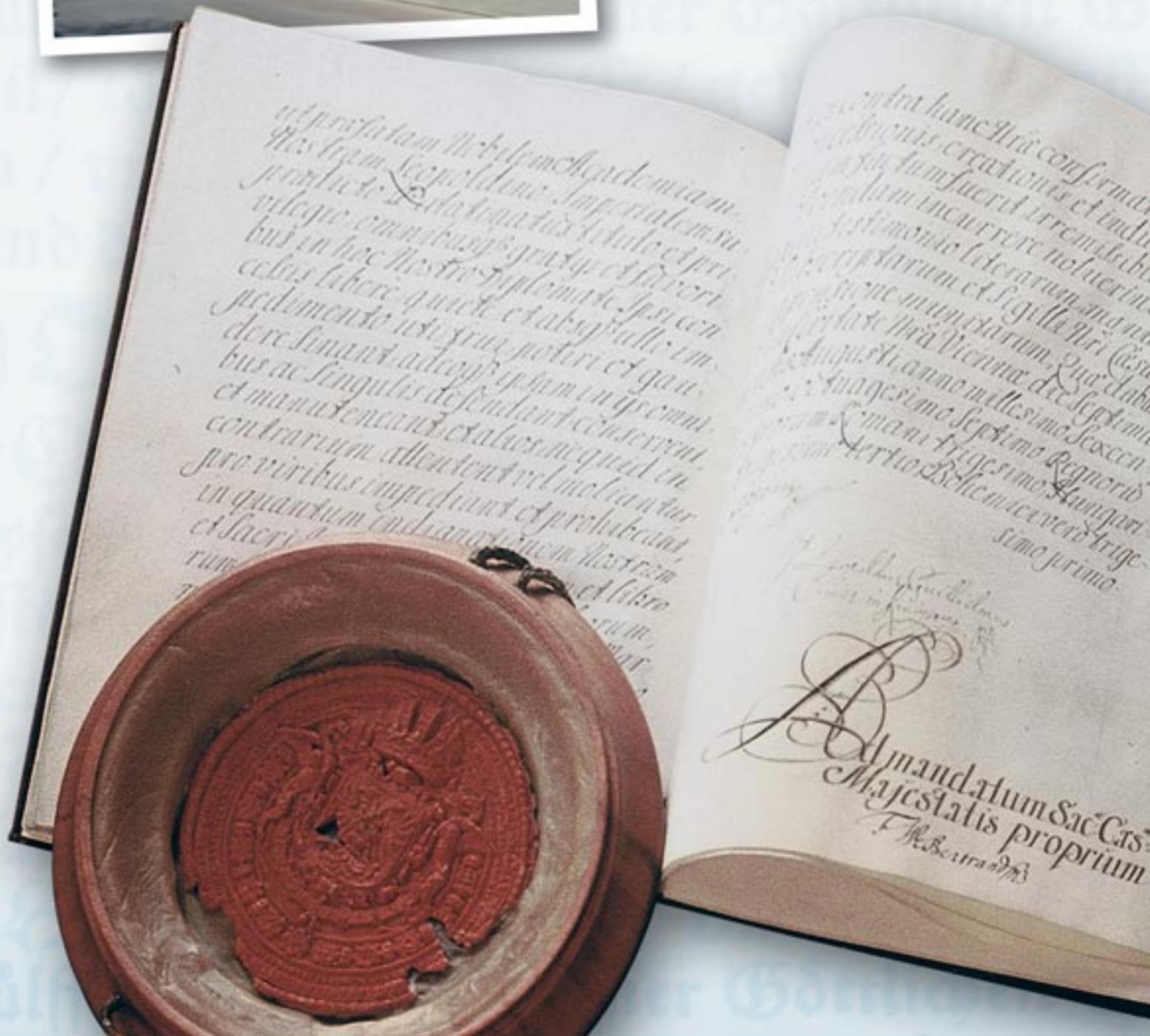
As the library has withstood the test of time unharmed, it represents by virtue of its very completeness a top-ranking scholarly and cultural monument. The place where the Marienbibliothek is located today is also a monument of a special kind: in 1889, it moved into a building, whose stacks for the first time consisted of a three-storey steel construction, open on all sides, making it possible to reach each book without using steps – at the time, the very latest casting technique from Saarland.

# Deutsche Akademie der Naturforscher Leopoldina Halle (Saale)



The Deutsche Akademie der Naturforscher Leopoldina was founded by four physicians in Schweinfurt in 1652 and is thus Germany's oldest "learned society". In 1687, it was given the title of an "imperial academy" and received various privileges, including complete freedom from censorship. Since 1878, it has been based in Halle (Saale).

The Leopoldina has successfully defended its academic independence and international character in the face of all the upsets of more recent German history. One of the main concerns of Germany's academies of the sciences is to maintain a dialogue across national and academic boundaries. In order to strengthen this process, the Leopoldina, in conjunction with the Berlin-Brandenburg Academy of the Sciences, has established the "Young Academy", whose members devote themselves to interdisciplinary scholarly discourse at the interface between scholarship and society.



# risk report

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## Risk strategy

Commerzbank's risk strategy establishes the principles for the professional handling of risk. It is laid down, periodically examined and adjusted if necessary by the Board of Managing Directors of Commerzbank. Responsibility for implementing the risk strategy is borne by the Chief Risk Officer.

As a fixed component of all business activities, risks entail not only potential losses but also opportunities; they thus represent an essential factor in the generation of earnings. In order to limit risk for the Bank as a whole, the overall risk appetite is initially determined as the loss ceiling established by the Board of Managing Directors, taking into consideration the Bank's risk-taking capability.

If risk is to be adequately measured and managed, it must be identified extensively and completely. The professional quantification of risk which is developed on this basis is mainly performed applying best-practice approaches, adapted, however, to the special needs of Commerzbank and new market conditions, the suitability and the information value of the approaches being constantly examined. Undesirable risks are minimized by means of a proactive management and control of risk and also through the active use of techniques and instruments for mitigating risk.

The Board of Managing Directors are able to balance risk and opportunity thanks to regular comprehensive and objective risk transparency, which also permits market participants to assess the Bank's current risk situation.

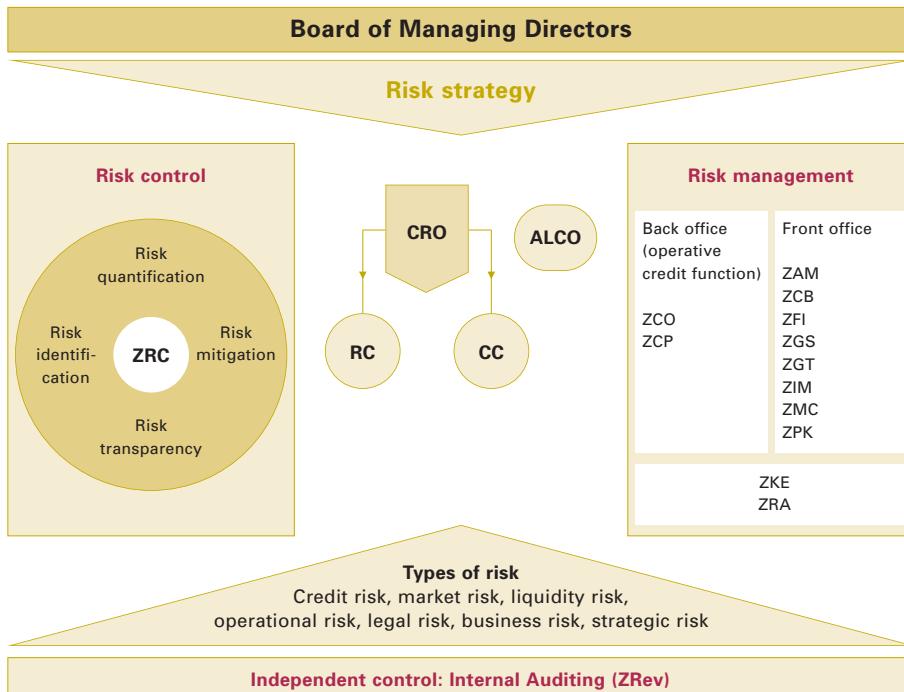
In regulatory and economic terms, the use of capital-saving approaches for calculating regulatory capital pursuant to Principle I of the German Banking Act (KWG), and in future Basel II, is of prime significance for Commerzbank. In addition, the calculation and allocation of economic capital serves to represent the Bank's overall risk as well as the risk inherent in a given business line or individual transaction. It is necessary to take economic capital into consideration in the risk and earnings-oriented management of the Bank as a whole, as sustained profits can only be achieved by maintaining the right relationship between risk and return, and an optimal use of capital helps increase shareholder value.

## Risk management/risk-control organization

For us, risk management implies all the appropriate measures for increasing the Bank's market value on the basis of an active and conscious management of all risks by the risk-management units. Risk control, however, comprises the identification, measurement, limitation and monitoring, as well as the reporting of risks. On the basis of the quantitative and qualitative assessments which it performs, the risk-control unit also provides recommendations and impulses for the operative steering of the units involved in market activities.

The risk-policy guidelines are laid down by the Board of Managing Directors. As a member of this body, the Chief Risk Officer (CRO) is responsible for their implementation throughout the Group. In addition to assuming responsibility for the Risk Control (ZRC) staff department, the CRO is also in charge of the Global Credit Operations (ZCO) and Credit Operations Private Customers (ZCP) banking departments.

### Risk-management/risk-control organization



Through the creation of special committees to bundle and monitor decisions relevant for risk, the Board of Managing Directors are supported in their decision-making. The Risk Committee (RC), chaired by the CRO, primarily deals with all topics related to market, credit and operational risk and the Bank's overall risk situation.

The New Product Committee (NPC), a sub-committee of the Risk Committee, is made up of representatives of various trading units and service departments and is chaired by the head of ZRC. It is responsible for approving the introduction of new products and markets.

The Operational Risk Committee (OpRiskCo), chaired by ZRC, performs its function as a sub-committee of the Risk Committee in dealing with all the broader issues relating to operational risk.

Within the overall hierarchy of loan approval powers, the Credit Committee (CC) – similarly chaired by the CRO – decides, by taking ratings into consideration, all of Commerzbank's lending commitments up to 2% of its liable equity and also issues a recommendation on all the credit decisions to be taken by the Board of Managing Directors.

The Asset Liability Committee (ALCO), chaired by the management board member responsible for treasury, determines the Bank's asset/liability and liquidity strategy.



### Risk-control organization

Risk control at Commerzbank is entrusted for all types of risk to ZRC. With its globally-oriented organizational structure, the Risk Control department assumes a key role in implementing the risk policy established by the Board of Managing Directors.

Apart from creating risk transparency and controlling the Commerzbank Group's overall risk, aggregated for all the different types, Risk Control is committed to developing an ever more sophisticated risk and return-oriented management for the Bank as a whole. The core functions of ZRC within the risk-control process also include the calculation, analysis and reporting of market, credit and operational risk in particular and also their proactive control. In addition, its main duties comprise the development of guidelines for dealing with market, credit and operational risk, and also the conception of methods for their calculation.

Apart from implementing supervisory requirements (on the topic of risk), ZRC concentrates on preparing information for the Board of Managing Directors and producing quantitative risk analyses and key ratios for steering trading positions. At the same time, ZRC also performs an internal advisory function on all risk-relevant issues.

### Risk-management organization: the credit function

With a view to greater efficiency and to the "Minimum requirements for the lending business of credit institutions" (MaK), the operative credit function, or credit analysis and approval (back office), in the corporate and retail-customer segments has been restructured. The back-office units for corporate business worldwide are bundled in the Global Credit Operations department (ZCO), while those for German retail-customer business are assembled in the Credit Operations Private Customers department (ZCP). Both departments report directly to the CRO.

The ZCO management is in charge of four back-office units, grouped into three areas (one each for the so-called white area (rating segments 1.0 to 4.0), intensive treatment and Financial Institutions/Investment Banking). For German branch business, it has the support of four regional credit officers (RCO) and, for credit business outside Germany, of three RCOs (one each for Europe, America and Asia). The geographical scope of the RCOs' responsibilities is identical to that of the regional board members and covers the entire range of credit business, including intensive treatment. The revision of reporting lines in Germany was completed by January 1, 2003. The corresponding changes in the structure for units abroad will take place in the course of 2003.



In retail-customer business, credits were processed in the past at 62 regional locations. Credit analysts were responsible for both the lending decision and the subsequent processing of the credit. The new organization approved in 2001 concentrated credit analysis and approval at six credit centres placed under the charge of six regional credit officers, who report to the management of ZCP.

In both corporate and retail-customer business, credit-approval powers have been revised and adapted to the new conditions. The principle of committee decision-making was strengthened. All committees are chaired by credit-analysis and approval specialists, who have the right to veto decisions. Below management board level, a credit may not be granted if the representative of the back-office side votes against it. At each level of approval, the front-office side has the possibility of declaring its disagreement. The decision is then taken at the next highest level. This new organizational approach guarantees that credit decisions are independent of the sales side, as required by the Minimum requirements for the lending business of credit institutions, and ensures this right up to management board level.

#### **Risk-management organization: operative risk steering**

Risk management in the narrower sense – the operative steering of risk – is handled for the various types of risk by the relevant trading units: ZGS (Securities), ZGT (Group Treasury) and ZAM (Asset Management), and also by ZPK (Retail Banking), ZCB (Corporate Banking), ZFI (Financial Institutions), ZMC (Multinational Corporates) and ZIM (Real Estate). Within the scope of their business activities, the risk-management units bear immediate responsibility for earnings and risks. Insofar as systems, procedures and technology are involved, the head-office service departments are responsible for managing operational risk.

The Legal Services staff department (ZRA) is entrusted with the steering of legal risk. Responsibility for strategic risk lies with the Strategy and Controlling staff department (ZKE).

#### **Management of the Bank as a whole**

As part of the calculation of risk-taking capability, the risk currently measured for the Group is set off against the risk capital. The purpose of this comparison is to ascertain whether the Bank is in a position to anticipate potential unexpected losses without serious negative effects on its business opportunities and to cushion their impact. In order to distinguish it from other definitions of capital used in accounting, the calculated risk is also referred to as economic capital, as it is economically necessary for cushioning unexpected fluctuations in results.

Economic capital breaks down into the quantification of market risk, credit risk and operational risk. In the case of market risk, a distinction is also made between market risk in the trading book and in the banking book, as well as that arising from strategic and non-strategic investments. For all types of risk, the economic capital relates to a period of twelve months per balance-sheet date and also to a confidence level of 99.80%. Through the aggregation of the various risks, taking into account the effects of diversification, the economic capital of the Commerzbank Group as of December 31, 2002 stood at €3.5bn.



The chart on the right shows the percentage share of the various types of risk in the Bank's overall economic capital.

Apart from guaranteeing that the entire Bank has a capital base that is adequate for its risk profile, the objective of an approach that covers the Bank as a whole is to allocate the resource equity as optimally as possible – in other words, to use it in business lines which yield a strong return even when taking risk into consideration. It is basically possible to work out risk-adjusted performance because the various business lines are assigned not only the regulatory core capital that is tied up (KWG Principle I) but also the economic capital allocated to them.

### Definitions

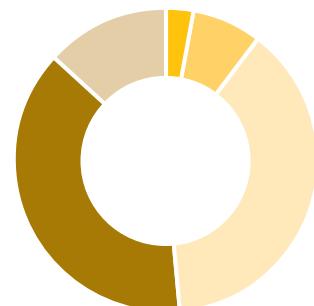
A uniform interpretation of risk is indispensable for creating an awareness of all types of risk within the Bank. These are defined as follows:

- *Credit risk* is the risk of losses or lost profits due to unexpected defaults or unexpected deterioration in the creditworthiness of counterparties. In addition to this, credit risk covers above all issuer risk, counterparty risk and country risk.
- The general *market risk* represents the potential loss of a portfolio due to changes in share prices, exchange rates, precious-metal/commodity prices or interest rates in the market as a whole and their volatilities. The specific market risk (spread risk) covers the risk of loss due to changes in price of individual interest-rate and equity-based financial instruments relative to changes in the relevant market indices – which are reflected by the general market risk.

The specific risk breaks down into the residual and the event risk.

- | The *residual risk* is the risk that the price of a financial instrument will constantly change over time vis-à-vis the market.
- | The *event risk* directly reflects changes in the form of a sudden event (e.g. changes in creditworthiness) “within the sphere” of the issuer of the relevant financial instrument.
- *Liquidity risk* is the risk of the Bank not being able to meet its current and future payment commitments. The market-liquidity risk describes the risk that the Bank is unable to settle or hedge its trading positions on time to the desired extent.
- *Operational risk* is the risk of loss resulting from inadequate or defective internal processes and systems, human and technical failures, or from external events. At Commerzbank, legal risk is defined as part of operational risk and results from inadequate contractual agreements or the overall legal framework.
- *Business risk* is the risk of unexpected negative developments in results, which may be due to both the adopted business strategy and unexpected changes in business volume or average margins on account of new overall conditions for the Bank or of business cycles.
- *Strategic risk* is the risk of unexpected negative developments in results stemming from fundamental decisions. These may take the form of decisions with regard to business lines or business associates or the choice of a local strategic approach.

**Economic capital,  
by type of risk**



2.9% Market risk (trading book)
7.4% Market risk (banking book)
38.2% Market risk (equity holdings)
38.3% Credit risk
13.2% Operational risk

- *Reputational risk* is the danger of losses or lower earnings on account of negative business occurrences which have become known to the public and which erode confidence in the Bank.

### New supervisory requirements: Basel II and MaK

One of the principal goals of the new Basel Capital Accord – called Basel II\*) for short – is to promote and ensure the stability of the banking and financial system. Basel II involves a change of paradigm for the banking sector, leading to banking supervision that focuses more on quality. For this reason, it contains requirements causing banks to monitor the risks they assume more closely, whereby the economic and the regulatory views of risk will converge. The analysis of risk at portfolio level required by Basel II makes possible a rational and target-oriented implementation of the capital adequacy rules as part of the management of risk within the Bank as a whole.

The Basel II-project team, launched in 2001 in the Risk Control department, continued its activities last year and, working with the banking departments, staff departments and subsidiaries, co-ordinated implementation throughout the Group of the requirements to be met. While the main emphasis continues to be on Pillar I, numerous projects related to Pillars II und III were begun in 2002; all the targeted milestones, such as successful participation in the third quantitative impact study (QIS 3), were achieved. In addition to the technical and specialist work of implementation, the Basel II project is already looking into the time "afterwards", i.e. the impact of the new capital adequacy rules, and is instigating the relevant activities. As regards the substantive issues, Commerzbank plays an active role in international and national bodies such as the Institute of International Finance (IIF) and the risk-policy committee of the Bundesverband deutscher Banken (Association of German Banks).

On December 20, 2002, the German Financial Supervisory Authority published the Minimum requirements for the lending business of credit institutions (MaK), which define qualitative standards for the organization of credit business and became effective with the publication of the circular. At the same time, banks are being allowed up to June 30, 2004, for implementation purposes (first stage of implementation). The necessary adjustments to IT have to be implemented in a second stage up to December 31, 2005.

The requirements mainly focus on ensuring an appropriate risk environment, within which credit business may be conducted. Banks are obliged, therefore, to create and internally implement the overall conditions for establishing the appropriate organization and procedures for credit business and also for the development of methods for identifying, steering and monitoring credit risk.

Prominent among the overall conditions is the formulation of a credit-risk strategy, in which credit activities are defined for an appropriate planning period. This should reflect a bank's ability to take risk as well as an analysis of the given business situation and an assessment of the risks related to credit business.

The core requirement as regards organization is the separation of the front and back-office functions. The credit-risk control function consists of an independent monitoring of risk at the port-folio level and also independent reporting.

Major requirements, such as the implementation of risk-classification methods and standards for loan-approval procedures, and also the organizational separation of the front and back-office functions, have already been met by

\*) We presented an overview of the Basel II requirements in our 2001 risk report.



Commerzbank. In the year under review, an MaK project was launched within ZRC, which – in close coordination and cooperation with the Basel II project – ensures that the MaK requirements are implemented throughout the entire Group.

## Risk-control/risk-management process

### Monitoring and controlling of credit risk

#### Rating process and rating procedures

##### Corporate business

Since the early nineties, Commerzbank has had recourse to detailed rating and scoring procedures for checking creditworthiness and standardizing credit decisions. These are binding for our branches and subsidiaries in Germany and elsewhere. Borrowers are assigned to ten different rating levels, ranging from 1.0 (exceptionally good creditworthiness) to 5.5 (very weak creditworthiness) as well as two rating levels for problem loans (6.0 and 6.5 for work-out commitments). The rating for German *Mittelstand* clients is calculated with the help of a team of experts who analyse the key figures of the financial statements, also taking qualitative company data into account.

In the validation of ratings, the rating methods employed in corporate business were subjected to even more intensive scrutiny last year. Benchmarking against Moody's RiskCalc™, an external system for checking creditworthiness, and numerous other analyses by international rating agencies have again underlined the very high quality and precision of the methods used, especially the mechanical rating method for small to medium-sized businesses (CODEX). A statistical default model was developed on the basis of the key figures of the financial statements, which can similarly serve as a benchmark for our rating methods in corporate business.

##### Retail-customer business

In its retail lending, Commerzbank has successfully used application scoring procedures and rating methods for assessing the creditworthiness of both dependently employed borrowers and business customers for several years now. All of these methods are computer-based and draw upon acknowledged and highly reliable, predominantly mathematical-statistical methods for the early recognition of risk.

For more than two years, Commerzbank has employed a behavioural-scoring procedure on a nationwide basis, which – monitoring in-payments and the customer's payment record – makes a permanent and fully automatic monitoring and adjustment of limits possible for over one million customers maintaining accounts for payment transactions.

By end-2001, we already had the complete range of procedures that are relevant for ratings, whose employment depends, for example, on the customer group in question or the use to which the credit is to be put. Last year, Commerzbank modified its behavioural scoring in order to make possible a constant computer-based evaluation of the creditworthiness of dependently employed borrowers. This fulfils even today a regulatory requirement which will become effective in 2007 when the new Basel Accord is implemented. As a rule, it is not

necessary for borrowers to become involved in this process (e.g. by making available income statements, etc.).

#### **Validation procedure**

The Bank is developing a validation procedure which, depending on the available data, is suitable through the use of adequate methods for checking the ability of every internal rating system to classify risks properly. In a first step, all rating procedures were examined in detail to establish their ability to validate.

Given the constant further refinement of rating procedures, the main focus at present is on professional checks and documentation in order to ensure that ratings cover all of the Bank's lending commitments and that the rating procedures are applied uniformly in the branches. Due not least to the new Basel capital adequacy rules, all the rating procedures are being gradually linked up with the central historical database for ratings, so that all the parameters relevant for ratings are available for the necessary simulations and validation measures. At the same time, the technical aspects of many rating systems are being revised.

In the area of credit risk, the Basel II project is adopting all the measures for implementing the IRB (Internal Ratings-Based) Foundation Approach. Parallel to this, Commerzbank is considering a switch to determining the required equity backing with the aid of the IRB Advanced Approach.

#### **Quantification of credit-portfolio risk**

In the meantime, credit-portfolio models have become a regular feature of most banks' internal control and are preparing the way for future recognition by regulators as the basis for working out the capital required to back credit risk ("Basel III"). The demands made on such models range from the global, group-wide monitoring of portfolios to measuring risk contributions for individual transactions.

The main result produced by a portfolio model is the so-called loss distribution, permitting probability statements on possible losses in credit business. From this, both the expected loss (standard risk costs [SRC]) and the unexpected loss (credit value-at-risk [credit VaR]) are derived. For a given confidence level, the credit VaR represents an upper estimate of the extent to which the potential loss of the credit portfolio may exceed the expected loss. In connection with the analysis of the Bank's risk-taking capability, a confidence level of 99.80% is used.

Quantification of the credit value-at-risk within the Commerzbank Group is based on the CreditRisk+™ model, which is widely used in banking; however, it has been substantially refined and adapted to the specific requirements of Commerzbank. Among other things, the model also makes possible a risk-adjusted redistribution of the portfolio and diversification effects between the individual business lines. In this way, the relative share of the overall credit risk borne by the individual units can be determined.

A variety of risk factors are covered by the model. Apart from conservative assumptions regarding the exposure to be expected in the case of default and the recognition of netting effects, these also incorporate such statistical quantities as default rates, recovery rates and sectoral correlations. The input

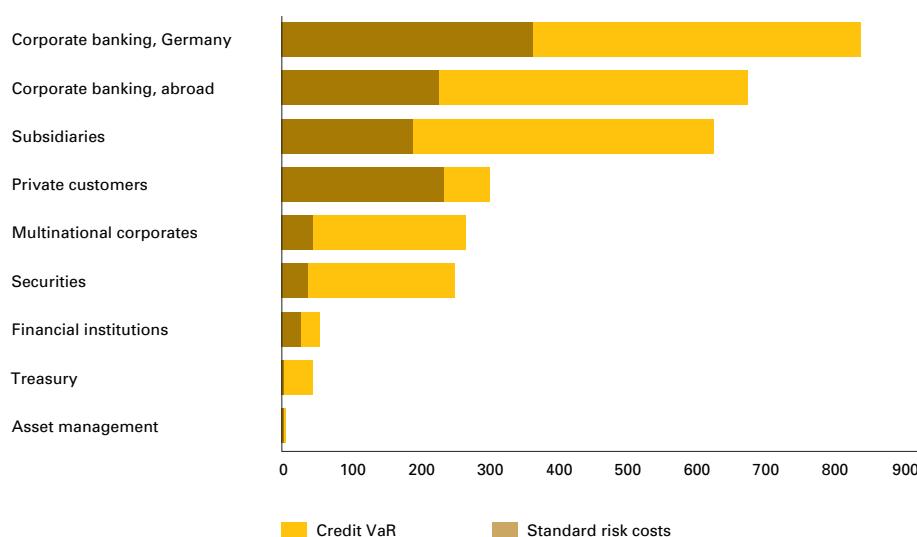


parameters for calculating risk are constantly being adjusted to the changing overall conditions. Here, the results of the statistical methods of estimation implemented as part of the Basel II project are taken into consideration. In the course of the year, the adjustments combined with rising default rates and deteriorating upgrade/downgrade ratios led to a general increase in risk ratios.

The chart below shows the contributions of the various business lines to the SRC and the Group's credit VaR. In the traditional *Mittelstand* segment, where the Bank's main credit risk develops, the ratio of unexpected to expected risk is more or less balanced. In business involving multinational corporates and in investment-banking areas, however, the risk of unexpected loss dominates, whereas, the expected loss plays the main role in retail business, given its high level of diversification.

#### **Standard risk costs (SRC) and credit value-at-risk (CvaR)**

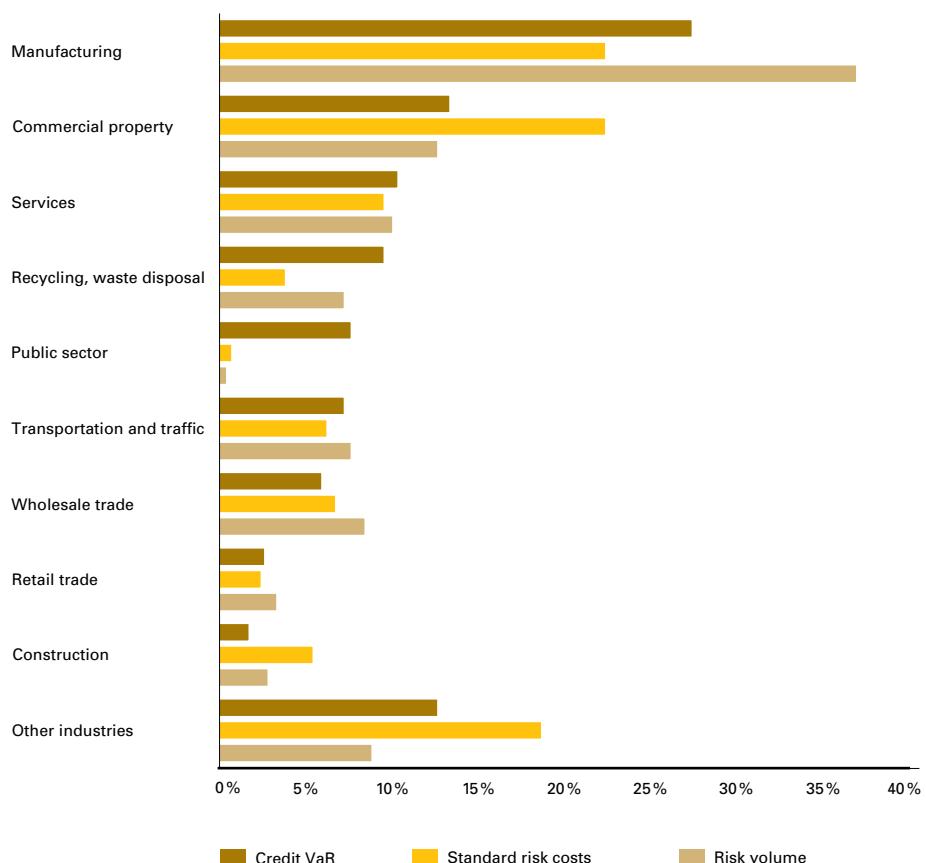
breakdown by business line, in € m



A further chart (page 68) shows the share of individual industries in the credit risk of commercial banking. Once again, the shares of SRC and credit VaR appear here, with the shares in so-called risk volume also presented. The risk volume of an individual transaction is defined as the forecast loss in the case of a customer's default (with collateral and recovery factors taken into consideration); it may, therefore, be interpreted as a risk-adjusted credit volume.

Apart from their role in measuring risk, which has been discussed above, the standard risk costs are also used in calculating performance in customer business and in managing the credit portfolio. In actual costing, the standard risk costs provide sales staff with customer-specific signals. In working out return on equity (RoE), standard risk costs serve as a control variable at different levels of aggregation, ranging from the individual transaction to the business line as a whole. In preliminary costing for new and additional credits, the standard risk costs are included as an insurance premium for future defaults. The systematic integration of standard risk costs into the RoE calculation ensures that uniform methods are applied in making credit risk relevant for lending decisions. This ensures that a risk orientation prevails in the selection of lending commit-

**Risk volume, standard risk costs (SRC) and credit value-at-risk (CvaR)  
breakdown by industry, in per cent**



ments and also that creditworthiness is reflected in pricing. A bottom-up process is involved here, in which the point of sale is responsible for steering and develops an awareness of cost.

#### Credit-approval powers

Commerzbank's structure of rating-related credit approval provides the basis for optimally managing credit risk throughout the entire Bank. Credit decisions for individual borrowers or groups of borrowers are made on the basis of either the aggregated exposure pursuant to Art. 19, (2), German Banking Act – KWG (borrower unit), or a larger economic risk entity. The relevant level of credit approval is determined by the size of the credit and the rating.

#### Limit-monitoring procedure for trading activities

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 globally, in real time, and right around the clock. In addition to such information, trading units are provided with data on whether the relevant limits are available. Only if the so-called pre-deal limit check has confirmed that free trading lines are available may deals be concluded. Limit breaches are reported daily to the

management. By means of a graduated procedure, such overruns are brought back to within the set limits.

#### **Development of risk and risk provisioning**

We take account of discernible credit risks by forming the appropriate provisions. For latent risks, we form general provisions. For concrete creditworthiness risks of individual borrowers – 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. For credits with a rating of 6.0 or work-out commitments, the amount of provisioning required 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. For loans to borrowers with an enhanced country risk (transfer or event risk), provisions are formed, if necessary, on the unsecured credits, reflecting the relevant internal country rating, in the form of provision for country or individual risks. Here we always give priority to the latter type.

Problem credits are classified by rating and kept in a special IT system, which makes it possible to process individual transactions effectively and to monitor risks. We regularly monitor the adequacy of our provisioning at the portfolio level. In addition, on the basis of careful estimates, the Commerzbank Group's expected need for provisions throughout the year as a whole is worked out each spring and autumn.

#### **Country risk**

Due to the international character of the Bank's business, the monitoring and management of country risk is especially important. Country ratings are worked out and constantly updated independently by a group in the Corporate Communications and Economic Research department.

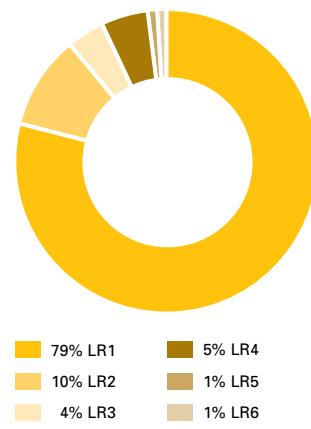
A few years ago, a so-called traffic-lights system was introduced which points the direction for future lending. The system covers a group of countries with a rating of 3.0 and lower and a certain minimum exposure. It distinguishes between commercial and investment banking, on the one hand, and short and medium/long-term exposures, on the other.

Country risks/exposures are monitored at monthly intervals. A reporting system is used for possible discrepancies between the projected trends and the actual development of the Bank's exposure, enabling counter-measures to be taken promptly. Country-risk reports appear at periodic intervals, describing the development of individual countries and regions and establishing guidelines for future lending. In this way, we achieve risk-oriented control and geographical diversification in our exposure abroad.

#### **Reporting**

CoMKIS, Commerzbank's central management credit information system, brings together and presents the main steering parameters and risk ratios for credit business. As an instrument of control, CoMKIS presents important risk structures – relating, for instance, to industries and ratings – and also makes possible differentiated and flexible portfolio analyses. In particular, various search criteria and early-recognition indicators can be defined for analyses of weak points.

#### **Country risk, by rating group**

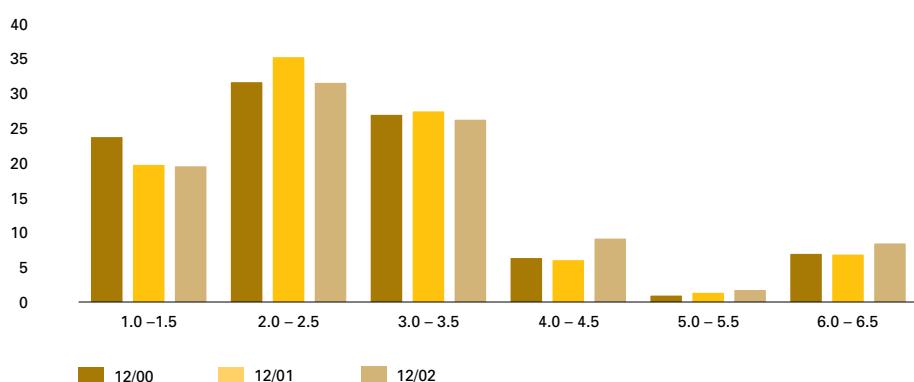


Among other things, the information presented on domestic and foreign lending business forms the basis for the credit section of the monthly risk report, decentralized portfolio controlling at both the Bank's branches and its operative foreign outlets, and also the basis for risk-limiting measures that have to be initiated.

Since 2002, the portfolio information system has been available locally for the credit departments of our units abroad. Here, the country exposure data have also been integrated, which can be accessed via intranet by an authorized circle of users. In addition, new indicators for measuring portfolio quality are provided. These are rating-migration analyses, including the related upgrade/downgrade ratios. This information is a regular component of regular credit-risk control.

#### Borrowing, by rating structure

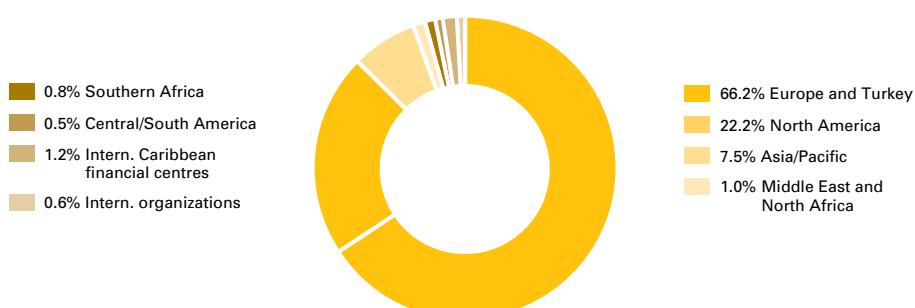
Parent Bank, per 31.12.2002, in per cent



For 2003, we plan to refine CoMKIS further by integrating more key figures to create a Group-wide information system for credit business.

Credit risk arising from trading transactions is reported on the basis of the Minimum requirements for the trading activities of credit institutions (MaH). Limit breaches are reported daily to the management. In addition, the management is informed every month about the largest drawings in off-balance business. Furthermore, limits and exposures are reported by type of business, maturity of transaction, country, risk classification and counterparty category. Portfolio reports are prepared on a regular basis for certain groups of counterparties.

#### Regions of foreign exposure

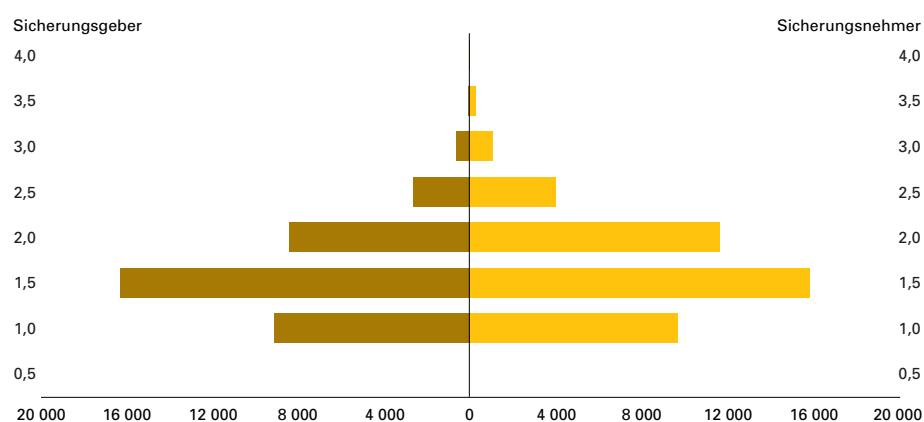


## Credit derivatives

Commerzbank successfully conducts credit derivative transactions – primarily in proprietary trading – as a market maker, above all for credit default swaps (CDS). In addition, its acquired expertise is employed selectively for using banking-book products both as hedges and as part of investments for the Bank's quite conscious diversification of its credit portfolio.

### Credit derivatives of trading book

Reference assets, by rating class, in € m



## Asset securitization

Commerzbank AG is one of the leading issuers of ABS/MBS transactions in Europe. The main emphasis in its issuing activity is in the structuring

- of synthetic securitizations (here the transfer of risk takes the form of credit-linked notes and credit default swaps) and
- of true-sale securitizations (as part of the asset-backed commercial paper (ABCP) conduit programme "Kaiserplatz Funding Ltd.").

Primarily, private and commercial mortgage loans and also corporate credits and commercial bills serve as the underlying assets. At the same time, Commerzbank invests to a reasonable extent in ABS issues.

Commerzbank uses securitizations according to the definition of the new Basel capital accord (Basel II) as an originator for the purpose of reducing its regulatory capital and for the conscious sale and hedging of credit risks. In 2002, the Bank also availed itself here of the opportunity to cooperate with Kreditanstalt für Wiederaufbau (KfW) in connection with provide-and-promise platforms.

The following table presents an overview of Commerzbank's securitized assets (nominal volume of in-house securitization programmes as of December 31, 2002):

	Nominal amount in € m
Collateralized loan obligations (CLO)*	6,960
Residential mortgage-backed securities (RMBS)	6,165
Trade bills*	332
	<b>13,457</b>

\* As CLO and trade-bill securitizations also represent revolving pools, the actual securitized volume in 2002 was €25,553m and €1,530m, respectively.

### Monitoring and controlling of market risk

Since 2001, Commerzbank has used a model for the internal steering of specific interest-rate risks. Last year, it became one of the first banks to receive approval from the German Financial Supervisory Authority to work out the capital backing required for specific interest-rate risks on the basis of this internal model. This permits the Bank to save a significant amount of capital as far as this type of risk is concerned.

Commerzbank also uses an internal model to measure the capital required to cover general market risk; this model is used at the Parent Bank and its foreign branches and covers the equity (including residual risk), interest-rate and foreign-exchange risk categories.

### Value-at-risk approach

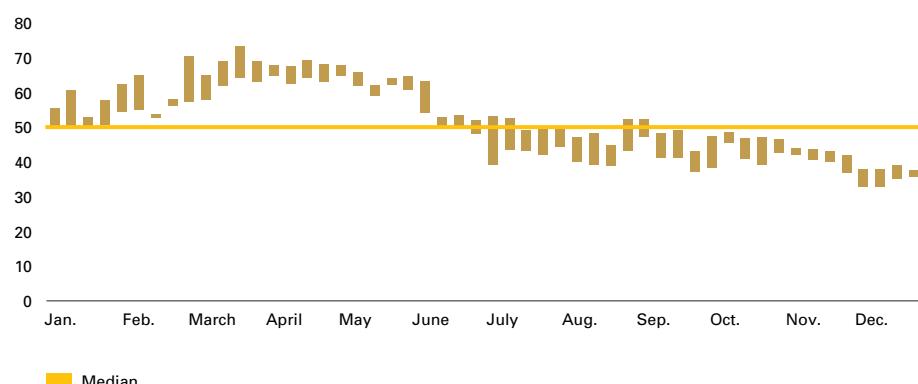
The value-at-risk (VaR) method is the procedure currently used by the majority of all internationally active banks for measuring market risk. The value-at-risk indicates the maximum loss in value of a portfolio with a given degree of probability (confidence level), whereby it is assumed that the composition of the portfolio remains unchanged during the holding period. A value-at-risk of €1m with a 99% confidence level and a one-day holding period means that a loss of more than €1m within one day will only occur with a probability of no more than 1%, insofar as positions remain unchanged.

At Commerzbank, a 1-day holding period and a confidence level of 97.5% is used for internal steering purposes. For external reporting – and for calculating regulatory capital – a confidence level of 99% is used. The resulting value-at-risk is additionally scaled to a 10-day holding period.

### Group value-at-risk in the course of 2002

Weekly highs and lows, in € m

1-day holding period; 97.5% confidence level





### Historical simulation for general market risk

Due to the complexity of the trading portfolios, Commerzbank employs the historical simulation method to calculate the value-at-risk for general market risk. Here, every day, the market changes of the respective past year (or more precisely: the last 255 trading days) are applied to the existing portfolio and the distribution of potential gains and losses is estimated. Changes in interest rates, currencies, equity prices and volatility are incorporated into the historical simulation. A special advantage of historical simulation is that it is fairly easy to calculate the overall risk on the basis of the individual results for lower portfolio levels.

### Variance-covariance approach for specific risk

Credit trading has become increasingly important in recent years. Unlike the situation with general market risk, the focus here is on simple OTC instruments, for which, generally speaking, only limited market data are available (e.g. credit spreads). Here the variance-covariance method is practical, since it always employs simple approximations for the risk factors themselves and is robust compared with historical simulation as regards the historical market data. The method uses covariances of the risk factors and the sensitivities of the portfolio value with regard to these risk factors in order to calculate the value-at-risk approximately. This does not use market-data scenarios as historical simulation does, but rather works out risk directly in the form of the portfolio's value-at-risk.

### Aggregated value-at-risk

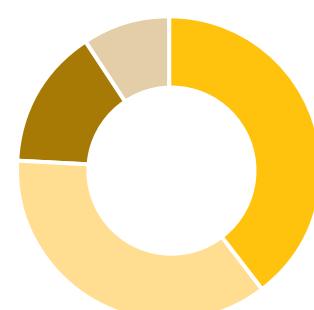
The Group-wide internal calculation of the value-at-risk covers the trading units ZGS and ZGT – due to restructuring within the ZGS/ZGT trading units, direct comparison with the year-ago figures is only possible to a limited extent – as well as the interest-rate and currency risks of Asset Management and the mortgage-bank subsidiaries. The following table shows the value-at-risk of the Group and the trading units. The minimal and maximal value-at-risk indicates the fluctuation range for the figures in the course of the year.

in € m	Group		Trading units			
			ZGS		ZTD/ZGT	
	2002	2001	2002	2001	2002	2001
Maximum	72.835	64.293	18.639	17.360	24.760	27.400
Median	50.468	46.929	9.919	9.508	15.602	6.538
Minimum	32.825	32.828	5.220	6.417	9.418	4.753
Year-end figures	36.985	54.164	16.234	13.504	14.876	12.964

### Back-testing

In order to assess the forecasting quality of the internal risk model for general market risk and for the specific interest-rate risk, and also in view of the supervisory requirements, the reliability of the VaR methods that are applied is regularly examined. This begins with a comparison of the forecast risks with the profits and losses which would have occurred under the assumption of unchanged positions (so-called "clean back-testing"). Accordingly, the VaR – based on a 1-day holding period – at the 99% confidence interval should be

Average percentage distribution of market risk per 31.12.2002  
1-day holding period;  
97.5% confidence level

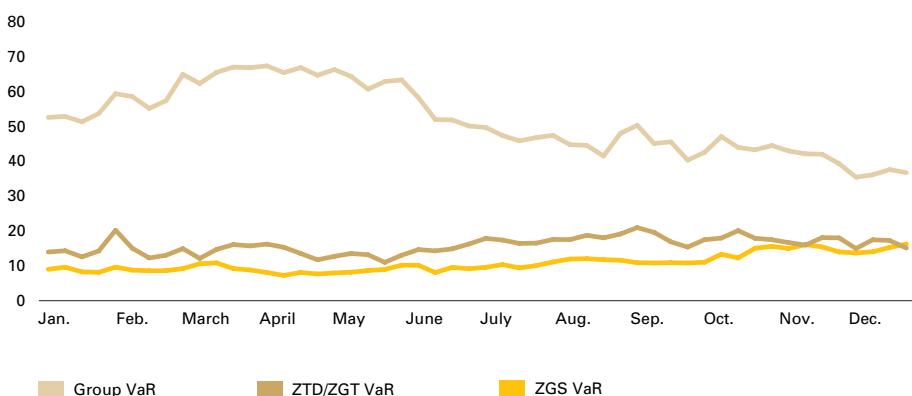


- 39.6% ZGS
- 36.3% ZGT
- 14.9% ZAM
- 9.3% Other

### Value-at-Risk in the course of 2002

Weekly averages, in € m

1-day holding period; 97.5% confidence level



exceeded by such a loss in merely 1% of all the trading days that are examined. The number of these exceptions forms the basis for the evaluation of internal risk models by the supervisory authorities, and consequently for calculating regulatory capital as well.

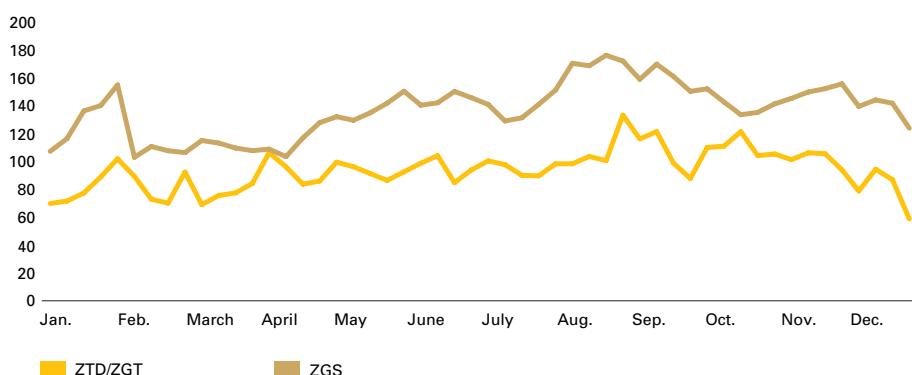
### Stress testing and sensitivity analysis

As the value-at-risk method does not, as a rule, take extreme market movements into account, the quality and reliability of risk quantification are complemented by additional analyses. On the one hand, these analyses consist of stress tests and evaluate the scale of losses under extreme market conditions, such as those which emerged in past crisis situations. As a rule, the assumed scenarios are based on long-term studies and relate to all the relevant markets. In some cases, past crises are also "reconstructed". The stress tests that are used differ from business line to business line and are adapted to accommodate individual portfolios.

On the other hand, sensitivity analyses are performed. These reveal the sensitivity with which the performance of a portfolio responds to a change in the risk factors (such as interest rates). The findings help us to manage trading positions.

### Stress test in the course of 2002

Weekly averages, in € m





### Interest-rate risk

The Commerzbank Group's interest-rate risk results from both trading-book and banking-book positions. In the banking book, interest-rate risks mainly arise through different maturities for the Bank's assets and liabilities – for example, due to the short-term funding of long-dated credits. In measuring interest-rate risks, we include both balance-sheet interest items and the related derivatives.

As for the trading book, the interest-rate risks of the banking book are measured using a net present value approach according to the historical simulation method (value-at-risk). This makes it possible to compare the interest-rate risk arising from both the trading book and the banking book and also to present the results in aggregated form at Group level, with portfolio effects included.

### Procedure for setting and monitoring limits

Commerzbank has developed a comprehensive system of limits for restricting market risk. It is based on the already-specified risk ratios as well as on other factors such as sensitivity ratios for traded products. The market-risk limits are determined by the Board of Managing Directors or the Risk Committee. The global market-risk limits have been assigned to specific sub-portfolios within the respective trading units and may only be altered by means of a formal process for changing limits.



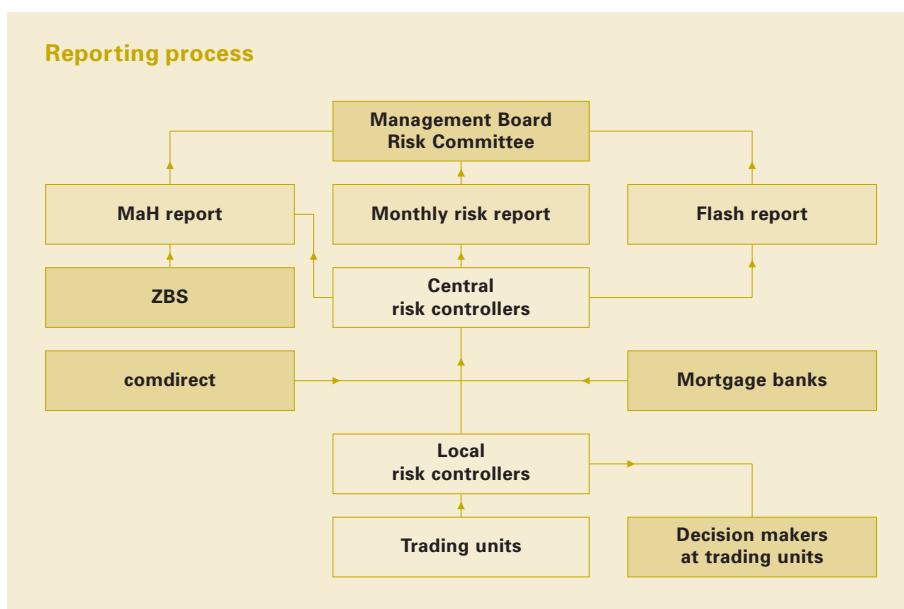
The daily monitoring of market risk examines the risk figures that have been generated to ascertain the utilization of limits and possible breaches. The risk controllers responsible for the individual trading areas constantly monitor the open trading positions and the ensuing risk. Apart from monitoring the overall positions, ZRC also examines all proprietary-trading transactions to ensure that prices reflect market conditions in accordance with the MaH rules.

### Reporting

Risk reporting within the Commerzbank Group occurs at various portfolio levels, on both a daily and a monthly basis. The local risk controllers report the risk figures that they have worked out to all decision makers within the trading units. In addition, the risk figures are collected, condensed and finally aggregated to form a Group risk figure.

Daily risk reporting takes the form of two reports which appear at different times and also differ in content. Supplementing the so-called flash report, which represents a preliminary form of information, the MaH report contains risk figures for all the relevant portfolio levels, including the profit and loss figures worked out by ZBS (Accounting and Taxes).

In close coordination with their parent company, the mortgage banks affiliated with Commerzbank and also comdirect bank AG have established their own risk control. The risks arising at these subsidiaries are managed and controlled on the spot and they are made available to Commerzbank's central risk-control unit for the computation of the Group risk.



The monthly risk report contains detailed evaluations and presentations on all the relevant types of risk, and especially on such topics as risk-taking capability, market risk, credit risk and operational risk.

#### **Monitoring and steering of equity holding risk**

From an organizational standpoint, the monitoring and steering of equity holding risk are handled by two different units of the Bank; private equity business is looked after by Securities, while Strategy and Controlling is responsible for both the strategic and all the other non-strategic equity holdings.

Whereas due diligence measures should uncover risk in advance in the case of new acquisitions of interests, other ways of recognizing risk are needed for already-existing equity investments.

When the Bank becomes a shareholder, a monitoring system based on regular reports by the enterprise in which the interest has been acquired is immediately installed.

In addition to these measures, the risk stemming from the Bank's listed equity investments is quantified, similarly to the calculation of trading positions, regularly monitored and reported to the Board of Managing Directors. One monitoring instrument is the monthly risk report, presenting the risks arising from strategic and non-strategic investments of the Commerzbank Group as part of the aggregate risk.



## **Monitoring and controlling of liquidity risk**

### **Liquidity risk**

Group Treasury (ZGT) is responsible for managing liquidity risk. The task of liquidity management is to guarantee that Commerzbank is solvent at all times, not only under normal conditions but also in stress situations. ZGT prepares liquidity balances and makes cash-flow forecasts, which are subjected to constant examination in the course of the year. On the basis of these analyses, the future need for borrowed funds is worked out. The aim is to make possible efficient liquidity management by raising funds regularly and to cover the Bank against market fluctuations. The measures adopted by ZGT in this connection are geared closely to the Basel II proposals:

- ZGT pursues a policy of long-term matched maturities in financing; in other words, long-term credits are largely funded at long term.
- ZGT maintains substantial liquidity portfolios in the leading currency centres. Apart from eligible (commercial) credits and bills, the portfolios are made up exclusively of prime-quality securities, which may be pledged with central banks in order to raise short-term liquidity. At end-2002, the Bank had a liquidity reserve (unused security) of €17bn.

In accordance with supervisory requirements (Principle II), an institution's liquidity is deemed adequate if the weighted liquid assets available to it within 30 days cover the weighted payment obligations callable during this period. In 2002 (2001), the liquidity coefficient lay between 1.13 (1.13) and 1.31 (1.23) and was thus at all times well above the officially required value of 1.0. This shows that Commerzbank easily met the supervisory requirements for liquidity at all times.

On October 8, 2002, the rating agency Standard & Poor's lowered the credit rating of Commerzbank AG for long-dated liabilities from A to A- (negative outlook) and also for short-term liabilities from A-1 to A-2. At the same time, rumours were circulating in the market questioning the Bank's solvency.

Doubts at the time about Commerzbank's solvency were entirely groundless. At no time did the Bank experience a liquidity bottleneck. Liquidity management functioned smoothly throughout and, even in this adverse situation, the Bank was able to place short-term liquidity in the market.

### **Liquidity-risk measurement**

ZRC has launched a liquidity-risk project in close cooperation with ZGT. The main objectives of this project are the daily calculation of the expected cash flow from all positions of the Parent Bank (in Germany and abroad; excluding asset management), under both normal and extreme ("stressed") market conditions. Also on a daily basis, the assets are worked out that can readily be made liquid and are available for closing liquidity gaps. By means of these data and sets of instruments, ZGT is being put in a position to manage the Bank's liquidity position even more efficiently (beyond the requirements of Principle II). Not least the implementation of the project early in 2003 also met the regulatory requirements of Basel II with regard to liquidity management as well as ensuring their monitoring by Risk Control.

### Market-liquidity risk

Commerzbank monitors market-liquidity risk with the aid of the liquidity VaR that is based on historical simulation. This liquidity VaR is defined as the possible loss during the period in which a portfolio is being entirely liquidated in terms of risk, at a given level of probability (confidence level). Unlike the one-day VaR described in the section "Monitoring and controlling of market risk", it also takes into account the period needed to square the specific positions in terms of risk, which means to sell, cover or hedge them by means of the relevant transactions.

In quantifying such risk, we take into consideration the market liquidity of the underlying transactions by means of portfolio-specific selling or squaring strategies. These strategies indicate the percentage of a portfolio which, if necessary, could be squared in terms of risk and in how many days. The selling strategies employed are regularly updated in consultations with the respective banking departments.

### Monitoring and controlling of operational risk

#### Operational risk management framework

Last year, Commerzbank created an operational risk management framework, establishing the functions and responsibility of the individual organizational units of the Bank in identifying, analysing, reporting and managing operational risk. The central element of the organizational structure is the newly formed Operational Risk Committee, which is chaired by ZRC and reports to the Bank's Risk Committee.

With this structure, we have also laid the foundation for implementing the Basel Committee's "Sound practices for the management and supervision of operational risk" of February 2003.





### Operational risk methods

In addition to implementing the operational risk management framework, ZRC developed further the plans for monitoring operational risk. Our goal is to calculate our equity in future in accordance with Basel II by applying the Advanced Measurement Approach (AMA), a measuring procedure developed internally, which draws upon historical loss data and qualitative risk assessments, thus reflecting the Bank's risk profile.

In order to achieve this goal, we have focused in methodological and systemic terms on the structural collection of loss data arising from operational risk, taking into consideration the Basel requirements announced to date. In addition, we have developed further mathematical-statistical approaches to risk modelling based on these collected loss data and we have created the systemic conditions for them to be incorporated into the Bank's overall risk architecture. The results already available have been included in the BIS-initiated loss-data collection as part of QIS 3 (Quantitative Impact Study). As some of the requirements have not yet been clearly specified in the Basel II consultative documents, we are also ensuring that we are able to implement the Standardized Approach. By participating in the relevant national and international bodies, we are playing an active role in the debate on such issues.

The Bank has also become a founder member of the Operational Riskdata eXchange, Association, Zurich (ORX). Through ORX, it is possible to exchange data both for the purpose of benchmarking with international participants and for modelling the risk or the need for capital.

### Business contingency and continuity planning

The necessity for extensive business contingency and continuity planning geared to the needs of the individual business lines was underlined by last summer's natural catastrophe in Germany.

By means of regular self-assessments, the Bank creates for itself a standardized overview of the emergency measures for which the units subject to MaH assume responsibility. In addition, the Bank conducts numerous emergency tests in which, for example, the failure of the entire trading and service centre or individual locations or systems are simulated.

### Monitoring and controlling legal risk

The identification and handling of legal risk is entrusted to Legal Services (ZRA). In order to restrict or eliminate such risk, ZRA makes recommendations, which are realized in conjunction with other units of the Bank. ZRA is responsible for producing guidelines and standard contracts, and also for their implementation and monitoring. In addition, it advises domestic branches, head-office departments, various foreign outlets and subsidiaries with regard to legal issues. The duties of ZRA also include informing the Board of Managing Directors and head-office departments about major legal changes and risks, as well as adapting, if necessary, its own guidelines and specimen contracts to new situations and conditions.

### Monitoring and controlling strategic risk

Strategic risk cannot be measured in quantitative terms; in other words, it cannot be expressed in the form of a risk figure calculated with the aid of statistical methods. For this reason, strategic decisions, and consequently risk, are subject to qualitative controlling at Commerzbank. The treatment of strategic issues is one of the core competencies of Strategy and Controlling (ZKE). Ultimate responsibility regarding strategic decisions lies with the Board of Managing Directors. Some decisions also require the approval of the Supervisory Board.

### Independent control: internal auditing

All risk-control and risk-management activities are subjected to examination by the Internal Auditing department (ZRev). It forms an integral part of the outlined risk-control and risk-management system, which, free from directives and external influence, works as a unit independent of business processes with the goal of identifying risk at an early stage and monitoring it. ZRev mainly focuses on testing and assessing the effectiveness of both security measures built into the work process and existing internal checks, as well as on reporting on the structure, functioning and adequacy of risk monitoring to the Bank's management, the banking departments and the related support departments.

The reports contain recommendations, suggest possible improvements and are made available to the management and to the units audited. These comment on the measures introduced. IT system checks and examinations of the internal control system complement the monitoring process. The chief emphases of the risk-oriented audits are the recognition, analysis, restriction, limit monitoring and reporting of credit and market risk, as well as the establishment and limitation of operational risk.

ZRev addresses credit risk by checking creditworthiness at the individual transaction level under rating-based credit approval powers, and also by ensuring that scoring procedures are being observed. The methods for presenting and limiting market risk arising from trading are examined to ensure that the transactions registered in trading correspond to the settlement transactions, that they are recognized by counterparties and are in line with market conditions.

At least once a year, Internal Auditing provides information for all trading units with regard to the implementation of a system of limits and its observance, and on how completely, accurately and promptly positions and results are calculated between trading units and the Bank's accounting. In the area of operational risk, ZRev focuses on weak points in the settlement and control of trading procedures. In this connection, it checks emergency plans (business contingency and continuity plans) in trading locations and assesses the systemic presentation of new products in the New Product Committee.



## Summary and outlook

For the risk management of banks worldwide, 2002 was one of the most difficult years ever, which in particular put methods for quantifying risk to the test. Commerzbank's risk-management systems, however, have been shown to function extremely well and accordingly they have been judged positively by external rating agencies. 2003 as well will present many new challenges in terms of risk and we will continue to focus on active risk management.

In risk control, we are concentrating this year as well on the new regulatory requirements made on the entire banking industry by Basel II and MaK. By acting at an early stage, we have already met major requirements of Basel II and MaK.

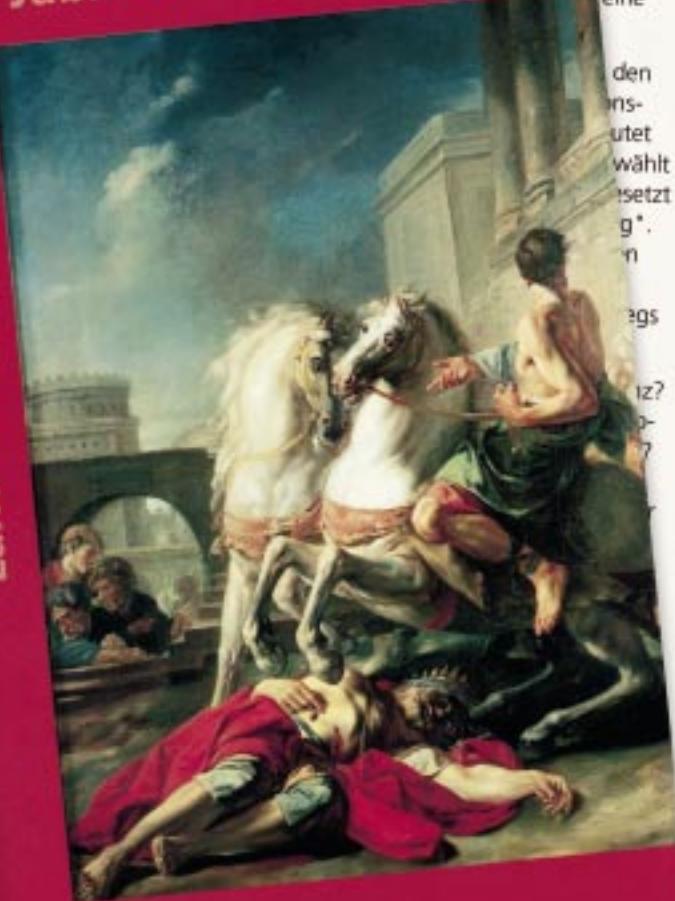
In quantitative terms, apart from continuing to develop our methods for calculating business risk and ambitious approaches to the measurement of operational risk, we are placing the focus on refining the methods of risk measurement for complex (market) risks and credit risk. Among other things, the unexpected loss from credit business is taking on ever greater significance for portfolio analysis and in the steering of business lines, for which it provides the basis. Following the successful validation of our rating method for *Mittelstand* clients, the validation of ratings will be extended to other areas in 2003.

This year, our efforts in the area of the risk and return-oriented steering of the Bank as a whole will mainly focus on integrating economic risk into performance measurement at Commerzbank.

## LANDESMUSEUM MAINZ

Landesmuseum Mainz was created by a decree of Napoleon in 1803. As contributions to the war effort, huge numbers of art treasures had been transferred from the Netherlands, Italy and Germany to Paris since 1794. The storage facilities were bursting at the seams. The French minister of the interior, Chaptal, sought to ease the problem by allocating works of art to the main towns of the empire's old and new départements. The redistribution was felt throughout Europe. With Lot 9 for Mainz in 1803, the old capital of the newly created Département Donnersberg was included. It was assigned 36 pictures, some of them of enormous format. The transport in the late autumn of 1803 was dramatic; some of the cases containing the pictures fell into the Mosel. The pending exhibition of the Landesmuseum to celebrate the 200<sup>th</sup> anniversary of its foundation will be devoted to a dramatic period of German and European cultural history; it will also provide the first academic documentation of all the paintings from the "French donation". As even today the origin of all of the paintings is not known, one objective of the exhibition is to clarify where they came from and to trace their very strange fate in some cases which brought them to Mainz.

1803-2003  
Jubiläum im Museum!



### Beutekunst unter Napoleon

Die  
"französische Schenkung"  
an Mainz 1803

25. Okt. 2003 bis 14. März 2004





Martin Stadtfeld (21)  
plays Bach.



#### BACH-ARCHIVE LEIPZIG

INTERNATIONAL J.-S.-BACH COMPETITION, 2002

Since 1996, the Leipzig Bach Archive has run an international J.S. Bach competition at two-year intervals. In 2002, Martin Stadtfeld won a special prize as the youngest finalist. In addition to the prize money, this gave him the opportunity to play at the Leipzig Bach Festival. The Bach competition offers young performers – aged between 16 and 34 – an important forum and frequently the start of an international career. Leipzig provides a unique combination of the highest artistic standards, an unbroken musical tradition and an authentic location.

***financial statements in accordance with international accounting standards (ias) for the commerzbank group as of december 31, 2002***

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## income statement

	Notes	1.1.-31.12.2002 € m	1.1.-31.12.2001 € m	Change in %
Interest received		18,032	22,571	-20.1
Interest paid		14,899	18,990	-21.5
Net interest income	(29)	3,133	3,581	-12.5
Provision for possible loan losses	(11, 30, 48)	-1,321	-927	42.5
Net interest income after provisioning		1,812	2,654	-31.7
Commissions received		2,416	2,566	-5.8
Commissions paid		296	299	-1.0
Net commission income	(31)	2,120	2,267	-6.5
Net result on hedge accounting	(32)	-56	63	.
Trading profit	(33)	544	1,197	-54.6
Net result on investments and securities portfolio (available for sale)	(34)	-88	219	.
Operating expenses	(35)	5,155	5,855	-12.0
Other operating result	(36)	768	-104	.
Regular amortization of goodwill	(37)	108	116	-6.9
<b>Profit from ordinary activities before restructuring expenses</b>		<b>-163</b>	<b>325</b>	.
Restructuring expenses	(38)	209	282	-25.9
<b>Profit from ordinary activities after restructuring expenses</b>		<b>-372</b>	<b>43</b>	.
Extraordinary profit		-	-	-
<b>Pre-tax profit</b>		<b>-372</b>	<b>43</b>	.
Taxes on income	(39)	-103	-114	-9.6
<b>After-tax profit</b>		<b>-269</b>	<b>157</b>	.
Profit/loss attributable to minority interests		-29	-55	-47.3
<b>Net loss/net profit</b>	(40)	<b>-298</b>	<b>102</b>	.



Appropriation of profit	2002 € m	2001 € m	Change in %
Net loss/net profit	-298	102	.
Transfer from retained earnings	352	115	.
<b>Consolidated profit</b>	<b>54</b>	<b>217</b>	<b>-75.1</b>

The transfer from the Group's retained earnings has no negative impact on the equity ratios of the Commerzbank Group pursuant to the German Banking Act (KWG). When calculated in accordance with the Basel capital accord, the transfer from retained earnings reduces core capital.

The consolidated profit corresponds to the distributable profit of the Parent Bank, Commerzbank Aktiengesellschaft. The proposal will be made to the AGM to resolve payment of a dividend of €0.10 per share from the net profit of the Parent Bank. With 542.2m shares issued, this translates into an overall payout of €54m (previous year: 541.8m shares, payout €217m).

Basic earnings per share	Notes	2002 €	2001 €	Change in %
Basic earnings per share	(40)	-0.56	0.19	.

The calculation of the loss/profit per share according to IAS is based on the net loss/net profit, with minority interests not taken into consideration. The diluted loss/profit per share is identical to the loss/profit per share, since – as in the previous year – no conversion or option rights were outstanding on the balance-sheet date.



## balance sheet

<b>Assets</b>		<b>31.12.2002</b>	<b>31.12.2001</b>	Change in %
	Notes	€ m	€ m	
Cash reserve	(9, 43)	8,466	7,632	10.9
Claims on banks	(10, 44, 46, 47)	54,343	63,392	-14.3
Claims on customers	(10, 45, 46, 47)	148,514	220,315	-32.6
Provision for possible loan losses	(11, 48)	-5,376	-5,648	-4.8
Positive fair values from derivative hedging instruments	(13)	3,131	3,868	-19.1
Assets held for dealing purposes	(14, 49)	117,192	95,826	22.3
Investments and securities portfolio	(15, 47, 50, 53)	84,558	104,455	-19.0
Intangible assets	(16, 51, 53)	1,151	1,484	-22.4
Fixed assets	(17, 18, 52, 53)	2,505	3,374	-25.8
Tax assets	(24, 54)	5,995	3,618	65.7
Other assets	(55)	1,655	2,996	-44.8
<b>Total</b>		<b>422,134</b>	<b>501,312</b>	<b>-15.8</b>

<b>Liabilities and equity</b>		<b>31.12.2002</b>	<b>31.12.2001</b>	Change in %
	Notes	€ m	€ m	
Liabilities to banks	(19, 46, 56)	114,984	109,086	5.4
Liabilities to customers	(19, 46, 57)	95,700	116,398	-17.8
Securitized liabilities	(19, 58)	92,732	190,670	-51.4
Negative fair values from derivative hedging instruments	(20)	5,696	5,381	5.9
Liabilities from dealing activities	(21, 59)	83,238	47,836	74.0
Provisions	(22, 23, 60)	3,528	3,356	5.1
Tax liabilities	(24, 61)	3,664	2,098	74.6
Other liabilities	(62)	3,285	2,859	14.9
Subordinated capital	(25, 63)	9,237	10,524	-12.2
Minority interests		1,262	1,344	-6.1
Equity	(27, 65, 66, 67)	8,808	11,760	-25.1
Subscribed capital	(65)	1,378	1,394	-1.1
Capital reserve	(65)	6,131	6,197	-1.1
Retained earnings	(65)	3,268	4,046	-19.2
Revaluation reserve	(15, 65)	-769	189	.
Measurement of cash flow hedges	(6, 65)	-1,248	-397	.
Reserve from currency translation	(7, 65)	-6	114	.
Consolidated profit		54	217	-75.1
<b>Total</b>		<b>422,134</b>	<b>501,312</b>	<b>-15.8</b>

## statement of changes in equity

	Sub-scribed capital	Capital reserve	Retained earnings	Reval-u-ation reserve	Valuation of cash flow hedges	Reserve from currency translation	Consoli-dated profit	Total
€ m								
<b>Equity as of 1.1.2002</b>	<b>1,394</b>	<b>6,197</b>	<b>4,046</b>	<b>189</b>	<b>-397</b>	<b>114</b>	<b>217</b>	<b>11,760</b>
Issue of shares to employees	1	6						7
Transfer from retained earnings			-352					-352
Dividend payment						-217	-217	
Consolidated profit						54	54	
Net changes in revaluation reserve				-1,168				-1,168
Net changes arising from cash flow hedges					-847			-847
Purchase of treasury shares	-17	-72						-89
Changes in companies included in consolidation and other changes			-426	210	-4	-120		-340
<b>Equity as of 31.12.2002</b>	<b>1,378</b>	<b>6,131</b>	<b>3,268</b>	<b>-769</b>	<b>-1,248</b>	<b>-6</b>	<b>54</b>	<b>8,808</b>

As of December 31, 2002, the subscribed capital of Commerzbank Aktiengesellschaft stood at €1,410m pursuant to the Bank's articles of association; it is divided into 542,206,626 no-par-value shares (notional value per share: €2.60). After the 12,263,172 treasury shares held by the Bank on December 31, 2002, are deducted, its subscribed capital amounts to €1,378m.

The Bank made use of the authorization resolved by the Annual General Meeting of May 31, 2002 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 2002 financial year of the resolution of the Annual General Meeting of May 31, 2002, 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 net profit.

The change in the group of companies included in the consolidation mainly relates to the deconsolidation of the RHEINHYP Group.



### Changes in minority interests

	Minority interests	Reval- uation reserve	Valuation of cash flow hedges	Reserve from currency translation	Gains/ losses	<b>Total</b>
<b>€ m</b>						
<b>Minority interests as of 1.1.2002</b>	<b>1,131</b>	<b>215</b>	<b>-87</b>	<b>30</b>	<b>55</b>	<b>1,344</b>
Capital increases	1					1
Allocation from net profit				29		29
Distributions					-89	-89
Net changes in revaluation reserve		119				119
Net changes arising from cash flow hedges			-45			-45
Changes in companies included in consolidation and other changes	-89			-42	34	-97
<b>Minority interests as of 31.12.2002</b>	<b>1,043</b>	<b>334</b>	<b>-132</b>	<b>-12</b>	<b>29</b>	<b>1,262</b>



## cash flow statement

	<b>2002</b> € m	<b>2001</b> € m
<b>Net profit</b>	<b>-298</b>	<b>102</b>
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	1,114	1,573
Change in other non-cash positions:		
Positive and negative fair values from derivative financial instruments (trading and hedging derivatives)	1,607	985
Net allocations to deferred taxes	-867	-499
Profit from the sale of assets	88	-219
Profit from the sale of fixed assets	-12	-1
Other adjustments (net)	-3,133	-3,581
<b>Sub-total</b>	<b>-1,501</b>	<b>-1,640</b>
Change in assets and liabilities from operating activities after correction for non-cash components:		
Claims on banks	9,049	11,262
Claims on customers	71,801	4,522
Securities held for dealing purposes	13,424	-12,815
Other assets from operating activities	2,604	1,165
Liabilities to banks	5,898	5,550
Liabilities to customers	-20,698	8,744
Securitized liabilities	-97,938	10,719
Other liabilities from operating activities	-3,102	-2,567
Interest and dividends received	18,032	22,571
Interest paid	-14,899	-18,990
Income tax paid	-201	-48
<b>Net cash provided by operating activities</b>	<b>-17,531</b>	<b>28,473</b>
Proceeds from the sale of:		
Investments and securities portfolio	65,905	14,798
Fixed assets	1,955	822
Payments for the acquisition of:		
Investments and securities portfolio	-47,039	-43,049
Fixed assets	-738	-1,556
Effects of changes in the group of companies included in the consolidation		
Payments from the acquisition of subsidiaries	-238	-11
<b>Net cash used by investing activities</b>	<b>19,845</b>	<b>-28,996</b>
Proceeds from capital increases	-82	153
Dividends paid	-217	-542
Other financing activities (net)	-1,287	627
<b>Net cash provided by financing activities</b>	<b>-1,586</b>	<b>238</b>
<b>Cash and cash equivalents at end of previous period</b>	<b>7,632</b>	<b>7,895</b>
Net cash provided by operating activities	-17,531	28,473
Net cash used by investing activities	19,845	-28,996
Net cash provided by financing activities	-1,586	238
Effects of exchange-rate changes on cash and cash equivalents	106	22
<b>Cash and cash equivalents at end of period</b>	<b>8,466</b>	<b>7,632</b>

The changes in the net cash provided by operating activities and in the net cash used by investing activities are mainly due to the deconsolidation of the RHEINHYP Group.



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 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. In order to give a better impression of our liquidity position, we have included in our notes (see Note 83) the Principle II figure to be calculated pursuant to Art. 11, German Banking Act – KWG.

## notes

### Consolidated accounting principles

The Commerzbank Group's financial statements as of December 31, 2002 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 (IASs) – in future: 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 95-97. 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 IAS

exempt the Bank from the need to prepare financial statements according to German accounting principles. We have presented the main differences between IAS financial statements and those prepared in accordance with German accounting rules on pages 109-110 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 statement of changes in equity and in minority interests, a cash flow statement and the notes. Segment reporting appears in the notes on pages 118-126.

The separate report on the risks related to future developments (Risk report pursuant to Art. 315, (1), HGB) appears on pages 58-82.

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 the previous year, we applied IAS 39, together with the different classification and measurement principles prescribed by this standard, in our accounting in the 2002 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, 2002.

Uniform accounting and measurement methods are applied throughout the Commerzbank Group in preparing the financial statements.

#### (2) Changes in the method of disclosure

Previously, lent securities were shown in the balance sheet under Claims on banks or customers. Borrowed securities, however, appeared under Assets held for dealing purposes, and an identical commitment to return the securities was shown in Liabilities to banks or customers. We altered this method of disclosure as of December 31, 2002, and, in line with international practice, we now continue to show lent securities in our securities portfolio. We register borrowed securities in a subsidiary ledger; they do not appear in the balance sheet. No change has

occurred in the method of measurement. As the discrepancies were not material, the year-ago figures have not been adjusted.

In the income statement, we now show the regular amortization of goodwill as a separate item. Previously, it was recognized as other operating expenses and commented upon in the notes. We have adjusted the year-ago figures.

### (3) IAS, SIC, GASB rules applied

There is regularly a time gap between the approval of an IAS, or a related interpretation, and its effective date. As a rule, however, the IASB recommends the early application of not yet effective, but already approved, standards and interpretations.

Within the Commerzbank Group, we have based our accounting and measurement on all the IASs approved and published by December 31, 2002.

The 2002 consolidated financial statements are based on the IASC framework and the following IASs which are relevant for the Commerzbank Group:

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

We have not applied 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.



In addition to the standards mentioned, we have also taken into consideration in our consolidated financial statements the following SIC interpretations 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, 8, 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.



Furthermore, 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, 2002, 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

#### (4) Consolidated companies

The consolidated financial statements include in addition to the Parent Bank 95 subsidiaries (101 in 2001), in which Commerzbank AG holds more than 50% of the capital directly or indirectly, or exerts control over them. Of these, 44 have their legal seat in Germany (44 in 2001) and 51 (57 in 2001) elsewhere.

167 subsidiaries and associated companies (173 in 2001) 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. In terms of the Group's overall balance-sheet total, these companies account for less than 0.2% (0.2% in 2001).

The Commerzbank Group has three sub-groups:

- CommerzLeasing und Immobilien AG, Düsseldorf
- Jupiter International Group plc, London
- comdirect bank AG, Quickborn

which have presented sub-group financial statements.

The following seven subsidiaries – five of them based in Germany – were included in the consolidation for the first time in 2002:

- COMINVEST Asset Management GmbH, Frankfurt am Main<sup>1)</sup>
- Commerzbank Inlandsbanken Holding AG, Frankfurt am Main<sup>2)</sup>
- CommerzBaumanagement GmbH und CommerzImmobilien GmbH GbR – Neubau Molegra, Düsseldorf
- European Bank for Fund Services GmbH (ebase), Haar near Munich
- Jupiter Asset Managers (Jersey) Limited, Jersey
- Molegra Grundstücks-Vermietungsgesellschaft mbH & Co Objekt Projektentwicklungs KG, Düsseldorf
- Stampen S.A., Brussels

In addition to the 95 (101 in 2001) subsidiaries, we included for the first time in the 2002 financial year the following special-purpose entities and non-publicly-offered funds in our consolidated financial statements in accordance with IAS 27 and SIC-12, or IFRIC 12:

### Special-purpose entities

- Four Winds Funding Corporation, Wilmington/Delaware
- Hanging Gardens 1 Limited, Grand Cayman

### Non-publicly-offered funds

- ABN AMRO-Credit Spread-Fonds, Frankfurt am Main
- CDBS-Cofonds, Frankfurt am Main
- CICO-Fonds I, Frankfurt am Main
- CICO-Fonds II, Frankfurt am Main
- Commerzbank Alternative Strategies-Global Hedge, Luxembourg
- dbi-Fonds HIE1, Frankfurt am Main
- DEGEF-Fonds HIE 1, Frankfurt am Main
- DEVIF-Fonds Nr. 533, Frankfurt am Main
- GRUGAFONDS, Munich
- HIE-Cofonds I, Frankfurt am Main
- HIE-Cofonds II, Frankfurt am Main
- HIE-Cofonds III, Frankfurt am Main
- HIE-Cofonds IV, Frankfurt am Main

The first-time inclusion of the special-purpose entities and non-publicly-offered funds has had no major effects on the presentation of the Group's asset and financial position and earnings performance.

The following companies have been removed from the list of consolidated companies:

- ADIG Allgemeine Deutsche Investment-Gesellschaft mbH, Frankfurt am Main<sup>1)</sup>
- Berliner Commerz Grundstücks- und Verwaltungsgesellschaft mbH, Berlin
- Capital Development Limited, Isle of Man
- comdirect S.A., Paris
- comdirect bank S.p.A., Milan
- Commerz Asset Managers GmbH, Frankfurt am Main<sup>1)</sup>
- Commerzbank Investment Management GmbH, Frankfurt am Main<sup>1)</sup>
- IF Limited, Bermuda
- KL Limited i.L., Bermuda
- RHEINHYP-BRE Bank Hipoteczny S.A., Warsaw
- RHEINHYP Bank Europe plc, Dublin<sup>3)</sup>
- RHEINHYP Finance, N.V., Amsterdam<sup>3)</sup>
- RHEINHYP Rheinische Hypothekenbank Aktiengesellschaft, Frankfurt am Main<sup>3)</sup>

16 major associated companies (12 in 2001) – eight of them based in Germany – are measured using the equity method. As a major associated company, Eurohypo Aktiengesellschaft, Frankfurt am Main, was added to the group of companies included in the consolidation at equity as of August 1, 2002. As a result of the merger of the RHEINHYP Group with Eurohypo AG, we hold a 34.57% interest in the new bank (further details on RHEINHYP/Eurohypo Aktiengesellschaft can be found on page 108).

In addition to Eurohypo Aktiengesellschaft, the following three companies appear for the first time at equity in the past financial year:

- ILV Immobilien-Leasing Verwaltungsgesellschaft Düsseldorf mbH, Düsseldorf
- KEB Commerz Investment Trust Management Co. Ltd., Seoul
- RHEINHYP-BRE Bank Hipoteczny S.A., Warsaw

Siebte Commercium Vermögensverwaltungsgesellschaft mbH, Frankfurt am Main, was renamed Commerzbank Auslandsbanken Holding AG, Frankfurt am Main; the company continues to be fully consolidated. RHEINHYP-BRE Bank Hipoteczny S.A., Warsaw, which was previously fully consolidated, has been shown at equity since August 1, 2002.

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 170-174.

### (5) Principles of consolidation

The consolidation of the capital accounts is based on the book-value method, whereby the historical cost of the holding in the subsidiary is set off against the share of the equity that was acquired at that time. As far as possible, any residual differences in amount are assigned to the subsidiary's assets and liabilities, reflecting the percentage share of equity held. If any positive differences remain after such assignment, these are shown as goodwill under Intangible assets in the balance sheet and are depreciated to reflect their probable useful

1) Our previous subsidiaries ADIG Allgemeine Deutsche Investment-Gesellschaft mbH, Commerz Asset Managers GmbH and Commerzbank Investment Management GmbH have been merged and their activities have been continued under the name COMINVEST Asset Management GmbH.

2) Formerly Zweite StorCom AG, Frankfurt am Main.

3) The sub-group RHEINHYP Rheinische Hypothekenbank Aktiengesellschaft, Frankfurt am Main, has been merged into Eurohypo Aktiengesellschaft, Frankfurt am Main.



economic lives over a period of 15 years, using the straight-line method.

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 in accordance with IAS rules by the associated company.

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 the Commerzbank 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 over the entire lifetime to maturity. The Commerzbank Group has not used the "Held-to-maturity financial assets" category with respect to the 2002 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 are assigned to this category which were not covered by one of the above classes. 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, which is 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 secured, underlying 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 hedging relationship in the future (prospective effectiveness). On the other hand, when a hedging relationship 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 these are interest-bearing securities. 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 hedged by means of cash flow hedges using interest-rate swaps.

#### **(7) Currency translation**

Assets and liabilities and also items from the income statement 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. 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):

	<b>2002</b>	<b>2001</b>
USD	1.0422	0.8813
JPY	124.27	115.33
GBP	0.6500	0.6085
CHF	1.4548	1.4829

#### (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 individual 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 individual 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 (repo deals) and securities-lending business

Repo deals combine the spot purchase or sale of securities with their forward sale or repurchase, the counterparty being identical in either case. The securities sold under repurchase agreements (spot sale) still appear, 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 non-realized changes 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 accounted for and measured at fair value, or at amortized cost 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.

Insofar as the reasons which led to a write-down no longer apply, a write-up is made affecting net profit or loss, but this may not exceed the amount originally written down.

#### **(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. If it appears that the expected utility will not materialize, an extraordinary depreciation is made. 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.

	<b>Probable useful life in years</b>
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:

	<b>Probable useful life in years</b>
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 are immediately recognized 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 2002 financial year which require classification as finance leases.

#### **(19) Liabilities to banks and customers and also Securitized liabilities**

Financial liabilities are accounted for 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**

For employees at the Parent Bank and at some subsidiaries in Germany, provision for old age is made both directly and through contributions to Versicherungsverein des Bankgewerbes a.G. (BVV), Berlin, and to Versorgungskasse des Bankgewerbes e.V., Berlin. The old-age benefit system is based on payments from the Parent Bank and from several of its subsidiaries and on contributions paid into the BVV or the Versorgungskasse. At various units abroad, contributions are paid into banking-industry pension schemes. In the case of contribution-based schemes, payments to the pension institutions are recognized as expenses for the current period.

The size of the provisions formed for the payment-based system of old-age provision depends on the length of service, the pensionable salary and the currently valid scales for employer subsidies.



All provisions for pensions are calculated by means of the projected-unit-credit method in accordance with IAS 19. Future commitments are worked out on the basis of actuarial surveys. This calculation takes into account not only the existing pensions and pension expectancies on the balance-sheet date, but also the rates of increase for salaries and pensions that can be expected in the future. In order to determine the cash value of the pension commitments, a current market interest rate is used. We only recognize higher or lower commitments as a result of actuarial calculations if they lie outside a 10% fluctuation band of the actuarially estimated value.

The assumptions on which the actuarial calculations have been based are:

	31.12.2002	31.12.2001
Calculatory interest rate	5.75%	5.75%
Change in salaries	2.75%	3.00%
Adjustment to pensions	1.50%	1.50%

The effects of the raising of the income threshold for contributions to the pension insurance scheme, which came into effect on January 1, 2003, have been taken into account in the actuarial surveys.

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

For itself and for several of its German subsidiaries, the Parent Bank plans to insure by means of a contractual trust agreement old-age pension commitments which are not covered against insolvency by Pension-Sicherungs-Verein (PSV). In this connection, the trustee required for a bilateral trust was established in the form of the Commerzbank Pension-Trust e.V. The first allocation to the trust's assets is envisaged for the 2003 financial year.

### (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. In the 2002 financial year, we formed provisions of €285m for restructuring measures. The basis for the formation of this provision was a detailed overall plan, coordinated with the boards and bodies of the companies affected, providing information on concrete individual measures – above all, branch closures and staff reductions.

### (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 they are set off against the relevant equity items with no effect on the income statement.

Income-tax expenses or income which are attributable to the Profit from ordinary activities after restructuring expenses are shown under Taxes on income in the consolidated income statement and divided in the notes into current and deferred taxes 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 arose 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 four "long-term performance plans" (LTP). These plans 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 (LTP 1999, 2000, 2001 and 2002) and/or the absolute performance of the Commerzbank share is at least 25% (LTP 2000, 2001 and 2002).

LTP 1999 will run for three years, which, depending on the target being attained (outperformance), may be extended to a maximum of five years. Payment will be linked to a rise in the performance of the Commerzbank share against the Dow Jones Euro Stoxx® Bank index within a range of 1 to 10 percentage points. Depending on the employee's function group and assessed performance at the time when the plan was introduced and also on the percentage of outperformance, the employee can receive between €10,000 and €150,000. Should the target not be attained after three years, which was the case at the end of the first quarter of 2002, a fresh evaluation will be made after four years and, for a final time, after five years. If no minimal level of outperformance has been attained by that time, the claim to payment under LTP 1999 will expire.

LTP 2000, 2001 and 2002 require eligible participants in the plan to purchase Commerzbank shares. The scale of such participation for staff who are not members of the Board of Managing Directors depends on their function group (possible participation: 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 percentage points to a maximum of 52 percentage points).

Given maximal achievement of the two criteria, eligible participants will receive €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 making a dividend distribution for the financial year preceding the performance comparison.

The first comparison of the base prices of the first quarter of 2000 (LTP 2000), the first quarter of 2001 (LTP 2001), or the first quarter of 2002 (LTP 2002) with the data for the comparable period will be made after three years in either case. 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 plan will be terminated.

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 unsatisfactory performance of the Parent Bank's share price, there was no need to form a provision for the 2002 financial year.

Within the Jupiter International Group plc (JIG), two staff remuneration/stock-option plans existed as of December 31, 2002. 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. The necessary allocations to reserves have been made to the required extent and charged to operating expenses.



The so-called C shares or Growth Shares Plan gives those eligible 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. 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 to the allocation on the basis of the annual salary, certain rights exist in connection with a change-of-control clause. As of December 31, 2002, no provision was required due to the change in value of Jupiter International Group.

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 under Operating expenses.



## Merger of RHEINHYP Group with new Eurohypo Aktiengesellschaft

At the close of July 31, 2002, we deconsolidated the RHEINHYP Group, as RHEINHYP Rheinische Hypothekenbank Aktiengesellschaft together with its subsidiaries was merged into the new Eurohypo Aktiengesellschaft. At the same time, our interest of 34.75% in Eurohypo Aktiengesellschaft was entered into our books. As from August 1, 2002, this shareholding has been measured according to the equity method in accordance with IAS 28.

Through the disposal or the exchange of our shares in RHEINHYP Rheinische Hypothekenbank Aktiengesellschaft, we registered a profit of €721m. A report by an independent auditor valued the RHEINHYP Group higher than the book value of the interest in RHEINHYP Rheinische Hypothekenbank Aktiengesellschaft. This income is shown under Other operating income in the income statement. In addition, we have formed a provision which fully covers possible claims under the guarantee given in the merger agreement which commits us, under certain conditions, to compensate for defaults on the existing loan portfolio.

The first-time inclusion of Eurohypo Aktiengesellschaft at equity gave rise to goodwill of €284m, which appears in the consolidated balance sheet under Investments in associated companies and will be amortized over a period of 15 years. For the first-time consolidation, we had at our disposal the opening balance sheet of Eurohypo Aktiengesellschaft. All identifiable assets and liabilities were recognized and measured at fair value.

Major effects of the deconsolidation of the RHEINHYP Group on the consolidated balance sheet and equity:

	€ bn
Claims on banks	-3.2
of which: public-sector loans	-2.6
Claims on customers	-59.6
of which: public-sector loans	-25.1
mortgage loans	-32.0
Investments and securities portfolio	-17.4
Liabilities to banks	-10.3
Liabilities to customers	-13.8
Securitized liabilities	-53.6
Consolidated balance-sheet total	-81.8
Equity (after consolidation of capital accounts)	-0.5
Risk-weighted assets	-22.4
Core capital	-0.4
Supplementary capital	-0.6



## **Major differences in accounting, measurement and consolidation methods: IAS compared with HGB**

The objective of financial statements based on IAS 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 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 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 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. Under HGB rules, however, unrealized gains may not 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 are held 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). Both for fair value hedges and for 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 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 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, 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 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, 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 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 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 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 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 rules.

### Tax valuation

In line with the so-called inverse authoritative principle, valuation principles are applied under HGB rules that comply with tax-law provisions. Financial statements prepared under IAS rules may not contain special depreciation and valuation principles that are permissible under tax regulations insofar as they deviate from valuations required by IAS 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 publications.

## Notes to the income statement

### (29) Net interest income

	2002 € m	2001 € m	Change in %
Interest income from lending and money-market transactions and also from available-for-sale securities portfolio	17,681	21,849	-19.1
Dividends from securities	84	156	-46.2
Current result from investments	117	246	-52.4
Current result from investments in associated companies	58	3	•
Current result from holdings in subsidiaries	3	3	-
Current income from leasing	89	314	-71.7
<i>Interest income</i>	<i>18,032</i>	<i>22,571</i>	<i>-20.1</i>
Interest paid on subordinated capital	623	667	-6.6
Interest paid on securitized liabilities	5,318	7,092	-25.0
Interest paid on other liabilities	8,934	10,949	-18.4
Current expenses from leasing	24	282	-91.5
<i>Interest expenses</i>	<i>14,899</i>	<i>18,990</i>	<i>-21.5</i>
<b>Total</b>	<b>3,133</b>	<b>3,581</b>	<b>-12.5</b>

#### Interest margins:

The average interest margin, based on the average risk-weighted assets in balance-sheet business according to BIS, was 2.16% (previous year: 2.22%).

### (30) Provision for possible loan losses

Provision for possible loan losses appears as follows in the consolidated income statement:

	2002 € m	2001 € m	Change in %
Allocation to provisions	-1,974	-1,520	29.9
Reversals of provisions	690	651	6.0
Direct write-downs	-99	-96	3.1
Income received on written-down claims	62	38	63.2
<b>Total</b>	<b>-1,321</b>	<b>-927</b>	<b>42.5</b>

### (31) Net commission income

	2002	2001	Change
	€ m	€ m	in %
Securities transactions	823	913	-9.9
Asset management	511	526	-2.9
Payment transactions and foreign commercial business	346	333	3.9
Guarantees	140	127	10.2
Income from syndicated business	80	122	-34.4
Other net commission income	220	246	-10.6
<b>Total</b>	<b>2,120</b>	<b>2,267</b>	<b>-6.5</b>

### (32) Net result on hedge accounting

	2002	2001	Change
	€ m	€ m	in %
Net result on derivatives used as hedging instruments	-281	28	.
Net result on hedged items	225	35	.
<b>Total</b>	<b>-56</b>	<b>63</b>	<b>.</b>

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 effects on measurement 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.

As we re-allocated functions somewhat between the business lines involved in proprietary trading in the 2002 financial year, we have adjusted the year-ago figures accordingly in the following table.



	<b>2002</b> € m	<b>2001</b> € m	Change in %
Securities department	500	981	-49.0
Treasury department <sup>1)</sup>	25	20	25.0
Others	40	163	-75.5
<b>Net result on proprietary trading</b>	<b>565</b>	<b>1,164</b>	<b>-51.5</b>
Net result on the measurement of derivative financial instruments	-21	33	.
<b>Total</b>	<b>544</b>	<b>1,197</b>	<b>-54.6</b>

<sup>1)</sup> including asset/liability management at foreign units

#### (34) Net result on investments and securities portfolio (available-for-sale portfolio)

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.

	<b>2002</b> € m	<b>2001</b> € m	Change in %
Result on available-for-sale securities and claims not originated by the Bank	-127	171	.
Result on disposals and measurement of investments, investments in associated companies and holdings in subsidiaries	39	48	-18.8
<b>Total</b>	<b>-88</b>	<b>219</b>	.

We achieved a profit of €726m from the disposal of investments. This includes the income from the Crédit Lyonnais transaction. All the investments and securities of the available-for-sale portfolio were subjected to an impairment test, which made write-downs of €687m necessary. The largest item here was the shareholding in T-Online International AG, which was reduced by €506m.

For the impairment test, we drew upon all the available information (market prices, financial statements, ratings, analysts' opinions, etc.). We assumed impairment only if fundamental economic difficulties existed, involving losses, erosion of equity and negative operating cash flows. Under the criteria which we apply, a – possibly protracted – weakness of the share price in itself does not lead to impairment. This approach is in line with the instructions regarding application of the Implementation Guidance Committee for IAS 39.



### (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. In a year-on-year comparison, we achieved

a reduction of 12% to €5,155m, which is due above all to the measures adopted under the cost-cutting offensive project. The expenses break down as follows:

#### Personnel expenses:

	2002 € m	2001 € m	Change in %
Wages and salaries	2,113	2,500	-15.5
Compulsory social-security contributions	307	330	-7.0
Expenses for pensions and other employee benefits	259	236	9.7
of which: contributions to BVV	53	60	-11.7
company pension scheme	206	176	17.0
<b>Total</b>	<b>2,679</b>	<b>3,066</b>	<b>-12.6</b>

#### Other expenses:

	2002 € m	2001 € m	Change in %
Expenses for office space	604	566	6.7
IT costs	527	646	-18.4
Compulsory contributions, other administrative and company-law expenses	277	340	-18.5
Advertising, PR and promotional costs, consulting	111	195	-43.1
Workplace costs	247	268	-7.8
Sundry expenses	143	201	-28.9
<b>Total</b>	<b>1,909</b>	<b>2,216</b>	<b>-13.9</b>

#### Depreciation of office furniture and equipment, real property and other intangible assets:

	2002 € m	2001 € m	Change in %
Office furniture and equipment	511	518	-1.4
Real property	27	37	-27.0
Other intangible assets	29	18	61.1
<b>Total</b>	<b>567</b>	<b>573</b>	<b>-1.0</b>



### (36) Other operating result

Apart from the proceeds of €721m (see page 108) from the integration of the RHEINHYP Group into Eurohypo Aktiengesellschaft, 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.

	2002 € m	2001 € m	Change in %
<b>Major other operating expenses</b>	<b>358</b>	<b>270</b>	<b>32.6</b>
Sales of assets of Montgomery Asset Management	170	–	–
Expenses arising from building and architects' services	63	16	•
Allocations to provisions	63	83	-24.1
Hire-purchase expenses and interim costs	62	119	-47.9
German Business Foundation Initiative	–	52	–
<b>Major other operating income</b>	<b>985</b>	<b>209</b>	<b>•</b>
Income from the disposal of RHEINHYP Group	721	–	–
Reversals of provisions	78	44	77.3
Hire-purchase proceeds and interim income	70	122	-42.6
Income from building and architects' services	69	21	•
Income from disposal of fixed assets	47	22	•
<b>Balance of sundry other operating expenses/income</b>	<b>141</b>	<b>-43</b>	<b>•</b>
<b>Other operating result</b>	<b>768</b>	<b>-104</b>	<b>•</b>

### (37) Regular amortization of goodwill

The regular amortization of goodwill amounted to €108m (previous year: €116m). This also includes the amortization of goodwill in companies included at equity.

### (38) Restructuring expenses

	2002 € m	2001 € m	Change in %
Expenses for launched restructuring measures	209	236	-11.4
Domestic branch project	–	46	–
<b>Total</b>	<b>209</b>	<b>282</b>	<b>-25.9</b>

For the measures envisaged in connection with the cost-cutting offensive, which *inter alia* have led to the merger and closure of branches, and also include a reduction of staff at head office as well, expenses for restructuring measures have been recognized. In the 2002 financial year, restructuring measures of €209m were included in the income statement. Apart from restructuring

expenses for comdirect bank Aktiengesellschaft, they covered substantial amounts for strategic repositioning in the Retail Banking and Securities departments. In addition, notable amounts have been earmarked for the restructuring of organization, business facility management and the credit and personnel areas.

### (39) Taxes on income

Income-tax expenses break down as follows:

	<b>2002</b> € m	<b>2001</b> € m	Change in %
Current taxes on income	356	385	-7.5
Deferred taxes	-459	-499	-8.0
<b>Total</b>	<b>-103</b>	<b>-114</b>	<b>-9.6</b>

Deferred taxes on the assets side of the balance sheet include deferred tax expenses of €26m (previous year: €131m) 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:

	<b>2002</b> € m	<b>2001</b> € m
<b>Net pre-tax profit according to IAS</b>	<b>-372</b>	<b>43</b>
Group's income-tax rate	40%	39%
<b>Calculated income-tax paid in financial year</b>	<b>-148</b>	<b>17</b>
Effects due to differing tax rates affecting income during periods in question	40	60
Effects of taxes from previous years recognized in past financial year	92	-197
Effects of non-deductible operating expenses and tax-exempt income	-1,021	-141
Regular amortization of goodwill	43	46
Deferred tax assets not reported	821	89
Other effects	70	12
<b>Taxes on income</b>	<b>-103</b>	<b>-114</b>

The income-tax rate selected as a basis for the transitional presentation is made up of the corporate income-tax rate of 25% introduced in Germany as from January 1, 2001, through legislation to reduce taxes, 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 40%.

Income-tax effects reflect discrepancies between effective tax rates caused by differences between the German income-tax rate and those of the various countries where Group companies are based, which range between 0% and 46% (previous year: 10% and 48%, respectively) and also due to differences in the municipal factors affecting trade tax in Germany.



#### (40) Basic earnings per share

Loss/profit per share	31.12.2002	31.12.2001	Change in %
Net loss/profit (€ m)	-298	102	•
Average number of ordinary shares outstanding (units)	533,637,824	536,253,922	-0.5
Loss/profit per share (€)	-0.56	0.19	•
Loss/profit per share before restructuring expenses (€)	-0.28	0.51	•
Loss/profit per share before restructuring expenses and amortization of goodwill (€)	-0.07	0.74	•

Loss/profit per share, calculated in accordance with IAS 33, is based on net loss/profit without the loss/profit attributable to minority interests. The net loss/profit is divided by the average number of ordinary shares outstanding.

In the past financial year and on December 31, 2002, no conversion or option rights were outstanding. The diluted loss/profit per share, therefore, corresponds to the loss/profit per share.

#### (41) Cost/income ratio

	2002	2001	Change in %
Cost/income ratio before restructuring expenses and amortization of goodwill	80.3	81.1	-1.0



## (42) Segment reporting

The results of the operative business lines forming the Commerzbank Group are reflected in segment reporting. The basis is provided by our internal management information memoranda, which are prepared monthly in line with IAS rules.

Segmentation into 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 covers business involving retail customers and affluent individuals, as well as asset-management activities.

The Corporate and Investment Banking division comprises our corporate activities and business involving institutions, as well as investment-banking operations. Interest-rate and currency management has been transferred from the former Treasury and Financial Products department to the Securities department within this division. The year-ago figures have been adjusted accordingly.

We show the mortgage banks as a separate business line. We also present Group Treasury separately.

### Survey of the structure of the operative divisions valid in the past financial year:





Our segment reporting breaks down into the following seven segments, which have reporting obligations:

- Retail banking, which also includes private banking and direct banking through our subsidiary comdirect bank Aktiengesellschaft.
- Asset management, above all consisting of COMINVEST Asset Management GmbH, ADIG-Investment Luxemburg S.A., Jupiter International Group plc and Montgomery Asset Management, LLC.
- Corporate customers and institutions, with the Corporate Banking, Multinational Corporates, and Financial Institutions departments, as well as real-estate business and the commercial corporate activities of our domestic and foreign units.
- Securities, with all the equity and bond-trading activities, trading in derivative instruments, interest-rate and currency management, and also M&A business.
- Group Treasury, which is responsible for domestic liquidity management and also for 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. RHEINHYP Rheinische Hypothekenbank Aktiengesellschaft including its subsidiaries was deconsolidated on July 31, 2002. In segment reporting, therefore, the fully-consolidated figures are shown up to an including July 31, 2002; since August, Eurohypo Aktiengesellschaft has been consolidated at equity.
- The "others and consolidation" segment, where 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 operative 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 income for which a segment is responsible is thus reflected in the pre-tax profit. This means that the duplication of income represented by the profit contribution from business passed on in the pre-

vious year has been eliminated. The year-ago figures have been adjusted accordingly.

The operative return on equity or the return on equity of the pre-tax profit, as one of the Commerzbank Group's control variables, 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 is another central control variable, reflecting the cost efficiency of the various business lines. The cost/income ratio in operating business represents the quotient formed by operating expenses (excluding extraordinary factors) 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 unit also includes return on equity and investment yield as imputed variables. Units 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 (excluding extraordinary factors) represent the operating expenses (excluding extraordinary factors) 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. Expenses and income from extraordinary factors, regular amortization of goodwill and restructuring expenses appear below the operating profit in the pre-tax profit. Operating expenses are assigned to the individual business lines 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 unit performing the service. Whereas in the previous year 6.1% of operating expenses was not allocated to business lines, the proportion was reduced to 5.7% in the past financial year.



The balance on expenses/income from extraordinary factors in the Asset management segment relates to expenses arising from the sale of assets of Montgomery

Asset Management, as well as write-downs on investments at foreign asset-management units.

#### Breakdown, by business line

2002 financial year	Retail banking	Asset management	Corporate customers and institutions	Securities	Group Treasury	Mortgage banking	Others and consolidation	Total
<b>€ m</b>								
Net interest income	1,156	-19	2,011	95	214	444	-768	3,133
Provision for possible loan losses	-150	-	-1,068	-	-	-103	-	-1,321
Net interest income after provisioning	1,006	-19	943	95	214	341	-768	1,812
Net commission income	809	508	606	229	-	-32	-	2,120
Net result on hedge accounting	-	-	-3	-	26	-79	-	-56
Trading profit	-	-6	120	500	-25	12	-57	544
Net result on investments and securities portfolio (excl. extraordinary factors)	1	-6	-15	-7	24	128	-136	-11
Other operating result (excl. extraordinary factors)	24	17	93	4	-	22	778	938
<b>Income</b>	<b>1,840</b>	<b>494</b>	<b>1,744</b>	<b>821</b>	<b>239</b>	<b>392</b>	<b>-183</b>	<b>5,347</b>
Operating expenses (excl. extraordinary factors)	1,787	481	1,291	1,117	70	111	298	5,155
<b>Operating profit</b>	<b>53</b>	<b>13</b>	<b>453</b>	<b>-296</b>	<b>169</b>	<b>281</b>	<b>-481</b>	<b>192</b>
Balance on expenses/income	-	-247	-	-	-	-	-	-247
Regular amortization of goodwill	-	86	5	-	-	12	5	108
Restructuring expenses	97	10	8	52	-	-	42	209
<b>Pre-tax profit</b>	<b>-44</b>	<b>-330</b>	<b>440</b>	<b>-348</b>	<b>169</b>	<b>269</b>	<b>-528</b>	<b>-372</b>
<b>Average equity tied up</b>	<b>1,644</b>	<b>799</b>	<b>5,339</b>	<b>1,302</b>	<b>168</b>	<b>1,931</b>	<b>688</b>	<b>11,871</b>
<b>Operative return on equity (%)</b>	<b>3.2</b>	<b>1.6</b>	<b>8.5</b>	<b>-22.7</b>	<b>100.6</b>	<b>14.6</b>	<b>-</b>	<b>1.6</b>
<b>Cost/income ratio in operating business (%)</b>	<b>89.8</b>	<b>97.4</b>	<b>45.9</b>	<b>136.1</b>	<b>29.3</b>	<b>22.4</b>	<b>-</b>	<b>77.3</b>
<b>Return on equity of pre-tax profit (%)</b>	<b>-2.7</b>	<b>-41.3</b>	<b>8.2</b>	<b>-26.7</b>	<b>100.6</b>	<b>13.9</b>	<b>-</b>	<b>-3.1</b>
Staff (average no.)	12,159	2,252	9,614	1,510	83	657	10,175	36,450

**Breakdown, by business line**

<b>2001 financial year</b>	Retail banking	Asset management	Corporate customers and institutions	Securities	Group Treasury	Mortgage banking	Others and consolidation	<b>Total</b>
<b>€ m</b>								
Net interest income	1,135	35	2,213	85	321	591	-799	3,581
Provision for possible loan losses	-145	-	-622	-	-	-158	-2	-927
Net interest income after provisioning	990	35	1,591	85	321	433	-801	2,654
Net commission income	853	611	538	334	-32	-40	3	2,267
Net result on hedge accounting	1	-	-4	-	2	64	-	63
Trading profit	1	13	195	981	-79	16	70	1,197
Net result on investments and securities portfolio (excl. extraordinary factors)	-10	-37	55	-	39	94	78	219
Other operating result (excl. extraordinary factors)	-14	9	-41	-1	-1	26	-82	-104
<i>Income</i>	<b>1,821</b>	<b>631</b>	<b>2,334</b>	<b>1,399</b>	<b>250</b>	<b>593</b>	<b>-732</b>	<b>6,296</b>
Operating expenses (excl. extraordinary factors)	2,064	587	1,502	1,143	51	154	354	5,855
<b>Operating profit</b>	<b>-243</b>	<b>44</b>	<b>832</b>	<b>256</b>	<b>199</b>	<b>439</b>	<b>-1,086</b>	<b>441</b>
Balance on expenses/income	-	-	-	-	-	-	-	-
Regular amortization of goodwill	2	99	5	1	-	4	5	116
Restructuring expenses	140	10	15	-	-	-	117	282
<b>Pre-tax profit</b>	<b>-385</b>	<b>-65</b>	<b>812</b>	<b>255</b>	<b>199</b>	<b>435</b>	<b>-1,208</b>	<b>43</b>
<b>Average equity tied up</b>	<b>1,685</b>	<b>821</b>	<b>6,124</b>	<b>1,495</b>	<b>321</b>	<b>1,564</b>	<b>1,056</b>	<b>13,066</b>
<b>Operative return on equity (%)</b>	<b>-14.4</b>	<b>5.4</b>	<b>13.6</b>	<b>17.1</b>	<b>62.0</b>	<b>28.1</b>	<b>-</b>	<b>3.4</b>
<b>Cost/income ratio in operating business (%)</b>	<b>105.0</b>	<b>93.0</b>	<b>50.8</b>	<b>81.7</b>	<b>20.4</b>	<b>20.5</b>	<b>-</b>	<b>81.1</b>
<b>Return on equity of pre-tax profit (%)</b>	<b>-22.8</b>	<b>-7.9</b>	<b>13.3</b>	<b>17.1</b>	<b>62.0</b>	<b>27.8</b>	<b>-</b>	<b>0.3</b>
Staff (average no.)	14,121	2,351	10,113	1,439	102	1,011	9,218	38,355

**Quarterly results, by business line**

	Retail banking	Asset manage- ment	Corporate customers and insti- tutions	Securities	Group Treasury	Mortgage banking	Others and consoli- dation	Total
€ m								
Net interest income	284	2	511	21	58	167	-170	873
Provision for possible loan losses	-33	-	-203	-	-	-18	-	-254
Net interest income after provisioning	251	2	308	21	58	149	-170	619
Net commission income	237	144	159	50	-1	-12	-2	575
Net result on hedge accounting	-	-	-	-	13	-45	-	-32
Trading profit	-	3	58	210	-16	28	30	313
Net result on investments and securities portfolio (excl. extraordinary factors)	-	3	-	1	-	71	17	92
Other operating result (excl. extraordinary factors)	1	-	29	2	-	3	-23	12
<i>Income</i>	489	152	554	284	54	194	-148	1,579
Operating expenses (excl. extraordinary factors)	485	135	357	269	21	38	93	1,398
<b>Operating profit</b>	<b>4</b>	<b>17</b>	<b>197</b>	<b>15</b>	<b>33</b>	<b>156</b>	<b>-241</b>	<b>181</b>
Balance on expenses/income	-	-	-	-	-	-	-	-
Regular amortization of goodwill	-	25	2	-	-	1	-	28
Restructuring expenses	-	-	-	-	-	-	-	-
<b>Pre-tax profit</b>	<b>4</b>	<b>-8</b>	<b>195</b>	<b>15</b>	<b>33</b>	<b>155</b>	<b>-241</b>	<b>153</b>

	Retail banking	Asset management	Corporate customers and institutions	Securities	Group Treasury	Mortgage banking	Others and consolidation	<b>Total</b>
<b>€ m</b>								
Net interest income	296	-9	512	26	35	136	-135	861
Provision for possible loan losses	-53	-	-230	-	-	-25	-	-308
Net interest income after provisioning	243	-9	282	26	35	111	-135	553
Net commission income	215	141	152	47	3	-11	7	554
Net result on hedge accounting	-	1	-3	-	21	32	-	51
Trading profit	1	-6	1	170	-25	-18	-19	104
Net result on investments and securities portfolio (excl. extraordinary factors)	-	19	11	-	-8	-20	58	60
Other operating result (excl. extraordinary factors)	4	8	24	-	-1	7	-2	40
<i>Income</i>	<b>463</b>	<b>154</b>	<b>467</b>	<b>243</b>	<b>25</b>	<b>101</b>	<b>-91</b>	<b>1,362</b>
Operating expenses (excl. extraordinary factors)	454	123	315	286	20	42	68	1,308
<b>Operating profit</b>	<b>9</b>	<b>31</b>	<b>152</b>	<b>-43</b>	<b>5</b>	<b>59</b>	<b>-159</b>	<b>54</b>
Balance on expenses/income	-	-	-	-	-	-	-	-
Regular amortization of goodwill	-	26	1	-	-	2	-	29
Restructuring expenses	-	-	-	-	-	-	-	-
<b>Pre-tax profit</b>	<b>9</b>	<b>5</b>	<b>151</b>	<b>-43</b>	<b>5</b>	<b>57</b>	<b>-159</b>	<b>25</b>



	Retail banking	Asset management	Corporate customers and institutions	Securities	Group Treasury	Mortgage banking	Others and consolidation	Total
<b>€ m</b>								
Net interest income	290	-1	503	34	64	63	-232	721
Provision for possible loan losses	-59	-	-330	-	-	-47	-	-436
Net interest income after provisioning	231	-1	173	34	64	16	-232	285
Net commission income	192	118	139	91	-1	-6	-32	501
Net result on hedge accounting	-	-1	1	-	-9	-12	-	-21
Trading profit	-1	-9	10	70	38	-16	-56	36
Net result on investments and securities portfolio (excl. extraordinary factors)	1	-9	23	-	32	39	-617	-531
Other operating result (excl. extraordinary factors)	4	5	72	1	1	2	799	884
<i>Income</i>	427	103	418	196	125	23	-138	1,154
Operating expenses (excl. extraordinary factors)	424	120	298	282	15	21	69	1,229
<b>Operating profit</b>	<b>3</b>	<b>-17</b>	<b>120</b>	<b>-86</b>	<b>110</b>	<b>2</b>	<b>-207</b>	<b>-75</b>
Balance on expenses/income	-	-	-	-	-	-	-	-
Regular amortization of goodwill	-	24	1	-	-	1	-	26
Restructuring expenses	32	-	-	-	-	-	-	32
<b>Pre-tax profit</b>	<b>-29</b>	<b>-41</b>	<b>119</b>	<b>-86</b>	<b>110</b>	<b>1</b>	<b>-207</b>	<b>-133</b>

	Retail banking	Asset management	Corporate customers and institutions	Securities	Group Treasury	Mortgage banking	Others and consolidation	<b>Total</b>
<b>€ m</b>								
Net interest income	286	-11	485	14	57	78	-231	678
Provision for possible loan losses	-5	-	-305	-	-	-13	-	-323
Net interest income after provisioning	281	-11	180	14	57	65	-231	355
Net commission income	165	105	156	41	-1	-3	27	490
Net result on hedge accounting	-	-	-1	-	1	-54	-	-54
Trading profit	-	6	51	50	-22	18	-12	91
Net result on investments and securities portfolio (excl. extraordinary factors)	-	-19	-49	-8	-	38	406	368
Other operating result (excl. extraordinary factors)	15	4	-32	1	-	10	4	2
<i>Income</i>	<b>461</b>	<b>85</b>	<b>305</b>	<b>98</b>	<b>35</b>	<b>74</b>	<b>194</b>	<b>1,252</b>
Operating expenses (excl. extraordinary factors)	424	103	321	280	14	10	68	1,220
<b>Operating profit</b>	<b>37</b>	<b>-18</b>	<b>-16</b>	<b>-182</b>	<b>21</b>	<b>64</b>	<b>126</b>	<b>32</b>
Balance on expenses/income	-	-247	-	-	-	-	-	-247
Regular amortization of goodwill	-	11	1	-	-	8	5	25
Restructuring expenses	65	10	8	52	-	-	42	177
<b>Pre-tax profit</b>	<b>-28</b>	<b>-286</b>	<b>-25</b>	<b>-234</b>	<b>21</b>	<b>56</b>	<b>79</b>	<b>-417</b>



## 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:

2002 financial year	Germany	Europe (excluding Germany)	America	Asia	Other countries	Total
€ m						
Net interest income	2,130	466	379	147	11	3,133
Provision for possible loan losses	-957	-306	-77	19	-	-1,321
Net interest income after provisioning	1,173	160	302	166	11	1,812
Net commission income	1,366	526	142	82	4	2,120
Net result on hedge accounting	-69	16	-3	-	-	-56
Trading profit	541	-28	19	12	-	544
Net result on investments and securities portfolio	-173	157	7	-2	-77	-88
Other operating result	939	-14	-153 <sup>2)</sup>	-4	-	768
Regular amortization of goodwill	28	79	1	-	-	108
Operating expenses	3,787	936	278	150	4	5,155
<b>Profit from ordinary activities before restructuring expenses</b>	<b>-38</b>	<b>-198</b>	<b>35</b>	<b>104</b>	<b>-66</b>	<b>-163</b>
<b>Risk-weighted assets according to BIS<sup>1)</sup></b>	<b>104,257</b>	<b>33,629</b>	<b>13,899</b>	<b>4,140</b>	<b>615</b>	<b>156,540</b>

In the previous year, we achieved the following results in the geographical markets:

2001 financial year	Germany	Europe (excluding Germany)	America	Asia	Other countries	Total
€ m						
Net interest income	2,543	583	329	117	9	3,581
Provision for possible loan losses	-609	-71	-155	-92	-	-927
Net interest income after provisioning	1,934	512	174	25	9	2,654
Net commission income	1,387	538	238	100	4	2,267
Net result on hedge accounting	67	-9	4	1	-	63
Trading profit	816	284	81	12	4	1,197
Net result on investments and securities portfolio	132	94	7	-14	-	219
Other operating result	-78	-24	1	-3	-	-104
Regular amortization of goodwill	21	79	16	-	-	116
Operating expenses	4,233	1,042	380	196	4	5,855
<b>Profit from ordinary activities before restructuring expenses</b>	<b>4</b>	<b>274</b>	<b>109</b>	<b>-75</b>	<b>13</b>	<b>325</b>
<b>Risk-weighted assets according to BIS<sup>1)</sup></b>	<b>133,048</b>	<b>39,959</b>	<b>16,560</b>	<b>5,197</b>	<b>679</b>	<b>195,443</b>

<sup>1)</sup> excluding market risk;

<sup>2)</sup> of which: Montgomery Asset Management -€170m

## Notes to the balance sheet

### (43) Cash reserve

We include the following items in the cash reserve:

	<b>31.12.2002</b>	<b>31.12.2001</b>	Change
	€ m	€ m	in %
Cash on hand	898	788	14.0
Balances with central banks	5,714	5,160	10.7
Debt issued by public-sector borrowers, and bills of exchange rediscountable at central banks	1,854	1,684	10.1
Treasury bills and discountable treasury notes, as well as similar debt issues by public-sector borrowers	1,511	1,277	18.3
Bills of exchange	343	407	-15.7
<b>Total</b>	<b>8,466</b>	<b>7,632</b>	<b>10.9</b>

The balances with central banks include claims on the Bundesbank totalling €4,371m (previous year: €4,474m). The minimum reserve requirement to be met at end-December 2002 amounted to €2,166m (previous year: €2,479m).

### (44) Claims on banks

	total			due on demand		other claims	
	<b>31.12.2002</b>	<b>31.12.2001</b>	Change	<b>31.12.2002</b>	<b>31.12.2001</b>	<b>31.12.2002</b>	<b>31.12.2001</b>
	€ m	€ m	in %	€ m	€ m	€ m	€ m
German banks	22,226	29,644	-25.0	3,111	6,605	19,115	23,039
Foreign banks	32,117	33,748	-4.8	10,685	7,220	21,432	26,528
<b>Total</b>	<b>54,343</b>	<b>63,392</b>	<b>-14.3</b>	<b>13,796</b>	<b>13,825</b>	<b>40,547</b>	<b>49,567</b>

The claims on banks include €6,560m of public-sector loans (previous year: €8,796m) extended by the mortgage banks.



#### (45) Claims on customers

The claims on customers break down as follows:

	31.12.2002 € m	31.12.2001 € m	Change in %
Claims on domestic customers	95,843	147,885	-35.2
Claims on foreign customers	52,671	72,430	-27.3
<b>Total</b>	<b>148,514</b>	<b>220,315</b>	<b>-32.6</b>

The claims on customers include €25,718m (previous year: €58,963m) of loans secured by mortgages or other security interests in real property as well as €19,174m (previous year: €44,143m) of public-sector credits.

#### (46) 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:

	31.12.2002 € m	31.12.2001 € m	Change in %
<b>Claims on banks</b>	<b>954</b>	<b>102</b>	•
Subsidiaries	18	44	-59.1
Associated companies and companies in which an equity investment exists	936	58	•
<b>Claims on customers</b>	<b>304</b>	<b>582</b>	<b>-47.8</b>
Subsidiaries	234	237	-1.3
Associated companies and companies in which an equity investment exists	70	345	-79.7
<b>Bonds, notes and other fixed-income securities</b>	<b>932</b>	-	-
Subsidiaries	30	-	-
Associated companies and companies in which an equity investment exists	902	-	-
<b>Shares and other variable-yield securities</b>	<b>358</b>	-	-
Associated companies and companies in which an equity investment exists	358	-	-
<b>Total</b>	<b>2,548</b>	<b>684</b>	•
<b>Liabilities to banks</b>	<b>71</b>	<b>128</b>	<b>-44.5</b>
Subsidiaries	2	21	-90.5
Associated companies and companies in which an equity investment exists	69	107	-35.5
<b>Liabilities to customers</b>	<b>47</b>	<b>59</b>	<b>-20.3</b>
Subsidiaries	34	41	-17.1
Associated companies and companies in which an equity investment exists	13	18	-27.8
<b>Total</b>	<b>118</b>	<b>187</b>	<b>-36.9</b>

#### (47) Total lending

	31.12.2002	31.12.2001	Change
	€ m	€ m	in %
Loans to banks <sup>1)</sup>	10,223	15,725	-35.0
Claims on customers <sup>1)</sup>	139,522	204,737	-31.9
Bills discounted	347	428	-18.9
Claims not originated by the Bank <sup>2)</sup>	21,379	18,852	13.4
<b>Total</b>	<b>171,471</b>	<b>239,742</b>	<b>-28.5</b>

<sup>1)</sup> excluding reverse repos; <sup>2)</sup> 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.

#### (48) 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.

	Individual valuation allowances <sup>1)</sup>		Country valuation allowances		Global valuation allowances		Total		
	2002	2001	2002	2001	2002	2001	2002	2001	Change
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m	in %
<b>As of 1.1.</b>	<b>5,402</b>	<b>5,146</b>	<b>134</b>	<b>146</b>	<b>410</b>	<b>370</b>	<b>5,946</b>	<b>5,662</b>	<b>5.0</b>
Allocations	1,927	1,422	10	41	37	57	1,974	1,520	29.9
Deductions	1,388	1,198	55	64	27	10	1,470	1,272	15.6
utilized	760	605	20	16	–	–	780	621	25.6
reversals	628	593	35	48	27	10	690	651	6.0
Changes in consolidated companies	-449	-13	–	–	-101	9	-550	-4	•
Exchange-rate changes/transfers	-172	45	-18	11	-5	-16	-195	40	•
<b>Provision for possible loan losses as of 31.12</b>	<b>5,320</b>	<b>5,402</b>	<b>71</b>	<b>134</b>	<b>314</b>	<b>410</b>	<b>5,705</b>	<b>5,946</b>	<b>-4.1</b>

<sup>1)</sup> 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 have given rise to provision of €1,321m (previous year: €927m) for lending risks.



Provision for possible risks was formed for:

	31.12.2002	31.12.2001	Change
	€ m	€ m	in %
Claims on banks	83	110	-24.5
Claims on customers	5,293	5,538	-4.4
<b>Provision to cover balance-sheet items</b>	<b>5,376</b>	<b>5,648</b>	<b>-4.8</b>
Guarantees, endorsement liabilities, credit commitments	329	298	10.4
<b>Total</b>	<b>5,705</b>	<b>5,946</b>	<b>-4.1</b>

After conservatively valued security in an amount of €1,683m had been deducted, the value-adjusted claims producing neither interest nor income amounted to €5,163m.

The provision for credit risk breaks down as follows:

€ m	Individual valuation and provisions for lending business	Loan losses <sup>1)</sup> in 2002	Net allocation <sup>2)</sup> to valuation allowances and provisions in lending business
<b>German customers</b>	<b>4,392</b>	<b>404</b>	<b>946</b>
Companies and self-employed	3,734	344	885
Manufacturing	702	48	190
Construction	280	7	56
Distributive trades	487	97	143
Services, incl. professions, and others	2,265	192	496
Other retail customers	658	60	61
<b>Foreign customers</b>	<b>928</b>	<b>455</b>	<b>353</b>
Banks	50	1	–
Corporate and retail customers	878	454	353
<b>Total</b>	<b>5,320</b>	<b>859</b>	<b>1,299</b>

<sup>1)</sup> Direct write-downs, utilized individual valuation allowances and provisions in lending business

<sup>2)</sup> Allocation less reversals



Data on provision for credit risk:

in %	2002	2001
Allocation ratio <sup>1)</sup>	0.77	0.39
Write-off ratio <sup>2)</sup>	0.48	0.28
Cover ratio <sup>3)</sup>	3.33	2.48

<sup>1)</sup> 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

<sup>2)</sup> 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

<sup>3)</sup> 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 = volume of commercial business and country loans

#### (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.

	31.12.2002 € m	31.12.2001 € m	Change in %
Bonds, notes and other fixed-income securities	35,148	40,419	-13.0
Money-market instruments	983	3,396	-71.1
issued by public-sector borrowers	359	354	1.4
issued by other borrowers	624	3,042	-79.5
Bonds and notes	34,165	37,023	-7.7
issued by public-sector borrowers	20,916	15,463	35.3
issued by other borrowers	13,249	21,560	-38.5
Shares and other variable-yield securities	5,412	12,617	-57.1
Promissory notes held in the trading portfolio	515	669	-23.0
Positive fair values attributable to derivative financial instruments	76,117	42,121	80.7
Currency-based transactions	9,721	7,622	27.5
Interest-based transactions	59,197	27,808	.
Other transactions	7,199	6,691	7.6
<b>Total</b>	<b>117,192</b>	<b>95,826</b>	<b>22.3</b>

€35,550m (previous year: €49,542m) 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

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.

	<b>31.12.2002</b> € m	<b>31.12.2001</b> € m	Change in %
Claims on banks and customers not originated by the Bank	21,379	18,852	13.4
Bonds, notes and other fixed-income securities	53,400	74,767	-28.6
Money-market instruments	431	2,478	-82.6
issued by public-sector borrowers	74	3	.
issued by other borrowers	357	2,475	-85.6
Bonds and notes	52,969	72,289	-26.7
issued by public-sector borrowers	26,878	36,912	-27.2
issued by other borrowers	26,091	35,377	-26.2
Shares and other variable-yield securities	1,999	4,351	-54.1
Investments	3,629	5,225	-30.5
of which: in banks	1,999	2,780	-28.1
Investments in associated companies	3,584	852	.
of which: in banks	3,250	439	.
Holdings in subsidiaries	567	408	39.0
of which: in banks	60	67	-10.4
<b>Total</b>	<b>84,558</b>	<b>104,455</b>	<b>-19.0</b>
of which: measured at amortized cost	1,609	1,318	22.1

Fair values of listed financial investments:

€ m	<b>31.12.2002</b> Fair value	<b>31.12.2001</b> Fair value
Bonds, notes and other fixed-income securities	49,139	66,452
Shares and other variable-yield securities	811	1,273
Investments and investments in associated companies	5,815	4,456
<b>Total</b>	<b>55,765</b>	<b>72,181</b>



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	
		31.12.2002	31.12.2001
Al Wataniya	Casablanca	9.0	9.5
Banque Marocaine du Commerce Extérieur, S.A.	Casablanca	10.0	10.0
Buderus Aktiengesellschaft	Wetzlar	10.5	10.5
Compagnie Monégasque de Banque S.A.M.	Monaco	–	10.4
Heidelberger Druckmaschinen Aktiengesellschaft	Heidelberg	10.0	9.9
Holsten-Brauerei Aktiengesellschaft	Hamburg	7.2	7.2
Linde Aktiengesellschaft	Wiesbaden	10.0	10.4
MAN Aktiengesellschaft	Munich	6.8	6.5
Sachsenring Automobiltechnik AG i.L.	Zwickau	10.0	10.0
Security Capital Group Inc.	Santa Fé	–	5.1
Unibanco Holdings S.A.	São Paulo	11.5	11.5
Willy Vogel Beteiligungsgesellschaft mbH	Berlin	19.0	19.0

#### (51) Intangible assets

	31.12.2002 € m	31.12.2001 € m	Change in %
Goodwill	1,040	1,380	-24.6
Other intangible assets	111	104	6.7
<b>Total</b>	<b>1,151</b>	<b>1,484</b>	<b>-22.4</b>

Using the straight-line method, we amortize goodwill over the probable useful economic lifetime of 15 years.

Further goodwill arising from companies shown at equity is contained in investments in associated companies (€341m).

Of the other intangible assets, capitalized software produced in-house accounted for €90m (previous year: €100m).

#### (52) Fixed assets

	31.12.2002 € m	31.12.2001 € m	Change in %
Land and buildings	709	739	-4.1
Office furniture and equipment	1,417	1,846	-23.2
Leased equipment	379	789	-52.0
<b>Total</b>	<b>2,505</b>	<b>3,374</b>	<b>-25.8</b>

Due to new information regarding the classification of our leasing transactions, we have counted leased equipment of €0.4bn as finance leasing and shown it under Claims on customers.



### (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:

	Intangible assets		Fixed assets	
	Goodwill	Other intangible assets	Land and buildings	Office furniture and equipment
<b>€ m</b>				
<b>Book value as of 1.1.2002</b>	<b>1,380</b>	<b>104</b>	<b>739</b>	<b>1,846</b>
Cost of acquisition/manufacture as of 1.1.2002	1,700	144	884	3,954
Additions in 2002	–	53	92	254
Disposals in 2002	24	6	87	431
Transfers/changes in consolidated companies	–79	–13	–22	–52
Cost of acquisition/manufacture as of 31.12.2002	1,597	178	867	3,725
Write-ups in 2002	–	–	–	–
Cumulative write-downs as of 31.12.2001	320	40	145	2,108
Changes in exchange rates	–10	–	–	–14
Additions in 2002	257	29	27	511
Disposals in 2002	–	1	5	261
Transfers/changes in consolidated companies	–10	–1	–9	–36
Cumulative write-downs as of 31.12.2002	557	67	158	2,308
<b>Book value as of 31.12.2002</b>	<b>1,040</b>	<b>111</b>	<b>709</b>	<b>1,417</b>

	Fixed assets	Investments	Investments in associated companies	Holdings in subsidiaries
	Leased equipment			
<b>€ m</b>				
<b>Book value as of 1.1.2002</b>	<b>789</b>	<b>5,225</b>	<b>852</b>	<b>408</b>
Cost of acquisition/manufacture as of 1.1.2002	1,335	5,428	886	408
Additions in 2002	38	613	2,468	199
Disposals in 2002	217	690	–	3
Transfers/changes in consolidated companies	–721	–22	79	–
Cumulative changes arising from measurement at fair value or at equity	–	–923	317	–
Cost of acquisition/manufacture/fair value as of 31.12.2002	435	4,406	3,750	604
Write-ups in 2002	–	8	–	–
Cumulative write-downs as of 31.12.2001	546	203	34	–
Additions in 2002	13	582	122	37
Disposals in 2002	217	–	–	–
Transfers/changes in consolidated companies	–286	–	10	–
Cumulative write-downs as of 31.12.2002	56	785	166	37
<b>Book value as of 31.12.2002</b>	<b>379</b>	<b>3,629</b>	<b>3,584</b>	<b>567</b>



#### (54) Tax assets

	31.12.2002 € m	31.12.2001 € m	Change in %
<b>Current tax assets</b>	<b>704</b>	<b>881</b>	<b>-20.1</b>
Germany	607	773	-21.5
Abroad	97	108	-10.2
<b>Deferred tax assets</b>	<b>5,291</b>	<b>2,737</b>	<b>93.3</b>
Deferred tax assets	4,949	2,668	85.5
Capitalized advantages from unused loss carry-forwards	342	69	•
<b>Total</b>	<b>5,995</b>	<b>3,618</b>	<b>65.7</b>

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.

The deferred tax assets and liabilities set off directly against equity amounted to €409m as of December 31, 2002 (previous year: €3m).

No deferred taxes have been recognized for loss carry-forwards of €2,796m (previous year: €632m), as it is uncertain at present whether they will be realized.

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

	31.12.2002 € m	31.12.2001 € m	Change in %
Claims on banks and customers	139	102	36.3
Liabilities to banks and customers	148	117	26.5
Fair value of derivative hedging instruments	2,050	545	•
Assets held for dealing purposes and liabilities from dealing activities	1,537	1,058	45.3
Securitized liabilities	287	366	-21.6
Provisions	318	129	•
Sundry balance-sheet items	470	351	33.9
<b>Total</b>	<b>4,949</b>	<b>2,668</b>	<b>85.5</b>

#### (55) Other assets

Other assets mainly comprise the following items:

	31.12.2002 € m	31.12.2001 € m	Change in %
Collection items	284	379	-25.1
Advance payments	435	722	-39.8
Sundry items, including deferred items	936	1,895	-50.6
<b>Total</b>	<b>1,655</b>	<b>2,996</b>	<b>-44.8</b>

**(56) Liabilities to banks**

	total			Change in %
	31.12.2002		31.12.2001	
	€ m	€ m	€ m	
German banks	42,893	26,807	60.0	
Foreign banks	72,091	82,279	-12.4	
<b>Total</b>	<b>114,984</b>	<b>109,086</b>	<b>5.4</b>	

of which:	due on demand		other liabilities	
	31.12.2002		31.12.2001	31.12.2001
	€ m	€ m	€ m	€ m
German banks	3,608	1,841	39,285	24,966
Foreign banks	9,500	12,150	62,591	70,129
<b>Total</b>	<b>13,108</b>	<b>13,991</b>	<b>101,876</b>	<b>95,095</b>

**(57) Liabilities to customers**

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

€ m	Savings deposits		Other liabilities			
	due on demand		with agreed lifetime or period of notice			
	31.12.2002	31.12.2001	31.12.2002	31.12.2001	31.12.2002	31.12.2001
<b>German customers</b>	<b>11,035</b>	<b>9,838</b>	<b>26,857</b>	<b>27,799</b>	<b>31,647</b>	<b>43,413</b>
Corporate customers	41	38	16,782	16,286	20,885	30,565
Retail customers and others	10,989	9,795	9,684	10,928	7,572	8,259
Public sector	5	5	391	585	3,190	4,589
<b>Foreign customers</b>	<b>1,038</b>	<b>866</b>	<b>6,251</b>	<b>8,790</b>	<b>18,872</b>	<b>25,692</b>
Corporate and retail customers	1,037	865	6,072	8,450	16,522	24,128
Public sector	1	1	179	340	2,350	1,564
<b>Total</b>	<b>12,073</b>	<b>10,704</b>	<b>33,108</b>	<b>36,589</b>	<b>50,519</b>	<b>69,105</b>

Savings deposits break down as follows:

	31.12.2002		31.12.2001	Change in %
	€ m	€ m	€ m	
Savings deposits with agreed period of notice of three months	11,262	9,773	15.2	
Savings deposits with agreed period of notice of more than three months	811	931	-12.9	
<b>Total</b>	<b>12,073</b>	<b>10,704</b>	<b>12.8</b>	

## (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	
	31.12.2002 € m	31.12.2001 € m	31.12.2002 € m	31.12.2001 € m
Bonds and notes outstanding	74,905	144,081	53,967	107,275
Money-market instruments outstanding	17,502	46,258	1,477	5,751
Own acceptances and promissory notes outstanding	325	331	–	–
<b>Total</b>	<b>92,732</b>	<b>190,670</b>	<b>55,444</b>	<b>113,026</b>

The nominal interest paid on money-market paper ranges from 0.10% to 29.1% (previous year: 0.50% to 23.75%); for bonds and notes, from 0.05% to 32.0% (previous year: 0.05% to 25.20%). The original maturity periods for

money-market paper may be up to one year. €54bn (previous year: €101bn) 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 2002:

Equivalent in € m	Currency	Issuer	Interest rate	Maturity
2,000	EUR	Hypothekenbank in Essen AG	4.250	2006
1,000	EUR	Hypothekenbank in Essen AG	3.240	2004
750	EUR	Hypothekenbank in Essen AG	3.537	2004
500	EUR	Hypothekenbank in Essen AG	3.149	2003
400	EUR	Hypothekenbank in Essen AG	3.281	2003
250	EUR	Hypothekenbank in Essen AG	4.500	2004
250	EUR	Hypothekenbank in Essen AG	3.327	2004
250	EUR	Hypothekenbank in Essen AG	3.250	2003
231	GBP	Commerzbank AG	3.940	2003
204	CHF	Hypothekenbank in Essen AG	0.727	2005
200	EUR	Hypothekenbank in Essen AG	3.510	2003
200	EUR	Hypothekenbank in Essen AG	3.304	2004
154	GBP	Commerzbank AG	4.270	2003
150	EUR	Hypothekenbank in Essen AG	2.100	2003

### (59) 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.

	31.12.2002 € m	31.12.2001 € m	Change in %
Currency-based transactions	10,978	8,357	31.4
Interest-based transactions	58,982	28,264	•
Delivery commitments arising from short sales of securities	8,131	4,954	64.1
Other transactions	5,147	6,261	-17.8
<b>Total</b>	<b>83,238</b>	<b>47,836</b>	<b>74.0</b>

### (60) Provisions

Provisions break down as follows:

	31.12.2002 € m	31.12.2001 € m	Change in %
Provisions for pensions and similar commitments	1,516	1,499	1.1
Other provisions	2,012	1,857	8.3
<b>Total</b>	<b>3,528</b>	<b>3,356</b>	<b>5.1</b>

The changes in provisions for pensions were as follows:

	as of <b>1.1.2002</b> € m	Pension payments	Allocation	Transfers/changes in consolidated companies	as of <b>31.12.2002</b>
Pension expectancies of active and former employees	821	–	91	-110	802
Pensioners	612	71	37	64	642
Staff on early retirement schemes	33	15	12	–	30
Part-time scheme for older staff	33	20	30	-1	42
<b>Total</b>	<b>1,499</b>	<b>106</b>	<b>170</b>	<b>-47</b>	<b>1,516</b>

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.



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, 2002, was €1,576m (previous year: €1,615m). The difference of €60m (previous year: €116m)

between this figure and the pension provisions is the result of changes in the actuarial parameters and the bases of calculation in recent years. The reports by the actuary also took account of the raising of the income threshold for contributions to the pension insurance scheme, which became effective on January 1, 2003.

The allocation to provisions for pension schemes to which the Bank contributes breaks down as follows for 2002:

	2002 € m	2001 € m
- Service cost	40	46
- Interest cost	91	88
- Non-recurring cost of early retirement and part-time scheme for older staff	39	31
<b>Allocations to provisions for schemes to which the Bank contributes</b>	<b>170</b>	<b>165</b>

Changes in Other provisions:

	as of <b>1.1.2002</b>	Utilized	Reversals	Allocation/changes in consolidated companies	as of <b>31.12.2002</b>
€ m					
Personnel area	676	432	79	364	529
Restructuring measures	203	112	–	194	285
Risks in lending	298	16	63	110	329
Bonuses for special savings schemes	115	115	–	116	116
Legal proceedings and recourse claims	108	13	30	30	95
Sundry items	457	243	64	508	658
<b>Total</b>	<b>1,857</b>	<b>931</b>	<b>236</b>	<b>1,322</b>	<b>2,012</b>

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 2003. An amount of €194m was allocated to the provisions for the restructuring measures introduced and announced in the 2002 financial year.

The allocated amount appears in the income statement under Restructuring expenses. The provision for the guarantee given to Eurohypo AG to compensate for possible credit defaults is included in sundry provisions in an amount covering the maximum possible recourse to it.



## (61) Tax liabilities

	31.12.2002	31.12.2001	Changes
	€ m	€ m	in %
<b>Current income-tax liabilities</b>	<b>278</b>	<b>398</b>	<b>-30.2</b>
Income-tax liabilities to tax authorities	3	33	-90.9
Provisions for income taxes	275	365	-24.7
<b>Deferred income-tax liabilities</b>	<b>3,386</b>	<b>1,700</b>	<b>99.2</b>
Deferred taxes carried as liabilities	3,386	1,700	99.2
<b>Total</b>	<b>3,664</b>	<b>2,098</b>	<b>74.6</b>

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 tem-

porary 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:

	31.12.2002	31.12.2001	Change
	€ m	€ m	in %
Assets held for dealing purposes and liabilities from dealing activities	777	338	•
Investments and securities portfolio	1,276	834	53.0
Fair values of derivative hedging instruments	885	–	–
Claims on banks and customers	259	349	-25.8
Liabilities to banks and customers	8	10	-20.0
Sundry balance-sheet items	181	169	7.1
<b>Total</b>	<b>3,386</b>	<b>1,700</b>	<b>99.2</b>

## (62) Other liabilities

Other liabilities break down as follows:

	31.12.2002	31.12.2001	Change
	€ m	€ m	in %
Deferred interest expenses for subordinated capital	324	381	-15.0
Effects of measuring hedged subordinated capital items (IAS 39)	820	230	•
Sundry liabilities, including deferred items	2,141	2,248	-4.8
<b>Total</b>	<b>3,285</b>	<b>2,859</b>	<b>14.9</b>

### (63) Subordinated capital

Subordinated capital breaks down as follows:

	31.12.2002 € m	31.12.2001 € m	Change in %
<b>Subordinated liabilities</b>	<b>6,845</b>	<b>8,011</b>	<b>-14.6</b>
of which: tier-III capital as defined in Art. 10, (7), KWG	774	1,175	-34.1
of which: maturing within two years	974	1,985	-50.9
<b>Profit-sharing certificates outstanding</b>	<b>2,392</b>	<b>2,513</b>	<b>-4.8</b>
of which: maturing within two years	266	15	•
<b>Total</b>	<b>9,237</b>	<b>10,524</b>	<b>-12.2</b>

In order to meet the regulatory requirements regarding such subordinated liabilities, we have shown the effects of measuring hedged items in accordance with IAS 39, and also the deferred interest payments for such transactions, separately under Other liabilities.

Subordinated liabilities are liable 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 issuers 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-2002, 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	308	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	231	150 GBP	Commerzbank AG	6.625	2019

In the year under review, the interest paid by the Group for subordinated liabilities totalled €432m (previous year: €475m). This includes €151m (previous year: €189m) of deferred interest expenses for interest due but not yet paid. This is shown under Other liabilities.



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.

The following main issues of profit-sharing certificates are outstanding:

Year of issue	€ m	Issuer	Interest rate	Maturity date
1993	409	Commerzbank AG	7.250	2005
2000	320	Commerzbank AG	6.375	2010
1991	256	Commerzbank AG	9.500	2003
1992	256	Commerzbank AG	9.150	2004
1994	256	Commerzbank AG	4.572	2006
1996	256	Commerzbank AG	7.900	2008

Interest to be paid on the profit-sharing certificates outstanding for the 2002 financial year amounts to €191m (previous year: €192m). Under Other liabilities, €173m has been shown.

#### (64) Hybrid capital

As in previous years, the Commerzbank Group raised no hybrid capital in the 2002 financial year..



## (65) Equity structure

	31.12.2002	31.12.2001
	€ m	€ m
a) Subscribed capital	1,378	1,394
b) Capital reserve	6,131	6,197
c) Retained earnings	3,268	4,046
d) Revaluation reserve	-769	189
e) Measurement of cash flow hedges	-1,248	-397
f) Reserve from currency translation	-6	114
g) Consolidated profit	54	217
<b>Total</b>	<b>8,808</b>	<b>11,760</b>

### a) Subscribed capital

The subscribed capital (share capital) of Commerzbank Aktiengesellschaft is divided into no-par-value shares, each with a notional value of €2.60. The shares are issued in the form of bearer shares.

<b>Number of shares outstanding on 1.1.2002</b>	1,000 units
plus: treasury shares on 31.12. of the previous year	536,051
Issue of shares to employees	5,776
<b>Number of shares issued on 31.12.2002</b>	<b>380</b>
less: treasury shares	542,207
<b>Number of shares outstanding on 31.12.2002</b>	<b>12,263</b>
	<b>529,944</b>

Before treasury shares are subtracted in accordance with Art. 71, (1), no. 7, AktG, the subscribed capital stands at €1,410m.

No preferential rights exist or restrictions on the payment of dividends at Commerzbank Aktiengesellschaft.

The value of issued, outstanding and authorized shares is as follows:

	31.12.2002	31.12.2001		
	€ m	1,000 units	€ m	1,000 units
Shares issued	1,410	542,207	1,409	541,827
- Treasury shares	-32	-12,263	-15	-5,776
= Shares outstanding (subscribed capital)	1,378	529,944	1,394	536,051
+ Shares not yet issued from authorized capital	493	189,705	414	159,183
<b>Total</b>	<b>1,871</b>	<b>719,649</b>	<b>1,808</b>	<b>695,234</b>

The number of authorized shares totals 731,912 thousand units (previous year: 701,010 thousand units). The amount represented by authorized shares is €1,903m (previous year: €1,823m).

As of December 31, 2002, 7,891 thousand shares (previous year: 12,106 thousand shares) had been pledged with the Group as security. This represents 1.5% (previous year: 2.2%) of the shares outstanding on the balance-sheet date.

**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.

The Group's capital reserve is the amount shown for Commerzbank Aktiengesellschaft, less the treasury shares held. The values represented by subsidiaries in the capital reserve are eliminated as part of the consolidation of capital accounts or appear as minority interests.

**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 €3,265m (previous year: €4,043m) of other revenue reserves.

**d) Revaluation reserve**

The results of measuring the investments and securities portfolio at fair value, if necessary taking into consideration deferred taxes, 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.

## (66) 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:

	Conditional capital 1.1.2002	Additions	Expiring	Used	Conditional Capital 31.12.2002	of which: used conditional capital	available lines
€ m							
Convertible bonds/ bonds with warrants	78	–	78	–	–	–	–
Convertible bonds/ bonds with warrants/ profit-sharing rights	200	–	–	–	200	–	200
<b>Gesamt</b>	<b>278</b>	<b>–</b>	<b>78</b>	<b>–</b>	<b>200</b>	<b>–</b>	<b>200</b>

The conditional increase in the Bank's share capital by up to €78,000,000, resolved by the Annual General Meeting of May 30, 1997, expired on April 30, 2002.

As resolved by the AGM of May 21, 1999, the Bank's share capital has been conditionally increased by up to €200,070,000. Such conditional capital increase will only be effected to the extent that the holders of the convertible bonds, bonds with warrants or profit-sharing certificates carrying conversion or option rights to be issued by

April 30, 2004, by either Commerzbank Aktiengesellschaft or companies in which the Bank directly or indirectly holds a majority interest exercise their conversion or option rights, or the holders of the convertible bonds or profit-sharing certificates carrying conversion rights to be issued by April 30, 2004, by either Commerzbank Aktiengesellschaft or companies in which Commerzbank Aktiengesellschaft directly or indirectly holds a majority interest meet the obligation to exercise their conversion rights.

**(67) Authorized capital**

Date of AGM resolution	Original amount € m	Used in previous years for capital increases € m	Used in 2002 for capital increases € m	Authoriza-tion expired € m	Remaining amount € m	Autho-rization expires
30.05.1997	26	10	1	15	–	expired
21.05.1999	175	–	–	–	175	30.04.2004
21.05.1999	175	25	–	–	150	30.04.2004
21.05.1999	86	13	–	–	73	30.04.2004
31.05.2002	30	–	–	–	30	30.04.2007
31.05.2002	65	–	–	–	65	30.04.2007
<b>Total</b>	<b>557</b>	<b>48</b>	<b>1</b>	<b>15</b>	<b>493</b>	

The Board of Managing Directors is authorized to increase, with the approval of the Supervisory Board, the share capital of the Company by April 30, 2004 through the issue of no-par-value shares against cash contributions, in either one or several tranches, by a maximum amount of €175,000,000. 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 its subsidiaries, subscription rights to the extent to which they would be entitled as shareholders 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 to increase, with the approval of the Supervisory Board, the share capital of the Company by April 30, 2004 through the issue of no-par-value shares against cash or contributions in kind, in either one or several tranches, by a maximum amount of €149,563,570.80. 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 its subsidiaries, subscription rights to the extent to which they would be entitled as shareholders 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 holdings in companies.

The Board of Managing Directors is authorized to increase, with the approval of the Supervisory Board, the Company's share capital by April 30, 2004 through the issue of no-par-value shares against cash, in either one or several tranches, by a maximum amount of €73,669,684.60. 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.

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 €30,000,000, 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 to increase, with the approval of the Supervisory Board, the Company's share capital by April 30, 2007 through the issue of no-par-value shares against cash, in either one or several tranches, by a maximum amount of €65,000,000. 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.

## (68) The Bank's foreign-currency position

On December 31, 2002, the Commerzbank Group had the following foreign-currency assets and liabilities (excluding fair values of derivatives):

	31.12.2002				31.12.2001		Change
	USD	JPY	GBP	Others	Total	Total	€ m in %
Cash reserve	245	801	0	166	1,212	286	•
Claims on banks	12,080	3,254	2,839	3,362	21,535	23,323	-7.7
Claims on customers	29,541	3,936	3,188	6,433	43,098	57,307	-24.8
Assets held for dealing purposes	3,724	2,159	1,453	2,127	9,463	14,640	-35.4
Investments and securities portfolio	7,431	852	525	1,321	10,129	19,666	-48.5
Other balance-sheet items	3,854	720	1,303	2,027	7,904	5,361	47.4
<b>Foreign-currency assets</b>	<b>56,875</b>	<b>11,722</b>	<b>9,308</b>	<b>15,436</b>	<b>93,341</b>	<b>120,583</b>	<b>-22.6</b>
Liabilities to banks	26,303	5,560	5,954	9,110	46,927	61,815	-24.1
Liabilities to customers	10,591	2,231	4,124	4,133	21,079	27,960	-24.6
Securitized liabilities	10,482	347	6,119	3,138	20,086	53,716	-62.6
Other balance-sheet items	6,660	577	2,398	2,382	12,017	5,344	•
<b>Foreign-currency liabilities</b>	<b>54,036</b>	<b>8,715</b>	<b>18,595</b>	<b>18,763</b>	<b>100,109</b>	<b>148,835</b>	<b>-32.7</b>

Due to exchange-rate movements in the 2002 financial year, the consolidated balance-sheet total expanded by roughly €15bn; in the previous year, it had expanded by about €4bn.



## Notes to financial instruments

### (69) 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 reduce for both economic and regulatory purposes the credit risk arising from derivatives contracts, we conclude master agreements (bilateral netting agreements) with our business associates (as in 1992, for example, the ISDA Multicurrency Cross-Border Master Agreement; 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, thereby reducing the credit risk 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 in the respective jurisdiction, should the business associate become insolvent. In order to check enforceability, we have recourse to legal opinions from various international law firms on the relevant legal systems.

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. As a rule, this collateral management reduces risk by means of near-time (mostly daily or weekly) measurement and adjustment of the affected transactions and the collateral for the commitment.

On average, we attain a 79% mitigation of credit risk for the derivatives contracts and security covered by these risk-reducing techniques; as a result, we also save regulatory capital.

Our credit trading activities gave rise to credit positions (protection sold) amounting to €38.8bn as of December 31, 2002 (previous year: €17.5bn), as against €43.1bn (previous year: €19.8bn) of protection bought.

31.12.2002	Nominal amount			Fair value					
	Remaining lifetimes			total	positive	negative			
	under 1 year	1-5 years	more than 5 years						
€ m	5 years								
<b>Foreign-currency-based forward transactions</b>									
OTC products	399,133	96,456	38,591	534,180	10,633	12,296			
Spot and forward currency transactions	284,190	19,522	1,366	305,078	6,563	8,141			
Interest-rate and currency swaps	49,270	70,830	36,787	156,887	3,489	3,417			
Currency call options	33,577	3,417	219	37,213	581	–			
Currency put options	32,096	2,687	219	35,002	–	738			
Other foreign-exchange contracts	–	–	–	–	–	–			
Products traded on a stock exchange	291	72	–	363	–	–			
Currency futures	289	72	–	361	–	–			
Currency options	2	–	–	2	–	–			
<b>Total</b>	<b>399,424</b>	<b>96,528</b>	<b>38,591</b>	<b>534,543</b>	<b>10,633</b>	<b>12,296</b>			
<b>Interest-based futures transactions</b>									
OTC products	1,334,628	939,749	762,201	3,036,578	61,276	63,158			
Forward-rate agreements	341,578	2,306	–	343,884	361	454			
Interest-rate swaps	951,349	773,229	632,982	2,357,560	56,863	57,680			
Call options on interest-rate futures	13,796	56,978	54,341	125,115	3,372	–			
Put options on interest-rate futures	14,944	66,682	62,237	143,863	–	3,641			
Other interest-rate contracts	12,961	40,554	12,641	66,156	680	1,383			
Products traded on a stock exchange	153,362	16,009	6,064	175,435	–	–			
Interest-rate futures	68,916	8,463	2,521	79,900	–	–			
Interest-rate options	84,446	7,546	3,543	95,535	–	–			
<b>Total</b>	<b>1,487,990</b>	<b>955,758</b>	<b>768,265</b>	<b>3,212,013</b>	<b>61,276</b>	<b>63,158</b>			
<b>Other forward transactions</b>									
OTC products	27,411	53,409	58,440	139,260	7,339	5,349			
Structured equity/index products	2,405	4,409	470	7,284	2,472	418			
Equity call options	7,892	12,166	197	20,255	3,648	–			
Equity put options	7,037	11,932	260	19,229	–	3,735			
Credit derivatives	782	24,902	57,513	83,197	1,185	1,137			
Precious metal contracts	9,295	–	–	9,295	34	59			
Other transactions	–	–	–	–	–	–			
Products traded on a stock exchange	23,036	4,204	–	27,240	–	–			
Equity futures	4,666	2	–	4,668	–	–			
Equity options	18,370	4,202	–	22,572	–	–			
Other futures	–	–	–	–	–	–			
Other options	–	–	–	–	–	–			
<b>Total</b>	<b>50,447</b>	<b>57,613</b>	<b>58,440</b>	<b>166,500</b>	<b>7,339</b>	<b>5,349</b>			
<b>Total immatured forward transactions</b>									
OTC products	1,761,172	1,089,614	859,232	3,710,018	79,248	80,803			
Products traded on a stock exchange	176,689	20,285	6,064	203,038	–	–			
<b>Total</b>	<b>1,937,861</b>	<b>1,109,899</b>	<b>865,296</b>	<b>3,913,056</b>	<b>79,248</b>	<b>80,803</b>			



As of December 31, 2001, the figures were as follows:

31.12.2001		Nominal amount			Fair value	
		Remaining lifetimes				
€ m		under 1 year	1-5 years	more than 5 years	total	positive
<b>Foreign-currency-based forward transactions</b>						
OTC products	535,441	105,837	31,858	673,136	9,150	8,999
Spot and forward currency transactions	420,586	30,230	1,293	452,109	5,205	4,943
Interest-rate and currency swaps	34,526	68,348	30,565	133,439	3,336	3,385
Currency call options	39,347	4,091	–	43,438	609	–
Currency put options	40,982	3,168	–	44,150	–	671
Other foreign-exchange contracts	–	–	–	–	–	–
Products traded on a stock exchange	162	–	–	162	–	–
Currency futures	116	–	–	116	–	–
Currency options	46	–	–	46	–	–
<b>Total</b>	<b>535,603</b>	<b>105,837</b>	<b>31,858</b>	<b>673,298</b>	<b>9,150</b>	<b>8,999</b>
<b>Interest-based futures transactions</b>						
OTC products	1,323,525	816,188	629,648	2,769,361	30,148	33,003
Forward-rate agreements	277,087	1,975	–	279,062	270	248
Interest-rate swaps	988,528	664,863	508,414	2,161,805	27,188	30,139
Call options on interest-rate futures	22,914	52,240	47,146	122,300	2,185	–
Put options on interest-rate futures	28,685	63,931	56,513	149,129	–	2,412
Other interest-rate contracts	6,311	33,179	17,575	57,065	505	204
Products traded on a stock exchange	158,472	4,720	3,158	166,350	–	–
Interest-rate futures	59,319	2,211	1,060	62,590	–	–
Interest-rate options	99,153	2,509	2,098	103,760	–	–
<b>Total</b>	<b>1,481,997</b>	<b>820,908</b>	<b>632,806</b>	<b>2,935,711</b>	<b>30,148</b>	<b>33,003</b>
<b>Other forward transactions</b>						
OTC products	33,640	76,928	4,000	114,568	6,691	6,261
Structured equity/index products	606	2,412	749	3,767	629	406
Equity call options	11,350	22,287	238	33,875	5,798	–
Equity put options	11,513	20,399	562	32,474	–	5,632
Credit derivatives	3,210	31,666	2,451	37,327	262	223
Precious metal contracts	6,961	164	–	7,125	2	–
Other transactions	–	–	–	–	–	–
Products traded on a stock exchange	47,752	5,882	–	53,634	–	–
Equity futures	8,310	146	–	8,456	–	–
Equity options	39,442	5,736	–	45,178	–	–
Other futures	–	–	–	–	–	–
Other options	–	–	–	–	–	–
<b>Total</b>	<b>81,392</b>	<b>82,810</b>	<b>4,000</b>	<b>168,202</b>	<b>6,691</b>	<b>6,261</b>
<b>Total immatured forward transactions</b>						
OTC products	1,892,606	998,953	665,506	3,557,065	45,989	48,263
Products traded on a stock exchange	206,386	10,602	3,158	220,146	–	–
<b>Total</b>	<b>2,098,992</b>	<b>1,009,555</b>	<b>668,664</b>	<b>3,777,211</b>	<b>45,989</b>	<b>48,263</b>

Breakdown of derivatives business, by borrower group:

€ m	31.12.2002		31.12.2001	
	Fair value		Fair value	
	positive	negative	positive	negative
OECD central governments	308	150	134	76
OECD banks	73,407	74,363	40,029	42,764
OECD financial institutions	2,197	2,560	2,588	2,884
Other companies, private individuals	2,790	3,135	2,614	1,860
Non-OECD banks	5 46	595	624	679
<b>Total</b>	<b>79,248</b>	<b>80,803</b>	<b>45,989</b>	<b>48,263</b>

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. Most of these transactions relate to trading activities of the Commerzbank Group.

#### (70) 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 ratios, the Group manages the market risk for all operative 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):

31.12.2002	Holding period	Confidence level
<b>Portfolio</b>		
€ m		99%
Group	10 days	49.3 *)
Securities department	10 days	50.77
Treasury department	10 days	29.14

\*) The relatively low value-at-risk at Group level is the result of strong portfolio effects between the Securities and Treasury departments.



<b>31.12.2001</b>	Holding period	Confidence level
<b>Portfolio</b>		99%
€ m		
Group	10 days	41.07

#### (71) 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:

<b>31.12.2002</b>	Holding period	Banking book	Trading book	Overall interest-rate risk
<b>Portfolio</b>				Confidence level: 99%
€ m				
Group	10 days	103.44	46.01	142.04

<b>31.12.2001</b>	Holding period	Banking book	Trading book	Overall interest-rate risk
<b>Portfolio</b>				Confidence level: 99%
€ m				
Group	10 days	184.36	19.92	197.33

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%.

## (72) Concentration of credit risk

Concentrations of credit risks 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, 2002:

€ m	Claims	
	31.12.2002	31.12.2001
<b>Customers in Germany</b>	<b>95,843</b>	<b>14,885</b>
Companies and self-employed		
Manufacturing	46,269	72,348
Construction	12,612	17,177
Distributive trades	871	1,583
Services, incl. professions	5,824	9,410
Others	24,460	35,921
Others	2,502	8,257
Public sector	15,658	35,901
Other retail customers	33,916	39,636
<b>Customers abroad</b>	<b>52,671</b>	<b>72,430</b>
Corporate and retail customers	49,155	64,188
Public sector	3,516	8,242
<b>Sub-total</b>	<b>148,514</b>	<b>220,315</b>
less valuation allowances	-5,293	-5,538
<b>Total</b>	<b>143,221</b>	<b>214,777</b>

**(73) Assets pledged as security**

Assets in the amounts shown below were pledged as security for the following liabilities:

	<b>31.12.2002</b> € m	<b>31.12.2001</b> € m	Change in %
Liabilities to banks	45,993	25,407	81.0
Liabilities to customers	10,436	13,252	-21.2
<b>Total</b>	<b>56,429</b>	<b>38,659</b>	<b>46.0</b>

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

	<b>31.12.2002</b> € m	<b>31.12.2001</b> € m	Change in %
Claims on banks	582	7,421	-92.2
Claims on customers	11,346	4,892	.
Assets held for dealing purposes and investments and securities portfolio	45,904	30,610	50.0
<b>Total</b>	<b>57,832</b>	<b>42,923</b>	<b>34.7</b>

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 in connection with securities-lending transactions.



**(74) Maturities, by remaining lifetime**

<b>Remaining lifetimes as of 31.12.2002</b>					
€ m	due on demand	up to 3 months	3 months to 1 year	1 year to five years	more than 5 years
Claims on banks	13,796	26,136	5,670	4,433	4,308
Claims on customers	17,110	34,124	14,243	32,638	50,399
Bonds and notes from the assets held for dealing purposes	5	2,408	7,128	15,094	10,513
Bonds, notes and other fixed-income securities and also claims not originated by the Bank held in investments and securities portfolio	388	3,411	7,802	30,027	33,151
<b>Total</b>	<b>31,299</b>	<b>66,079</b>	<b>34,843</b>	<b>82,192</b>	<b>98,371</b>
Liabilities to banks	13,108	76,792	10,703	4,846	9,535
Liabilities to customers	33,108	47,888	4,549	3,545	6,610
Securitized liabilities	23	20,996	18,094	34,683	18,936
Subordinated capital	–	133	901	2,593	5,610
<b>Total</b>	<b>46,239</b>	<b>145,809</b>	<b>34,247</b>	<b>45,667</b>	<b>40,691</b>

<b>Remaining lifetimes as of 31.12.2001</b>					
€ m	due on demand	up to 3 months	3 months to 1 year	1 year to five years	more than 5 years
Claims on banks	13,825	28,836	10,458	3,996	6,277
Claims on customers	17,096	48,356	19,880	47,960	87,023
Bonds and notes from the assets held for dealing purposes	9	3,444	7,207	20,223	9,536
Bonds, notes and other fixed-income securities and also claims not originated by the Bank held in investments and securities portfolio	21	7,000	11,510	33,327	41,761
<b>Total</b>	<b>30,951</b>	<b>87,636</b>	<b>49,055</b>	<b>105,506</b>	<b>144,597</b>
Liabilities to banks	13,991	59,233	18,603	6,255	11,004
Liabilities to customers	36,589	57,211	4,192	6,610	11,796
Securitized liabilities	24	35,554	42,955	72,099	40,038
Subordinated capital	15	213	978	3,599	5,719
<b>Total</b>	<b>50,619</b>	<b>152,211</b>	<b>66,728</b>	<b>88,563</b>	<b>68,557</b>

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.

### (75) 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.

€ m	Fair Value		Book value		Difference	
	31.12.2002	31.12.2001	31.12.2002	31.12.2001	31.12.2002	31.12.2001
<b>Assets</b>						
Cash reserve	8.5	7.6	8.5	7.6	–	–
Claims on banks	54.3	63.6	54.3	63.4	–	0.2
Claims on customers	150.6	220.2	148.5	220.3	2.1	–0.1
Hedging instruments	3.1	3.9	3.1	3.9	–	–
Assets held for dealing purposes	117.2	95.8	117.2	95.8	–	–
Investments and securities portfolio	84.6	104.5	84.6	104.5	–	–
<b>Liabilities</b>						
Liabilities to banks	115.1	109.0	115.0	109.1	0.1	–0.1
Liabilities to customers	95.9	116.8	95.7	116.4	0.2	0.4
Securitized liabilities	93.0	189.5	92.7	190.7	0.3	–1.2
Hedging instruments	5.7	5.4	5.7	5.4	–	–
Liabilities from dealing activities	83.2	47.8	83.2	47.8	–	–
Other liabilities	9.2	10.8	9.2	10.5	–	0.3

In net terms, the difference between the book value and fair value, which can be seen as a hidden reserve, amounted for all items to €1.5bn (previous year: €0.7bn) as of December 31, 2002. For covering these items, cash flow hedges are used for the most part. As of December

31, 2002, the measurement of cash flow hedges yielded a figure of –€1.2bn (previous year: –€0.4bn). As of both December 31, 2002 and December 31, 2001, the hidden reserves in interest-bearing assets and liabilities exceeded the negative valuation of the cash flow hedges.



## Other notes

### (76) Subordinated assets

The following subordinated assets are included in the assets shown in the balance sheet:

	31.12.2002	31.12.2001	Change
	€ m	€ m	in %
Claims on banks	–	17	–
Claims on customers	89	63	41.3
Bonds and notes	53	188	–71.8
Other variable-yield securities	388	53	•
<b>Total</b>	<b>530</b>	<b>321</b>	<b>65.1</b>
including: banks in which an equity investment exists	358	–	–

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.

### (77) Off-balance-sheet commitments

	31.12.2002	31.12.2001	Change
	€ m	€ m	in %
<b>Contingent liabilities</b>	<b>29,057</b>	<b>31,016</b>	<b>–6.3</b>
from rediscounted bills of exchange credited to borrowers	4	21	–81.0
from guarantees and indemnity agreements	29,053	30,995	–6.3
Credit guarantees	3,144	3,291	–4.5
Other guarantees	15,206	15,769	–3.6
Letters of credit	8,052	8,661	–7.0
Other items	2,651	3,274	–19.0
<b>Irrevocable lending commitments</b>	<b>45,979</b>	<b>71,511</b>	<b>–35.7</b>
Book credits to banks	2,523	2,624	–3.8
Book credits to customers	41,420	66,861	–38.1
Credits by way of guarantee	673	330	•
Letters of credit	1,363	1,696	–19.6
<b>Other commitments</b>	<b>27</b>	<b>130</b>	<b>–79.2</b>

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

### (78) Volume of managed funds

By type of managed fund, the assets which we manage break down as follows:

	31.12.2002		31.12.2001	
	Number of funds	Funds assets € m	Number of funds	Funds assets € m
Retail investment funds	361	42.3	457	58.6
Equity-based and mixed funds	243	19.5	315	31.3
Bond-based funds	97	10.8	117	14.1
Money-market funds	21	12.0	25	13.2
Non-publicly-offered funds	1,356	29.1	1,441	41.8
Property-based funds	3	10.6	3	8.1
<b>Total</b>	<b>1,720</b>	<b>82.0</b>	<b>1,901</b>	<b>108.5</b>

The regional breakdown of the funds launched is shown in the following chart:

	31.12.2002		31.12.2001	
	Number of funds	Funds assets € m	Number of funds	Funds assets € m
Germany	499	46.5	537	54.2
United Kingdom	989	12.6	1,005	17.3
Other European countries	172	19.0	240	25.1
America	20	2.1	102	11.0
Other countries	40	1.8	17	0.9
<b>Total</b>	<b>1,720</b>	<b>82.0</b>	<b>1,901</b>	<b>108.5</b>

In the stated figures, Montgomery Asset Management is included with 16 funds and €1.4bn of assets under management as of December 31, 2002 (previous year: 106 funds and €8.5bn of assets under management).

### (79) Genuine repurchase agreements

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 Com-

merzbank 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:

	31.12.2002 € m	31.12.2001 € m	Change in %
Genuine repurchase agreements as a borrower (repo agreements)			
Liabilities to banks	27,913	16,884	65.3
Liabilities to customers	9,746	10,597	-8.0
<b>Total</b>	<b>37,659</b>	<b>27,481</b>	<b>37.0</b>
Genuine repurchase agreements as a lender (reverse repo agreements)			
Claims on banks	21,076	19,196	9.8
Claims on customers	8,992	13,944	-35.5
<b>Total</b>	<b>30,068</b>	<b>33,140</b>	<b>-9.3</b>

### (80) 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 port-

folio, 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, appear in the income statement and reflect the respective maturities.

	31.12.2002 € m	31.12.2001 € m	Change in %
Lent securities	9,546	7,954	20.0
Borrowed securities	11,953	13,695	-12.7



### (81) 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:

	31.12.2002 € m	31.12.2001 € m	Change in %
Claims on banks	27	203	-86.7
Claims on customers	168	156	7.7
Equity investments	466	-	-
<b>Assets on a trust basis at third-party risk</b>	<b>661</b>	<b>359</b>	<b>84.1</b>
Liabilities to banks	56	183	-69.4
Liabilities to customers	605	176	.
<b>Liabilities on a trust basis at third-party risk</b>	<b>661</b>	<b>359</b>	<b>84.1</b>

### (82) 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:

	31.12.2002 € m	31.12.2001 € m	Change in %
Core capital	11,691	12,187	-4.1
of which: hybrid capital	-	-	-
Supplementary capital	7,762	8,245	-5.9
<b>Liable capital</b>	<b>19,453</b>	<b>20,432</b>	<b>-4.8</b>
Tier III capital	209	466	-55.2
<b>Eligible own funds</b>	<b>19,662</b>	<b>20,898</b>	<b>-5.9</b>

<b>as of 31.12.2002</b>	<b>Capital charges in %</b>						<b>Total</b>
€ m	100	50	25	20	10	4	
Balance-sheet business	105,733	6,265	–	10,562	–	–	122,560
Traditional off-balance-sheet business	5,369	17,061	14	781	325	50	23,600
Derivatives business in investment portfolio	–	3,699	–	6,681	–	–	10,380
<b>Risk-weighted assets, total</b>	<b>111,102</b>	<b>27,025</b>	<b>14</b>	<b>18,024</b>	<b>325</b>	<b>50</b>	<b>156,540</b>

Risk-weighted market risk position multiplied by 12.5	3,650
Total items to be risk-weighted	160,190
Eligible own funds	19,662
Core capital ratio (excluding market-risk position)	7.5
Core capital ratio (including market-risk position)	7.3
Own funds ratio (including market-risk position)	12.3

<b>as of 31.12.2001</b>	<b>Capital charges in %</b>						<b>Total</b>
€ m	100	50	25	20	10	4	
Balance-sheet business	129,229	13,973	–	14,078	–	–	157,280
Traditional off-balance-sheet business	4,060	21,189	199	881	679	60	27,068
Derivatives business in investment portfolio	–	5,900	–	5,195	–	–	11,095
<b>Risk-weighted assets, total</b>	<b>133,289</b>	<b>41,062</b>	<b>199</b>	<b>20,154</b>	<b>679</b>	<b>60</b>	<b>195,443</b>

Risk-weighted market risk position multiplied by 12.5	8,163
Total items to be risk-weighted	203,606
Eligible own funds	20,898
Core capital ratio (excluding market-risk position)	6.2
Core capital ratio (including market-risk position)	6.0
Own funds ratio (including market-risk position)	10.3



Reconciliation of reported capital with eligible equity in accordance with BIS

<b>31.12.2002</b>	Core capital/ equity	Minority interests	Supplementary/ subordinated capital	Tier III capital	<b>Total</b>
€ m					
Reported in balance sheet	8,808	1,262	9,237	–	19,307
Reclassifications					
Minority interests	1,031	–1,060			–29
Tier III capital			–774	774	–
Net profit	–54				–54
Deduction of goodwill, if relevant for Basel consolidation	–217				–217
Changes in consolidated companies	106				106
Parts of subordinated capital not eligible due to limited remaining lifetime			–910		–910
Revaluation reserve and measurement of cash flow hedges	2,017	–202			1,815
Unused but eligible class 3 equity				–565	–565
General provisions/ reserves for defaults			314		314
Other differences			–105		–105
<b>Eligible equity</b>	<b>11,691</b>	–	<b>7,762</b>	<b>209</b>	<b>19,662</b>

**(83) 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, 2002, the liquidity ratio worked out by Commerzbank Aktiengesellschaft was 1.13 (previous year: 1.18). Excess liquidity stood at €14.8bn (previous year: €22.6bn).

#### (84) Securitization of credits

The use of credit derivatives (such as credit default swaps, total return swaps, and credit-linked notes) can reduce the imputed risk 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 2002 financial year, Commerzbank Aktiengesellschaft and two of its subsidiaries had launched ten securitization programmes as the secured parties. In one programme, cover is achieved by means of a credit-linked note and a credit default swap, while all the other programmes involve synthetic hedging only.

The time band stretches from 4 to 32 years. All told, credits to customers of €13.1bn had been hedged by end-December 2002. This eased the burden on the Bank's risk-weighted assets by €9.4bn.

Name of transaction	Year of conclusion	Duration of transaction in years	Type of claim	Size of credit € m	Reduction of risk-weighted assets € m	Secured party
Kaiserplatz 263	1999	4	Corporate loans	1,500	1,182	Commerzbank AG
Residence 2000-1	2000	32	Private home loans	783	507	Commerzbank AG (CLN)
Residence 2000-1	2000	32	Private home loans	1,116	500	Commerzbank AG (CDS)
Residence 2001-1	2001	30	Private home loans	1,387	576	Commerzbank AG
PanEuropean CLO	2001	6	Corporate loans	3,784	2,941	Commerzbank AG
PanEuropean CLO	2001	6	Corporate loans	81	64	Commerzbank (Nederland) N.V.
PanEuropean CLO	2001	6	Corporate loans	135	108	Commerzbank International (Ireland)
Promise C 2002-1	2002	8	Corporate loans	1,460	1,191	Commerzbank AG
Residence 2002-1	2002	31	Private home loans	1,444	1,444	Commerzbank AG
Residence 2002-2	2002	31	Private home loans	1,435	899	Commerzbank AG
				<b>13,125</b>	<b>9,412</b>	



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

	2002			2001		
	total	male	female	total	male	female
Group	36,450	19,082	17,368	38,355	18,813	19,542
in Germany	28,785	14,375	14,410	30,673	15,080	15,593
abroad	7,665	4,707	2,958	7,682	3,733	3,949

The above figures include both full-time and part-time personnel. Not included in the figures are the average number of employees undergoing training within the Group. The average time worked by part-time staff is 58% (previous year: 57%) of the standard working time.

	total	male	female
	2002	2001	2002
Trainees	1,526	1,626	576
			617
			950
			1,009

**(86) Remuneration and loans to board members**

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

	2002	2001
	€'000	€'000
Board of Managing Directors	11,097	13,513
Supervisory Boards	613	1,677
Retired managing directors and their dependants	7,567	5,655

The remuneration of the Board of Managing Directors is made up of the following components

**1. Fixed remuneration**

The fixed remuneration of the members of the Board of Managing Directors amounted to €360,000 each in the 2002 financial year; the chairman received an additional premium. The fixed remuneration remained unchanged on the previous year.

**2. Variable remuneration (bonus)**

The variable remuneration received by a member of the Board of Managing Directors is based on the Group's business success and the attainment of individual targets. As variable remuneration is dependent upon the presentation of established and audited consolidated financial statements as the basis for assessing the Group's business success, it is paid in the current year for performance in the past year and is included in the published remune-

ration of the Board in the current year. The aggregate amount of variable remuneration paid in the 2002 financial year to active members of the Board of Managing Directors of Commerzbank Aktiengesellschaft as the parent company of the Group was €4.9m as against €7.5m a year earlier. This represents a decline of more than a third.

**3. Remuneration in kind**

Members of the Board of Managing Directors are granted remuneration in kind on the usual scale.

**4. Remuneration of the boards of subsidiaries**

Finally, members of the Board of Managing Directors receive additional remuneration in selected cases for taking on board functions at subsidiaries.

Active members of the Board of Managing Directors have participated in the long-term performance plans of 1999, 2000, 2001 and 2002 described in note 28. In this



connection, individual beneficiaries have invested in up to 5,000 Commerzbank shares per plan at the currently valid daily prices. No payments which have to be reported were made under these plans in the 2002 financial year.

The members of our Supervisory Board received a fixed remuneration of altogether €76 thousand in the 2002 financial year and variable remuneration of €537 thousand (previous year: €76 thousand fixed, €1,601 thousand variable).

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

	<b>31.12.2002</b>	<b>31.12.2001</b>
Board of Managing Directors	€1,000	€1,000
Supervisory Boards	5,231	7,834
	1,318	1,217

Interest at normal market rates is paid on all the loans to members of the Board of Managing Directors and the Supervisory Boards.

#### (87) 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 €17m (previous year: €21m).

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 €1,957m (previous year: €1,950m).

Our subsidiaries Caisse Centrale de Réescompte S.A., Paris, and ADIG-Investment Luxemburg 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 €353m in the year 2003, €410m per year in the years 2004-2006, and €433m as from the year 2007.

**(88) 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
ADIG-Investment Luxemburg S.A.	Luxembourg
Atlas-Vermögensverwaltungs-Gesellschaft mbH	Bad Homburg v.d.H.
BRE Bank SA	Warsaw
BRE Leasing Sp. z.o.o.	Warsaw
Caisse Centrale de Réescompte, S.A.	Paris
CBG Commerz Beteiligungsgesellschaft Holding mbH	Bad Homburg v.d.H.
CBG Commerz Beteiligungsgesellschaft mbH	Frankfurt am Main
CCR-Gestion	Paris
CICM Fund Management Limited	Dublin
comdirect bank Aktiengesellschaft (sub-group)	Quickborn
COMINVEST Asset Management GmbH	Frankfurt am Main
Commerz (East Asia) Ltd.	Hong Kong
Commerz Asset Management (UK) plc	London
Commerz Asset Management Asia Pacific Pte Ltd.	Singapore
Commerz Asset Management Holding GmbH	Frankfurt am Main
Commerz Equity Investments Ltd.	London
Commerz Europe (Ireland), Inc.	Wilmington/Delaware
Commerz Futures, LLC.	Wilmington/Delaware
Commerz Grundbesitzgesellschaft mbH	Wiesbaden
Commerz Grundbesitz-Investmentgesellschaft mbH	Wiesbaden
Commerz International Capital Management (Japan) Ltd.	Tokyo
Commerz NetBusiness AG	Frankfurt am Main
Commerz Securities (Japan) Company Ltd.	Hong Kong/Tokyo
Commerz Service Gesellschaft für Kundenbetreuung mbH	Essen
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 Asset Management Italia S.p.A.	Rome
Commerzbank Auslandsbanken Holding AG	Frankfurt am Main
Commerzbank Belgium S.A. N.V.	Brussels
Commerzbank Capital Markets (Eastern Europe) a.s.	Prague
Commerzbank Capital Markets Corporation	New York
Commerzbank Europe (Ireland) Unlimited	Dublin
Commerzbank Europe Finance (Ireland) plc	Dublin
Commerzbank Inlandsbanken Holding AG	Frankfurt am Main
Commerzbank International (Ireland)	Dublin
Commerzbank International S.A.	Luxembourg
Commerzbank Overseas Finance N.V.	Curaçao
Commerzbank Società di Gestione del Risparmio S.p.A.	Rome

Name	Seat
Commerzbank U.S. Finance, Inc.	Wilmington/Delaware
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
Jupiter Administration Services Limited	London
Jupiter Asset Management (Asia) Limited	Hong Kong
Jupiter Asset Management (Bermuda) Limited	Bermuda
Jupiter Asset Management (Jersey) Limited	Jersey
Jupiter Asset Management Limited	London
Jupiter Asset Managers (Jersey) Limited	Jersey
Jupiter International Group plc	London
Jupiter Unit Trust Managers Limited	London
Montgomery Asset Management, LLC	San Francisco/Wilmington
NIV Vermögensverwaltungsgesellschaft mbH	Frankfurt am Main
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
TI Limited i.L.	Bermuda
TOMO Vermögensverwaltungsgesellschaft mbH	Frankfurt am Main
Tyndall Holdings Limited	London
Tyndall International Group Limited	Bermuda
Tyndall International Holdings Limited	Bermuda
Tyndall Investments Limited	London
Tyndall Trust International I.O.M. Limited	Isle of Man
von der Heydt-Kersten & Söhne	Wuppertal-Elberfeld
Zweite Umbra Vermögensverwaltungsgesellschaft mbH	Frankfurt am Main



## **Declaration of compliance with the German Corporate Governance Code, pursuant to Art. 161, AktG**

On November 11, 2002, the Board of Managing Directors and Supervisory Board of Commerzbank Aktiengesellschaft issued the following joint declaration:

"The recommendations of the German Corporate Governance Code commission set up by the German government which were announced by the German Federal Ministry of Justice in the official section of the electronic Federal Gazette (*Bundesanzeiger*) on August 20, 2002, are complied with, except for the following recommendations.

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 the Bank's risk management. Commerzbank has entrusted risk-management issues to its Risk Committee, which for years has dealt with the Bank's credit and market 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 simultaneously being a member of the Risk Committee.

Pursuant to section 6.6 of the Code, members of the Management Board or of the Supervisory Board shall inform the Company without delay of any effected purchases and disposals on their part of shares of the Bank or its Group companies, and of options and other derivatives on these shares, and the Company shall publish such information without delay. In accordance with the provision in Art. 15a, German Securities Trading Act – WpHG, this section of the Code is applied subject to the proviso that such transactions only have to be made known and published if the aggregate value of such transactions for the respective member of the Management Board or Supervisory Board amounts to €25,000 or more within a span of 30 days."

## Boards of Commerzbank Aktiengesellschaft

### Supervisory Board

Dr. h.c. Martin Kohlhaussen <i>Chairman</i>	Dott. Gianfranco Gutty <i>until October 27, 2002</i>	Dr. Erhard Schipporeit
Hans-Georg Jurkat <i>Deputy Chairman</i>	Dr.-Ing. Otto Happel	Werner Schönfeld
Dott. Sergio Balbinot <i>since November 5, 2002</i>	Detlef Kayser	Prof. Dr.-Ing. Ekkehard Schulz
Heinz-Werner Busch	Dieter Klinger	Alfred Seum
Oswald Danzer <i>since May 1, 2002</i>	Dr. Torsten Locher	Hermann Josef Strenger
Uwe Foullong	Klaus Müller-Gebel <i>since May 31, 2002</i>	Prof. Dr. Jürgen F. Strube
Dietrich-Kurt Frowein <i>until May 25, 2002</i>	Mark Roach	Dr. Klaus Sturany
	Horst Sauer <i>until April 30, 2002</i>	Dr.-Ing. E.h. Heinrich Weiss

### Board of Managing Directors

Klaus-Peter Müller <i>Chairman</i>	Jürgen Lemmer <i>until May 31, 2002</i>	Michael Paravicini <i>until December 13, 2002</i>
Martin Blessing	Andreas de Maizière	Klaus M. Patig
Mehmet Dalman	Klaus Müller-Gebel <i>until May 31, 2002</i>	Dr. Axel Frhr. v. Ruedorffer
Wolfgang Hartmann		



## 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
ADIG-Investment Luxemburg S.A.	Luxembourg	100.0	25.0	€ 75,827
Atlas-Vermögensverwaltungs-Gesellschaft mbH	Bad Homburg v.d.H.	100.0		€ 1,045,222
TOMO Vermögensverwaltungsgesellschaft mbH	Frankfurt am Main	100.0	100.0	€ 26
Zweite Umbra Vermögensverwaltungs-gesellschaft mbH	Frankfurt am Main	100.0	100.0	€ 46
BRE Bank SA	Warsaw	50.0	ZI	1,551,634
BRE Leasing Sp. z.o.o.	Warsaw	74.9	ZI	6,813
Caisse Centrale de Réescompte, S.A.	Paris	100.0		€ 165,160
CCR-Gestion	Paris	96.0	96.0	€ 5,488
Commerz (East Asia) Ltd.	Hong Kong	100.0		HKD 391,207
Commerz Asset Management (UK) plc	London	100.0		£ 185,501
Jupiter International Group plc (sub-group)	London	100.0	100.0	£ 172,707
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 Management (Jersey) Limited	Jersey	100.0	100.0	
Jupiter Asset Managers (Jersey) Limited	Jersey	100.0	100.0	
TI Limited i.L.	Bermuda	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	
Commerz Asset Management Holding GmbH	Frankfurt am Main	100.0		€ 414,595
COMINVEST Asset Management GmbH	Frankfurt am Main	100.0	100.0	€ 244,263
European Bank for Fund Services GmbH (ebase)	Haar near Munich	100.0	100.0	€ 45,953
Commerz Asset Management Asia Pacific Pte Ltd.	Singapore	100.0	100.0	S\$ 32,021
Commerzbank Asset Management Asia Ltd.	Singapore	100.0	100.0	S\$ 6,184
Commerz International Capital Management (Japan) Ltd.	Tokyo	100.0	100.0	¥ 1,090,881
CICM Fund Management Limited	Dublin	100.0	100.0	€ 12,875
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	€ 6,196
Commerz Equity Investments Ltd.	London	100.0		£ 50,014
CFM Commerz Finanz Management GmbH	Frankfurt am Main	100.0		€ 310
Commerz Futures, LLC.	Wilmington/Delaware	100.0	1.0	US\$ 13,881
Commerz Grundbesitzgesellschaft mbH	Wiesbaden	100.0		€ 103,399
Commerz Grundbesitz-Investmentgesellschaft mbH	Wiesbaden	75.0	75.0	€ 46,054
Commerz NetBusiness AG	Frankfurt am Main	100.0		€ 3,899

### Affiliated companies included in the consolidation

Name	Seat	Share of capital held in %	of which: indirectly in %	Equity in 1,000
Commerz Securities (Japan) Company Ltd.	Hong Kong/Tokyo	100.0		¥ 12,243,040
Commerz Service Gesellschaft für Kundenbetreuung mbH	Essen	100.0		€ 26
Commerzbank (Budapest) Rt.	Budapest	100.0		Ft 14,116,472
Commerzbank (Eurasija) SAO	Moscow	100.0		Rbl 946,451
Commerzbank (South East Asia) Ltd.	Singapore	100.0		S\$ 177,741
Commerzbank Asset Management Italia S.p.A.	Rome	96.6		€ 20,649
Commerzbank Società di Gestione del Risparmio S.p.A.	Rome	100.0	100.0	€ 1,254
Commerzbank Auslandsbanken Holding AG	Frankfurt am Main	100.0		€ 3,560,142
Commerzbank (Nederland) N.V.	Amsterdam	100.0	100.0	€ 242,448
Commerzbank (Switzerland) Ltd	Zurich	100.0	100.0	sfr 204,335
Commerzbank International S.A.	Luxembourg	100.0	100.0	€ 2,185,927
Commerzbank International (Ireland)	Dublin	100.0	100.0	€ 171,884
Commerzbank Belgium S.A. N.V.	Brussels	100.0		€ 119,201
Commerzbank Capital Markets (Eastern Europe) a.s.	Prague	100.0		Kč 398,387
Commerzbank Capital Markets Corporation	New York	100.0		US\$ 177,745
Commerzbank Europe (Ireland) Unlimited	Dublin	40.0		€ 528,211
Commerz Europe (Ireland), Inc.	Wilmington/Delaware	100.0	100.0	US\$ 2
Commerzbank Europe Finance (Ireland) plc	Dublin	100.0	100.0	€ 40
Commerzbank Inlandsbanken Holding AG	Frankfurt am Main	100.0		€ 3,006,410
comdirect bank Aktiengesellschaft (sub-group)	Quickborn	58.7	58.7	€ 527,524
comdirect Ltd.	London	100.0	100.0	
Commerzbank Overseas Finance N.V.	Curaçao	100.0		€ 1,079
Commerzbank U.S. Finance, Inc.	Wilmington/Delaware	100.0		US\$ 10
CommerzLeasing und Immobilien AG (sub-group)	Düsseldorf	100.0		€ 88,779
ALTINUM Grundstücks-Vermietungsgesellschaft mbH & Co.				
Objekt Sonninhof KG i.L.	Düsseldorf	100.0	100.0	
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	
CommerzProjektconsult GmbH	Frankfurt am Main	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	
CommerzLeasing Mobilien GmbH	Düsseldorf	100.0	100.0	
CommerzLeasing Auto GmbH	Düsseldorf	100.0	100.0	
CommerzLeasing Mietkauf GmbH	Düsseldorf	100.0	100.0	
FABA Vermietungsgesellschaft mbH	Düsseldorf	95.0	95.0	

**Affiliated companies included in the consolidation**

Name	Seat	Share of capital held in %	of which: indirectly in %	Equity in 1,000
Molegra Grundstücks-Vermietungs-gesellschaft mbH & Co				
Objekt Projektentwicklungs KG	Düsseldorf	99.0	99.0	
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	
Erste Europäische Pfandbrief- und Kommunal-kreditbank Aktiengesellschaft in Luxemburg	Luxembourg	75.0	€	49,371
Gracechurch TL Ltd.	London	100.0	£	19,786
Hypothekenbank in Essen AG	Essen	51.0	€	630,102
Montgomery Asset Management, LLC	San Francisco/ Wilmington	97.2	US\$	-57,427
NIV Vermögensverwaltungsgesellschaft mbH	Frankfurt am Main	100.0	€	30
OLEANDRA Grundstücks-Vermietungs-gesellschaft mbH & Co., Objekt Jupiter KG	Düsseldorf	100.0	€	11,768
OLEANDRA Grundstücks-Vermietungs-gesellschaft mbH & Co., Objekt Luna KG	Düsseldorf	100.0	€	1,995
OLEANDRA Grundstücks-Vermietungs-gesellschaft mbH & Co., Objekt Neptun KG	Düsseldorf	100.0	€	5,017
OLEANDRA Grundstücks-Vermietungs-gesellschaft mbH & Co., Objekt Pluto KG	Düsseldorf	100.0	€	18,869
OLEANDRA Grundstücks-Vermietungs-gesellschaft mbH & Co., Objekt Uranus KG	Düsseldorf	100.0	€	23,708
OLEANDRA Grundstücks-Vermietungs-gesellschaft mbH & Co., Objekt Venus KG	Düsseldorf	100.0	€	9,560
P.T. Bank Finconesia	Jakarta	51.0	Rp.	149,381,562
Stampen S.A.	Brussels	99.4	€	66,017
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
Capital Investment Trust Corporation	Taipei/Taiwan	24.3	5.0	TWD	1,331,865
Clearing Bank Hannover Aktiengesellschaft	Hanover	20.0		€	6,772
Commerz Unternehmensbeteiligungs-Aktiengesellschaft	Frankfurt am Main	40.0		€	106,144
COMUNITHY Immobilien AG	Düsseldorf	49.9	49.9	€	7,861
Deutsche Schiffsbank Aktiengesellschaft	Bremen/Hamburg	40.0	40.0	€	349,882
Eurohypo Aktiengesellschaft	Frankfurt am Main	34.6	34.6	€	4,625,797
Hispano Commerzbank (Gibraltar) Ltd.	Gibraltar	50.0		£	7,495
ILV Immobilien-Leasing Verwaltungs-gesellschaft Düsseldorf mbH	Düsseldorf	50.0		€	28,124
IMMOPOL GmbH & Co. KG	Munich	40.0	40.0	€	0
KEB Commerz Investment Trust Management Co. Ltd.	Seoul	45.0		₩	32,817,985
Korea Exchange Bank	Seoul	32.6		₩	1,674,888,000
Prospect Poland U.K., L.P.	Jersey	39.5	1.6	US\$	7,461
RHEINHYP-BRE Bank Hipoteczny S.A.	Warsaw	50.0	50.0	ZI	140,911
Second Interoceanic GmbH	Hamburg	24.8	24.8	€	102,157
The New Asian Land Fund Limited	Bermuda	46.8	46.8	£	230,625
The New Asian Property Fund Limited	Bermuda	45.0	45.0	£	66,782

**Special-purpose entities and non-publicly-offered funds included in the consolidation pursuant to IAS 27 and SIC-12**

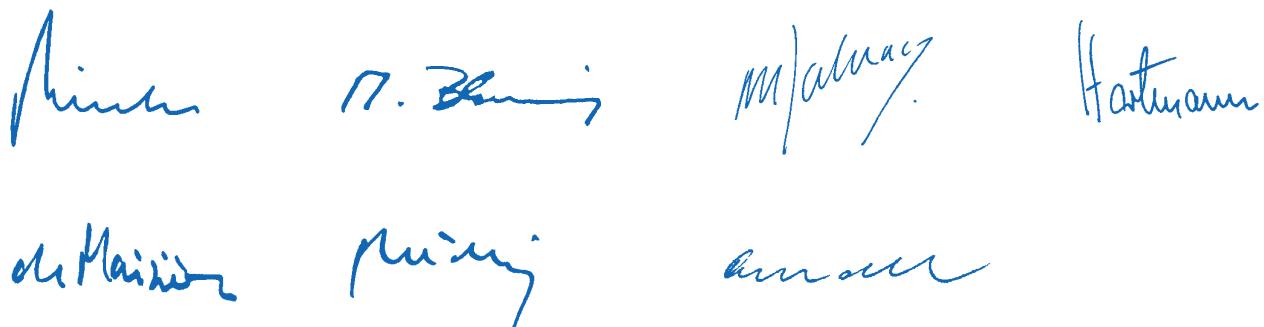
Name	Seat/ seat of management company	Share of capital held or share of investor in fund in %		Equity or fund's assets in 1,000
<b>Special-purpose entities</b>				
Four Winds Funding Corporation	Wilmington/Delaware	0.0	US\$	-22,650
Hanging Gardens 1 Limited	Grand Cayman	0.0	€	10
<b>Non-publicly-offered funds</b>				
ABN AMRO-Credit Spread-Fonds	Frankfurt am Main	100.0	€	102,356
CDBS-Cofonds	Frankfurt am Main	100.0	€	99,454
CICO-Fonds I	Frankfurt am Main	100.0	€	96,691
CICO-Fonds II	Frankfurt am Main	100.0	€	217,333
Commerzbank Alternative Strategies-Global Hedge	Luxembourg	99.4	US\$	121,210
dbi-Fonds HIE1	Frankfurt am Main	100.0	€	56,004
DEGEF-Fonds HIE 1	Frankfurt am Main	100.0	€	105,422
DEVIF-Fonds Nr. 533	Frankfurt am Main	100.0	€	153,001
GRUGAFONDS	Munich	100.0	€	100,492
HIE-Cofonds I	Frankfurt am Main	100.0	€	82,825
HIE-Cofonds II	Frankfurt am Main	100.0	€	158,254
HIE-Cofonds III	Frankfurt am Main	100.0	€	158,251
HIE-Cofonds IV	Frankfurt am Main	100.0	€	79,195

**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	29.3	€	25,597
PIVO Beteiligungsgesellschaft mbH	Hamburg	52.0	52.0 €	17,567
Regina Verwaltungsgesellschaft	Munich	25.0	25.0 €	451,595

Frankfurt am Main, March 14, 2003

The Board of Managing Directors





## **auditors' certificate**

We have audited the consolidated financial statements as prepared by Commerzbank Aktiengesellschaft, Frankfurt am Main, consisting of the balance sheet, the income statement and the statement 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, 2002. The preparation and the content of the consolidated financial statements 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 the International Accounting Standards (IAS).

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), as well as in additional consideration of 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 from material misstatements. Knowledge of the business activities and the economic and legal environment of the Company 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 the assessment of the financial statements of the companies included in the consolidated financial statements, the scope of the consolidation, the accounting and consolidation 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 for the business year in accordance with IAS.

Our audit, which also extends to the Group management report prepared for the Board of Managing Directors for the business year from January 1 to December 31, 2002, 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, 2002 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. We conducted our audit of the consistency of the Group accounting with the 7<sup>th</sup> EU Directive required for the exemption from the duty for consolidated accounting pursuant to German commercial law on the basis of the interpretation of the Directive by the German Accounting Standards Committee (DRS 1).

Frankfurt am Main, March 17, 2003

PwC Deutsche Revision  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Friedhofen	Rausch
Wirtschaftsprüfer	Wirtschaftsprüfer
(German public	(German public
accountant)	accountant)

"WHEN IT'S FINISHED, THE WORLD WILL COME TO AN END"  
(COLOGNE SAYING)

## ZENTRAL-DOMBAUVEREIN, COLOGNE

Cologne cathedral is considered the high point of Gothic architecture in Germany; in 1998, the 750<sup>th</sup> anniversary of the laying of the present building's foundation stone was celebrated. With the exception of the choir, parts of the central nave and the base of the southern tower, however, the cathedral was not built until 1842-1880.

In the year that construction work was resumed after a gap of more than 300 years, the Zentral-Dombau-Verein was also formed. This society combined the 140 or so associations of the German-speaking world which existed at that time – and also those abroad and even overseas (Mexico, Brazil) – to form a joint initiative in support of something considered to be a matter of national significance. Throughout, though, the driving force has been the citizens of Cologne with their outstanding commitment. In 1884, the eight ground-floor windows of the northern and southern towers were fitted with stained-glass works by the Viennese artist Johannes Klein. Virtually all of them were destroyed in the second world war. However, Klein's detailed coloured sketches and designs were preserved in the cathedral's archive. In the glazing workshop of the cathedral's construction team, the pictures are now being reconstructed.





"THEN...THE VALLEY OPENS UP ON THE RIGHT, AND YOU CAN  
LOOK ACROSS THE RICH ORCHARDS INTO THE BRIGHT DISTANCE."  
(GOETHE, ELECTIVE AFFINITIES)

### POSENTURM SONDERHAUSEN

Lookout towers represent a certain feeling for life and the world. Reflecting the broadening horizon of the Enlightenment, and also a new perception of nature, Christian Günther I. von Schwarzburg-Sondershausen had Europe's first timbered lookout tower built in 1781 on the 431m-high Possen plateau. Thanks to its stately height of 42m, it represents even today a major point of orientation and identification for the Schwarzburg region. Age and unprofessional repairs have seriously affected its statics. The first measures such as making its foundations more secure and repairing its timberwork and roof will cost about €500,000. The "Possenturm" is one of roughly 500 projects currently sponsored by Deutsche Stiftung Denkmalschutz. Since 1985, this foundation for the maintenance of historical monuments has worked as a private initiative in an exemplary manner to preserve and look after Germany's historical legacy of buildings. To date, it has provided over €300m for the rescue of endangered objects.



Martin Kohlhaussen

## ***report of the supervisory board***

In the following, the Supervisory Board reports on its activities in the 2002 financial year. The personnel changes in both Commerzbank AG's Supervisory Board and Board of Managing Directors during the period under review are presented, the main points of discussion at plenary and committee meetings of the Supervisory Board are described, and in particular the outcome of the examination of the annual financial statements and of the consolidated annual financial statements is commented upon in some detail.

### **Changes in Supervisory Board and Board of Managing Directors**

In the past financial year, the following changes occurred in the composition of the Supervisory Board:

With the end of his active period of service for Commerzbank, Horst Sauer, an employee representative, resigned on April 30, 2002. As from May 1, 2002, Mr. Sauer was replaced by Oswald Danzer, an elected substitute member.

Dietrich-Kurt Frowein, a shareholder representative, resigned with effect from the close of the AGM on May 31, 2002. For the remaining period of office, Klaus Müller-Gebel, who left the Board of Managing Directors of Commerzbank AG upon completing his 65<sup>th</sup> year, was elected to replace him.

Changes occurred in the Board of Managing Directors as well: like Klaus Müller-Gebel, Jürgen Lemmer left the Board of Managing Directors with the close of the AGM on May 31, 2002, while Michael Paravicini resigned in mid-December 2002.



### **Monitoring and consulting**

In a difficult economic environment for the banking industry as a whole, the Supervisory Board studied the Bank's situation intensively in the 2002 financial year. It realized its duties and powers under the law and the Bank's statutes, constantly advising the Board of Managing Directors and monitoring their conduct of the Bank's affairs. The Board of Managing Directors continually informed the Supervisory Board, at regular intervals and always promptly, about the Bank's economic and financial development and also about important business events. In particular, the Board of Managing Directors involved the Supervisory Board in all decisions of fundamental importance.

The Chairman of the Supervisory Board and the Chairman of the Board of Managing Directors held regular working discussions, thus ensuring a smooth flow of information between the two bodies. The Chairman of the Supervisory Board received the minutes of meetings of the Board of Managing Directors along with proposed resolutions, and he was constantly kept informed about all significant occurrences at the Parent Bank and within the Group.

Wherever necessary, the Supervisory Board or its relevant committees approved individual business transactions for which its approval is required by law, the Bank's statutes or procedural rules. The Supervisory Board adopted resolutions at plenary or committee sessions. In 2002, no resolutions were adopted by circulating the relevant documents instead of convening a meeting.

### **Plenary Supervisory Board sessions**

In the past financial year, plenary sessions of the Supervisory Board were mainly devoted to the "cost-cutting offensive" and "cost-cutting offensive plus" programmes initiated by the Board of Managing Directors, through which the measures to reduce costs, made inevitable by the difficult earnings situation, were to be – and have been – implemented. The Supervisory Board also looked closely at the Bank's strategic approach designed to generate extra income and the restructuring of the Retail Banking, Investment Banking and Asset Management departments. All told, five plenary sessions were held.

Insofar as Supervisory Board duties were delegated to committees, the latter regularly reported on their activities at plenary sessions.

### **Work in the committees**

In order to realize its monitoring and consulting duties even more efficiently through close cooperation between Supervisory Board members working in smaller groups, the Supervisory Board has formed various committees.

The Presiding Committee regularly dealt with the business orientation and development of the Parent Bank, its various divisions, and of the Commerzbank Group. For this purpose, the Board of Managing Directors reported to the Presiding Committee continually and in detail on business progress. Transactions of outstanding importance and the Bank's strategic orientation were discussed with the Board of Managing Directors. The measures relating to the cost-cutting offensive and cost-cutting offensive plus programmes were also the topic of intensive discussion. In addition, the Presiding Committee considered and resolved upon personnel issues relating to the Board of Managing Directors,

including remuneration. In the past financial year, the Presiding Committee met five times altogether, once in its function as the committee examining the financial statements.

The development of both credit risk and the Group's overall risk situation was discussed in the Loans Committee. As this committee now has to monitor not only credit-related risks but also the overall risk position of the Group, it has been renamed the Risk Committee. It dealt intensively with provisioning, studying industry-specific risk in addition to general credit risk. The impact on Commerzbank of "Basel II" was also discussed here. As the auditors confirmed for the committee, the Bank's preparations are running entirely according to plan. The Loans/Risk Committee held detailed talks with the Board of Managing Directors on commitments involving an enhanced degree of risk and special events in the credit sector. The committee dealt with lending commitments which it is required to review by law or by the Bank's statutes. Wherever necessary, the committee approved the transactions submitted to it. These included transactions related to shareholdings. In the past financial year, the Loans/Risk Committee met four times.

The Social Welfare Committee discussed personnel and social welfare issues of major significance for the Bank's employees. In this context, extensive coverage was given to the effects of the two cost-cutting offensives. But further measures to make it easier to combine family and career as well as instruments of personnel policy were also treated by the committee. The Social Welfare Committee met once in 2002.

The Conciliation Committee, formed under the German Co-determination Act, did not have to be convened in 2002 either.

Last November, the Audit Committee was constituted, which has taken over from the Presiding Committee the task of checking the financial statements.

#### **Development of corporate governance**

Of special significance for the work of the Supervisory Board last year was the debate in Germany on improving the management and supervision of companies, subsumed under the concept of "corporate governance", and the German Corporate Governance Code worked out by a commission of experts set up by the German government. The questions that arose here were discussed in detail and resolved in the Presiding Committee and at plenary sessions.

The newly introduced provision of Art. 161, AktG obliges the Board of Managing Directors and Supervisory Board of a listed company to declare that the recommendations of the Code Commission were complied with in the past financial year or to state which recommendations were not followed. The outcome of the Supervisory Board's intensive discussion of the topic of corporate governance is reflected in Commerzbank's Code. At its meeting on November 11, 2002, the Supervisory Board resolved the management and supervision principles that are relevant for Commerzbank, the Corporate Governance Code of Commerzbank Aktiengesellschaft, and issued the declaration of compliance which is required pursuant to Art. 161, AktG; both documents are available to the public at Commerzbank AG's website ([www.commerzbank.com/konzern/governance/index.html](http://www.commerzbank.com/konzern/governance/index.html)).

The Supervisory Board compared the Bank's previous practice in corporate governance with the Corporate Governance Code of Commerzbank AG. The comparison revealed that no major adjustments were required. Nonetheless, the Supervisory Board – like the Board of Managing Directors – was prompted by the comparison to revise parts of its own procedural rules. One change related to the committees to be formed by the Supervisory Board. In order to increase the existing independence of this body, the function of examining the annual financial statements, previously assigned to the Presiding Committee, will be assumed in future by an independent Audit Committee. The Risk Committee, which has dealt with credit and market risk as well as individual lending commitments for years, will retain responsibility for risk-management issues. The Chairman of the Supervisory Board is a member and chairman of the other committees, with the exception of the Audit Committee.

No conflicts of interest arose for members of the Supervisory Board in the past financial year.

#### **Examination of financial statements and consolidated financial statements**

The Presiding Committee, which assumed the functions of the Audit Committee until last November, discussed the main points of emphasis for the 2002 financial year with the auditors, PwC Deutsche Revision Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, and commissioned them to conduct the audit.

The auditors examined the financial statements and the management report of the Parent Bank (according to the rules of the German Commercial Code – HGB) and also the consolidated financial statements and management report (according to International Accounting Standards – IAS) for the 2002 financial year. The financial statements and management report of the Parent Bank and the Group, together with the books of account on which they are based, received the auditors' unqualified certification.

At its meeting on March 28, 2003, the Audit Committee, and the Supervisory Board at its meeting on March 31, 2003, examined the financial statements and management report of the Parent Bank and the Group, and also the proposal for the profit appropriation. Well in advance of the relevant meeting, all members of the Supervisory Board were sent the financial statements, the annual reports and the auditors' reports. In addition, the members of the Audit Committee received all the documents and notes relating to the auditors' reports.

The auditors took part in the deliberations of the Audit Committee and the Supervisory Board on the financial statements. The Audit Committee and the Supervisory Board discussed the statements and the outcome of the audit with the auditors, who explained the main findings and also answered questions on the audit and its outcome.



The Supervisory Board signified its agreement with the outcome of the audit. Within the scope of the legal provisions, the Supervisory Board has also examined the financial statements and the management reports of both the Parent Bank and the Group for the 2002 financial year, as well as the proposal of the Board of Managing Directors as to the appropriation of the distributable profit. It has found no cause for objection.

At today's meeting, the Supervisory Board approved the financial statements presented by the Board of Managing Directors, which accordingly may be regarded as adopted. The Supervisory Board concurs with the proposal as to the profit appropriation.

Frankfurt am Main, March 31, 2003

The Supervisory Board

Martin Kohlhaussen  
Chairman



## ***supervisory board***

**Dr. Walter Seipp**

*Honorary Chairman*  
Frankfurt am Main

**Dr. h.c. Martin Kohlhaussen**

*Chairman*  
Frankfurt am Main

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Verband  
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Commerzbank AG  
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Financial Services  
ver.di National Administration  
Berlin

**Dr.-Ing. Otto Happel**

Luserve AG  
Lucerne

**Detlef Kayser**

Commerzbank AG  
Berlin

**Dieter Klinger**

Commerzbank AG  
Hamburg

**Dr. Torsten Locher**

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**Klaus Müller-Gebel**

Bad Soden

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Frankfurt am Main

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Bayer AG  
Leverkusen

**Prof. Dr. Jürgen F. Strube**

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Managing Directors  
BASF Aktiengesellschaft  
Ludwigshafen

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Managing Directors  
RWE Aktiengesellschaft  
Essen

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Managing Directors  
SMS Aktiengesellschaft  
Düsseldorf

## ***committees of the supervisory board***

### **Presiding Committee**

Dr. h.c. Martin Kohlhaussen, Chairman  
Hans-Georg Jurkat  
Dieter Klinger  
Hermann Josef Strenger

### **Audit Committee**

Klaus Müller-Gebel, Chairman  
Hans-Georg Jurkat  
Dr.-Ing. Otto Happel  
Dieter Klinger  
Hermann Josef Strenger

### **Risk Committee**

Dr. h.c. Martin Kohlhaussen, Chairman  
Klaus Müller-Gebel  
Hermann Josef Strenger  
Dr.-Ing. E.h. Heinrich Weiss

### **Social Welfare Committee**

Dr. h.c. Martin Kohlhaussen, Chairman  
Detlef Kayser  
Klaus Müller-Gebel  
Werner Schönfeld  
Alfred Seum  
Hermann Josef Strenger

### **Conciliation Committee**

(Art. 27, (3), German Co-determination Act)

Dr. h.c. Martin Kohlhaussen, Chairman  
Hans-Georg Jurkat  
Dr. Torsten Locher  
Hermann Josef Strenger



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Managing Directors  
Ruhrgas AG  
Essen  
Member of the Board of  
Managing Directors  
E.ON Aktiengesellschaft  
Düsseldorf

### **Dr. Michael E. Crüsemann**

Member of the Board of  
Managing Directors  
Otto Versand (GmbH + Co KG)  
Hamburg

### **Christian R. Eisenbeiss**

Chairman of the  
Supervisory Board  
Holsten-Brauerei AG  
Hamburg

### **Dr. Hubertus Erlen**

Chairman of the Board of  
Managing Directors  
Schering AG  
Berlin

### **Dietrich-Kurt Frowein**

Frankfurt am Main

### **Dr. Manfred Gentz**

Member of the Board of  
Managing Directors  
DaimlerChrysler AG  
Stuttgart

### **Prof. Dr.-Ing. E.h. Hans-Olaf Henkel**

President  
Leibniz-Gemeinschaft  
Berlin

### **Dr.-Ing. Dr.-Ing. E.h.**

### **Hans-Peter Keitel**

Chairman of the Board of  
Managing Directors  
HOCHTIEF AG  
Essen

### **Uwe Lüders**

Chairman of the Board of  
Managing Directors  
Buderus AG  
Wetzlar

### **Friedrich Lürssen**

Chief Executive  
Fr. Lürssen Werft (GmbH & Co.)  
Bremen

### **Dr. Siegfried Luther**

Deputy Chairman of the  
Board of Managing Directors  
Bertelsmann AG  
Gütersloh

### **Dr. Jörg Mittelsten Scheid**

General Partner  
Vorwerk & Co. KG  
Wuppertal

### **Jürgen Radomski**

Member of the Board of  
Managing Directors  
Siemens AG  
Erlangen

### **Hans Reischl**

Chairman of the Board of  
Managing Directors  
REWE-Zentral AG  
Cologne

### **Dr. Ernst F. Schröder**

General Partner  
Dr. August Oetker KG  
Bielefeld

### **Dr.-Ing. Ulrich Schumacher**

Chairman of the Board of  
Managing Directors  
Infineon Technologies AG  
Munich

### **Dr. Walter Thiessen**

Chairman of the Board of  
Managing Directors  
AMB Generali Holding AG  
Aachen

### **Dr. Klaus Trützscher**

Member of the Board of  
Managing Directors  
Franz Haniel & Cie. GmbH  
Duisburg

### **Wilhelm Werhahn**

Member of the Board of  
Managing Directors  
Wilh. Werhahn  
Neuss

## board of managing directors



**Klaus-Peter Müller**

Chairman of the  
Board of Managing Directors

**Staff departments**

Corporate Communications and Economic Research  
Strategy and Controlling



**Andreas de Maizière**

**Banking departments**  
Corporate Banking  
Financial Institutions  
Multinational Corporates

**Wolfgang Hartmann**

**Staff department**  
Risk Control  
**Banking departments**  
Credit Operations  
Private Customers  
Global Credit Operations  
Real Estate



**Martin Blessing**

**Banking departments**  
Private Banking  
Retail Banking  
**Service departments**  
Global Operations  
Investment Banking  
Information Technology:  
IT Development  
IT Investment Banking  
IT Production  
IT Support  
Organization  
Transaction Banking

**Mehmet Dalman**

**Banking department**  
Securities

**Klaus M. Patig**

**Staff departments**  
Group Treasury  
Human Resources  
Legal Services  
**Banking department**  
Asset Management

**Dr. Axel Frhr. v. Ruedorffer**

**Staff departments**  
Accounting and Taxes  
Compliance and Security  
Financial Controlling  
Internal Auditing



## **regional board members**

### **Corporate customers**

#### **Hermann Bürger**

##### **Regions abroad**

USA, Canada,  
Latin America

#### **Andreas Kleffel**

##### **Main branches**

Bielefeld, Cologne,  
Dortmund, Düsseldorf,  
Essen, Wuppertal

#### **Wojciech Kostrzewska**

##### **Regions abroad**

Central and Eastern Europe,  
CIS

#### **Klaus Kubbetat**

##### **Main branches**

Berlin, Dresden,  
Erfurt, Leipzig

### **Burkhard Leffers**

#### **Main branches**

Frankfurt, Mainz,  
Mannheim, Munich,  
Nuremberg, Stuttgart

#### **Michael J. Oliver**

##### **Regions abroad**

Asia, Oceania

#### **Mariano Riestra**

##### **Region abroad**

Western Europe

#### **Nicholas R. Teller**

##### **Main branches**

Bremen, Hamburg,  
Hanover, Kiel

##### **Region abroad**

Scandinavia

### **Private customers**

#### **Joachim Hübner**

##### **Main branches**

Bielefeld, Bremen,  
Cologne, Dortmund,  
Düsseldorf, Essen,  
Hamburg, Hanover,  
Kiel, Wuppertal

#### **Dr. Dirk Matthes**

##### **Main branches**

Berlin, Dresden,  
Erfurt, Frankfurt,  
Leipzig, Mainz,  
Mannheim, Munich,  
Nuremberg, Stuttgart



## **group managers**

**Jochen Appell**

Chief Legal Adviser  
Legal Services

**Jürgen Berger**

IT Development

**Udo Braun**

IT Investment Banking

**Dr. Thorsten Broecker**

Financial Controlling

**Peter Bürger**

Multinational Corporates

**Peter Bürger**

Risk Control

**Dr. Rudolf Duttweiler**

Treasury and Financial Products

**Klaus-Peter Frohmüller**

Transaction Banking

**Hans-Joachim Hahn**

Real Estate

**Dr. Peter Hennig**

Financial Institutions

**Dr. Bernhard Heye**

Human Resources

**Lutz Kirchner**

Internal Auditing

**Wolfgang Kirsch**

Organization

**Peter Kraemer**

IT Production

**Peter Kroll**

Corporate Banking

**Torsten Lüttich**

Credit Operations  
Private Customers

**Dr. Thomas Naumann**

Accounting and Taxes

**Ulrich Ramm**

Corporate Communications and  
Economic Research

**Michael Schmid**

Global Credit Operations

**Dr. Friedrich Schmitz**

Asset Management

**Thomas Steidle**

Compliance and Security

**Dr. Eric Strutz**

Strategy and Controlling

**Roland Wolf**

IT Support

**Martin Zielke**

Retail Banking

## ***managers of domestic main branches***

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Klaus Heyer  
Jörg Schauerhammer

### **Erfurt**

Hans Engelmann  
Thomas Vetter

### **Mainz**

Herbert Enders  
Michael Sonnenschein

### **Bielefeld**

Thomas Elshorst  
Edwin Kieltyka

### **Essen**

Manfred Breuer  
Manfred Schlaak

### **Mannheim**

Klaus Altenheimer  
Ilse Maria Arnst  
Dr. Mathias Ullrich

### **Bremen**

Carl Kau  
Wolfgang Schönecker  
Jürgen Werthschulte

### **Frankfurt am Main**

Dr. Franz-Georg Brune  
Wilhelm Nüse  
Andreas Schmidt

### **Munich**

Franz Jung  
Hans-Peter Rien

### **Cologne**

Dr. Waldemar Abel  
Michael Hoffmann

### **Hamburg**

François de Belsunce  
Erhard Mohnen  
Werner Weimann

### **Nuremberg**

Bernd Grossmann  
René Kaselitz  
Dieter Kielmann

### **Dortmund**

Dieter Brill  
Dieter Mahlmann  
Karl-Friedrich Schwagmeyer

### **Hanover**

Dirk Dreiskämper  
Volker Schönfeld

### **Stuttgart**

Hans-Jürgen Hirner  
Friedrich Röttger  
Dr. Gert Wünsche

### **Dresden**

Wilhelm von Carlowitz  
Michael Koch  
Frank Schulz

### **Kiel**

Peter Ahls  
Andreas Vogt

### **Wuppertal**

Paul Krüger  
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### **Düsseldorf**

Wolfram Combecher  
Martin Fischedick  
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### **Leipzig**

Wilhelm Plöger  
Heinrich Röhrs



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### **Atlanta**

Harry Yergey

### **Barcelona**

Alois Brüggemann

### **Brno**

Bronislav Hybl

### **Brussels**

Erik Puttemans  
Felix Rüther

### **Chicago**

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### **Hong Kong**

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### **Prof. Dr. Dr. h.c. mult.**

Jürgen Mittelstrass  
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### **Klaus Müller-Gebel**

Bad Soden

### **Hermann Josef Strenger**

Leverkusen

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Dr. Christoph Uhsadel

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Hans-Joachim Nitschke

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### **Asset Management GmbH**

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Bärbel Schomberg

### **CommerzLeasing und Immobilien AG**

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Hans-Joachim Hahn  
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Günter Ress  
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### **Commerz NetBusiness AG**

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### **Commerz Service Gesellschaft für Kundenbetreuung mbH**

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John Bowden  
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**Commerzbank International  
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John Bowden  
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**Commerzbank International S.A.  
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**Geneva**  
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**Commerzbank Capital  
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New York  
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**Commerzbank Capital Markets  
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Company Ltd.**

**Hong Kong/Tokyo**  
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**Jupiter International Group plc  
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Jonathan Carey  
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**Montgomery Asset  
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Versicherungs-Verband  
Badische Allgemeine  
Versicherung AG  
Karlsruhe

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SÜDWESTMETALL  
Verband der Metall- und  
Elektroindustrie  
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Stuttgart

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Royal Philips Electronics  
Amsterdam/Netherlands

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Birsfelden/Switzerland

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Holding AG  
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Hewlett-Packard GmbH  
Böblingen

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Managing Directors  
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Chairman of the Executive Board  
MVV GmbH  
Mannheim

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Heidenheim

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Publishing Group  
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Beteiligungs GmbH  
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ALLENSBACH  
Allensbach am Bodensee

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Head of Finance and Accounting  
Robert Bosch GmbH  
Stuttgart

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and General Partner  
GROZ-BECKERT KG  
Albstadt (Ebingen)

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Proprietor Merckle/ratiopharm  
Group  
Blaubeuren

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Metzingen

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Zurich/Switzerland

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Basel/Switzerland

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Heidelberg

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Wolfgang Steinbach**

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Walter Marketing GmbH & Co. KG  
Ettlingen

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MAHLE GmbH  
Stuttgart

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Baden-Baden

**Bavaria**

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MAN Aktiengesellschaft  
Munich

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Nuremberg

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and CIS  
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Dreieich-Sprendlingen,  
General Manager  
Schlumberger GmbH  
Ismaning

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Richard Bergner Holding  
GmbH & Co. KG  
Schwabach

**Dr. sc. pol. Wolfgang Colberg**

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BSH Bosch und Siemens  
Hausgeräte GmbH  
Munich

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Partner  
Conrad Holding GmbH  
Hirschau

**Carl Friedrich Eckart**

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ECKART GmbH & Co. KG  
Fürth (Bavaria)

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Managing Directors  
Infineon Technologies AG  
Munich

**Dr. Reinhard Fuchs**

Chairman of the Board of  
Managing Directors  
WWK Lebensversicherung a. G.  
WWK Allgemeine  
Versicherung AG  
Munich

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Managing Directors  
GEMA Gesellschaft für  
musikalische Aufführungs-  
und mechanische  
Vervielfältigungsrechte  
Munich

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General Manager  
KAESER KOMPRESSOREN GmbH  
Coburg

**Prof. Dr. Anton Kathrein**

Managing General Partner  
KATHREIN-Werke KG  
Rosenheim

**Dr. Karl-Hermann Lowe**

Member of the Board of  
Managing Directors  
Allianz Versicherungs-AG  
Munich

**Dipl.-Ing. Thomas Netzschen**

Managing Partner  
Erich Netzschen GmbH & Co.  
Holding KG  
Selb

**Prof. Susanne Porsche**

Producer  
mps mediaproductions by  
susanne porsche GmbH  
S.A.N.set film & fernseh-  
produktionen GmbH  
Munich

**Dr. Lorenz M. Raith**

Herzogenaurach

**Dipl.-Ing. Helmuth Schaak**

Chairman of the  
Supervisory Board  
Leistritz AG  
Nuremberg

<b>Dr. Hans Seidl</b> Chairman of the Supervisory Board Vinnolit Kunststoff GmbH & Co. KG Ismaning	<b>Dr. Peter E. Gutsche</b> Member of the Administration Board Versorgungswerk der Zahnärztekammer Berlin Berlin	<b>Joachim Lubitz</b> Member of the Board of Managing Directors Vattenfall Europe AG Berlin
<b>Dr. Rudolf Staudigl</b> General Manager Wacker-Chemie GmbH Munich	<b>Dipl.-Ing. Hermann Hauertmann</b> Managing Partner Schwartauer Werke GmbH & Co. Kakao Verarbeitung Berlin Berlin	<b>Dr.-Ing. E.h. Hartmut Mehldorn</b> Chairman of the Board of Managing Directors Deutsche Bahn AG Berlin
<b>Klaus Steger</b> Member of the Board of Managing Directors ERWO Holding AG Nuremberg	<b>Joachim Hunold</b> Managing Partner Air Berlin GmbH & Co. Luftverkehrs KG Berlin	<b>Dipl.-Volkswirt Manfred Neubert</b> Chief Executive Officer Willy Vogel AG Berlin
<b>Dr. Jürgen Terrahe</b> Munich	<b>Dipl.-Kaufmann Joachim Klein</b> Managing Partner Umlauf & Klein Group GmbH & Co. Berlin	<b>Dipl.-Ing. Jürgen Reuning, MBA</b> President Central & East European Area OTIS International Holdings GmbH Berlin
<b>Dr. Klaus Warning</b> Member of the Board of Managing Directors SGL Carbon AG Wiesbaden	<b>Dipl.-Kaufmann Peter J. Klein</b> Managing Partner Ärzte-Treuhand Vermögensverwaltung GmbH Berlin	<b>Manfred Freiherr von Richthofen</b> President Deutscher Sportbund Berlin
<b>Berlin</b>		<b>Ralf Rudolph</b> Chief Executive Officer Anton Schmittlein Bauunternehmung AG Berlin
<b>Prof. Dr. Peter von Dierkes</b> Chief Executive Officer Berliner Stadtreinigungsbetriebe Berlin	<b>Dr. Hartmann Kleiner</b> Lawyer Chief Manager VME Verband der Metall- und Elektro-Industrie in Berlin und Brandenburg e.V. Berlin	<b>Dr. Uwe Runge</b> President of the Consistory Protestant Church of Berlin-Brandenburg Berlin
<b>Dr. Hans Frädrich</b> Berlin		
<b>Hans Ulrich Gruber</b> Chairman of the Board of Managing Directors TD TRUMP DEUTSCHLAND AG Berlin	<b>Universitäts-Prof. Dr. Dr. h.c. mult. Heinz-Georg Klös</b> Member of the Supervisory Board Zoologischer Garten Berlin AG Berlin	

**Detlef Schulz**

Public Accountant and  
Tax Consultant  
General Manager  
alltreu Allgemeine Revisions-  
und Treuhandgesellschaft mbH  
Wirtschaftsprüfungsgesellschaft,  
Partner  
Detlef Schulz und Partner  
Wirtschaftsprüfer,  
Rechtsanwälte, Steuerberater  
Berlin

**Dipl.-oec. Felix Strehober**

Manager  
Natural Gas, Finances and  
Project Development  
ZGG-Zarubezhgaz-Erdgashandel-  
Gesellschaft mbH  
Berlin

**Volker Ullrich**

Managing Partner  
Zuckerhandelsunion GmbH  
Berlin

**Bernd Voigtländer**

Managing Partner  
Trumpf Group  
Berlin

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Member of the Board of  
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Vattenfall Europe  
Mining & Generation AG  
Berlin and Senftenberg

**Minister Hartmut Meyer**

Ministry of Urban Development,  
Housing and Transport of  
Brandenburg  
Potsdam

**Dr. Rainer Peters**

Chief Executive Officer  
E.DIS Aktiengesellschaft  
Fürstenwalde/Spree

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General Manager  
Dubbers-Albrecht Holding  
GmbH & Co. KG  
Bremen

**Jürgen Holtermann**

General Manager  
bremenports GmbH & Co. KG  
Bremerhaven

**Dipl.-Kaufmann Ulrich Mosel**

General Manager  
H. Siedentopf GmbH & Co. KG  
Bremen

**Dr. Ulrich Josef Nussbaum**

Managing Partner  
SLH Sea Life Harvesting Group,  
Vice President  
Chamber of Industry  
and Commerce  
Bremerhaven Section  
Bremerhaven

**Hillert Onnen**

General Manager  
BLG LOGISTICS  
GROUP AG & Co. KG  
Bremen

**Bernd Schopf**

General Manager  
BrainMedia GmbH & Co. KG  
Bremen

**Hamburg****Thomas Cremer**

Managing Partner  
Peter Cremer Holding  
GmbH & Co.  
Hamburg

**Kurt Döhmel**

Chairman of the Executive Board  
Shell Deutschland Holding GmbH  
Hamburg

**Dr. Karin Fischer**

Majority Shareholder  
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Eisenach

**Eugeen Theunis**

Member of the Board of  
Managing Directors  
Doorwin BV  
Eindhoven/Netherlands

**Andreas Trautvetter**

Minister of the Interior  
Free State of Thuringia  
Erfurt



## ***seats on supervisory boards and similar bodies***

### **Members of the Board of Managing Directors of Commerzbank AG**

Information pursuant to Art. 285,  
no. 10, HGB  
As of December 31, 2002

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

#### **Klaus-Peter Müller**

- a) ABB AG  
(until March 26, 2003)\*  
Goodyear DUNLOP Tires  
Germany GmbH  
Ford Deutschland Holding GmbH  
Ford-Werke AG  
Steigenberger Hotels AG  
ThyssenKrupp Materials AG
- b) Agfa-Gevaert N.V.\*)  
(until April 29, 2003)  
Assicurazioni Generali S.p.A.\*)  
Parker Hannifin Corporation\*)  
**within Commerzbank Group:**  
Commerzbank International S.A.  
(Chairman)  
Commerzbank (Switzerland) Ltd  
(Chairman)

#### **Martin Blessing**

- a) AMB Generali Holding AG\*)  
EURO Kartensysteme EUROCARD  
und eurocheque GmbH  
EUROHYPO AG\*)  
T-Online International AG\*)  
**within Commerzbank Group:**  
comdirect bank AG  
(Chairman)

### **b) within Commerzbank Group:**

- CFM Commerz Finanz  
Management GmbH  
(Chairman)
- COMMERZ PARTNER Beratungs-  
gesellschaft für Vorsorge- und  
Finanzprodukte GmbH  
(Chairman)
- Commerzbank Inlandsbanken  
Holding AG  
(Chairman)

#### **Mehmet Dalman**

- a) EUREX Clearing AG  
EUREX Frankfurt AG
- b) EUREX Zürich AG  
Tosca Limited  
(non-executive director)
- within Commerzbank Group:**  
Commerzbank Capital  
Markets Corporation  
(Chairman)
- Commerzbank Capital Markets  
(Eastern Europe) a.s.  
(Chairman)
- Commerz Securities (Japan)  
Co. Ltd.  
(Chairman)

#### **Wolfgang Hartmann**

- a) Adolf Ahlers AG\*)  
ProSiebenSat1 Media AG\*)  
(Deputy chairman)
- Vaillant GmbH
- Viterra AG

### **b) within Commerzbank Group:**

- Commerz Grundbesitz-  
Investmentgesellschaft mbH  
(Chairman)
- Commerz Grundbesitz-  
gesellschaft mbH  
(Chairman)
- Commerz Grundbesitz  
Spezialfondsgesellschaft mbH  
(Chairman)
- CommerzLeasing und  
Immobilien AG  
(Chairman)

### **b) within Commerzbank Group:**

- Commerzbank Belgium S.A.  
(Chairman)
- Commerzbank (Nederland) N.V.  
(Chairman)
- ILV Immobilien-Leasing  
Verwaltungsgesellschaft  
Düsseldorf mbH

#### **Andreas de Maizière**

- a) Borgers AG  
MAN AG\*)  
RAG Saarberg AG  
Rheinische Bodenverwaltung AG  
(Chairman)
- RWE Power AG  
Thyssen Krupp Stahl AG  
VDN Vereinigte Deutsche  
Nickel-Werke AG\*)
- within Commerzbank Group:**  
Commerzbank Auslandsbanken  
Holding AG  
(Chairman)
- Hypothekenbank in Essen AG

- b) Arenberg-Schleiden GmbH  
(Chairman)

**b) within Commerzbank Group:**

BRE Bank SA  
(Deputy chairman)  
Commerzbank (Budapest) Rt.  
(Chairman)  
Commerzbank (Eurasija) SAO  
(Chairman)

**Klaus M. Patig**

- a) Degussa AG\*)
  - Deutsche Börse AG\*)
  - Ferrostaal AG
  - G. Kromschröder AG\*)  
(Deputy chairman)
  - VINCI Deutschland GmbH
  - within Commerzbank Group:**
  - COMINVEST
  - Asset Management GmbH  
(Chairman)
  - Pensor Pensionsfonds AG  
(Deputy chairman)
- b) Fördergesellschaft für Börsen und Finanzmärkte in Mittel- und Osteuropa mbH

**within Commerzbank Group:**

Caisse Centrale de Réescompte, S.A.  
(Chairman)

Commerz Asset Management (UK) plc  
(Chairman)

Jupiter International Group plc  
(Chairman)

Montgomery Asset Management, LLC

**Dr. Axel Frhr. v. Ruedorffer**

- a) Allgemeine Kreditversicherung Coface AG  
(Deputy chairman)
- AUDI AG\*)
- Commerz Unternehmensbeteiligungs-AG  
(Chairman)
- within Commerzbank Group:**
- CommerzLeasing und Immobilien AG  
(Deputy chairman)
- Hypothekenbank in Essen AG  
(Chairman)

- b) AKA Ausfuhrkredit-Gesellschaft mbH  
(2<sup>nd</sup> Deputy chairman)
- Avis Europe plc\*)
- Crédit Lyonnais S.A.\*)
- Erste Bank der österreichischen Sparkassen AG\*)
- HANNOVER Finanz GmbH
- Intesa S.p.A. \*)
- Mediobanca – Banca di Credito Finanziario S.p.A. \*)
- Stiebel Eltron-Gruppe  
(Chairman)
- Viking Schiffsfinanz AG
- Viking Ship Finance (Overseas) Ltd.
- within Commerzbank Group:**
- AFINA Bufete de Socios Financieros S.A.
- Caisse Centrale de Réescompte, S.A.  
(Deputy chairman)
- Commerzbank Asset Management Italia S.p.A.
- Erste Europäische Pfandbrief- und Kommunalkreditbank AG  
(Chairman)
- ILV Immobilien-Leasing Verwaltungsgesellschaft Düsseldorf mbH

**Former members of the Board of Managing Directors****Jürgen Lemmer**

- a) Buderus AG
  - Clearing Bank Hannover AG  
(Deputy chairman)
  - GKN Automotive International GmbH  
(Chairman)
  - Kolbenschmidt-Pierburg AG
- b) ARGOR-HERAEUS S.A.
- Banque Marocaine du Commerce Extérieur, S.A.
- Korea Exchange Bank
- Majan International Bank SAOC
- Verlagsbeteiligungs- und Verwaltungsgesellschaft mbH
- ADIG-Investment Luxemburg S.A.  
(Chairman)
- Commerzbank Europe (Ireland) Unlimited  
(Chairman)
- Commerzbank International (Ireland)  
(Chairman)

**Klaus Müller-Gebel**

see seats under "Members of the Supervisory Board of Commerzbank AG"

**Michael Paravicini**

- a) entory AG
- ThyssenKrupp Serv AG
- within Commerzbank Group:**
- Commerz NetBusiness AG  
(Chairman)



## **Members of the Supervisory Board of Commerzbank AG**

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

### **Dr. h.c. Martin Kohlhaussen**

- a) Bayer AG  
Heraeus Holding GmbH  
HOCHTIEF AG  
Infineon Technologies AG  
KarstadtQuelle AG  
Linde AG  
Schering AG  
ThyssenKrupp AG
- b) Verlagsgruppe Georg von Holtzbrinck GmbH

### **Dott. Sergio Balbinot**

- a) **within group:**  
Aachener und Münchener Lebensversicherung AG  
Aachener und Münchener Versicherung AG  
AMB Generali Holding AG  
Generali Lloyd AG
- b) **within group:**  
Banco Vitalicio de España, C.A. de Seguros y Réaseguros  
Europ Assistance Holding  
Generali España, Holding de Entidades de Seguros, S.A. (Chairman)  
Generali Finance B.V.  
Generali France Holding S.A. (Deputy chairman)  
Generali Holding Vienna AG (Deputy chairman)

Generali (Schweiz) Holding

Generali Sigorta A.S.  
(Deputy chairman)

La Estrella S.A.

Migdal Insurance Co. Ltd.

Migdal Insurance Holdings Ltd.

Migdal Investments Management 2001 Ltd.  
Participatie Maatschappij Graafschap Holland N.V.

Transocean Holding Corporation

### **Heinz-Werner Busch**

–

### **Oswald Danzer**

–

### **Uwe Foullong**

- a) DBV-Winterthur Holding AG\*  
DBV-Winterthur Lebensversicherung AG

### **Dr.-Ing. Otto Happel**

–

### **Hans-Georg Jurkat**

- b) BVV Versicherungsverein des Bankgewerbes a.G.

### **Detlef Kayser**

- b) BVV Versicherungsverein des Bankgewerbes a.G.

### **Dieter Klinger**

–

### **Dr. Torsten Locher**

–

### **Klaus Müller-Gebel**

- a) comdirect bank AG (Deputy chairman)  
Deutsche Schiffsbank AG (Deputy chairman)  
EUROHYPO AG  
Holsten Brauerei AG

### **Mark Roach**

- a) FIDUCIA Informationszentrale AG

### **Dr. Erhard Schipporeit**

- a) AXA Colonia Lebensversicherung AG (until July 24, 2002)  
HDI Privatversicherung AG (since July 24, 2002)  
HDI V.a.G. (since July 24, 2002)

#### **within group:**

- Degussa AG  
E.ON Energie AG  
Schmalbach-Lubeca AG (Chairman) (until December 19, 2002)  
VAW Aluminium AG (until March 6, 2002)  
VIAG Telecom AG

- b) Connect Austria GmbH

#### **within group:**

- E.ON Risk Consulting GmbH (Chairman)

### **Werner Schönfeld**

–

**Prof. Dr.-Ing. Ekkehard Schulz**

- a) AXA Konzern AG\*)  
Deutsche Bahn AG  
MAN AG\*)  
RAG AG  
RWE Plus AG  
TUI AG\*)  
**within group:**  
ThyssenKrupp Automotive AG  
(Chairman)  
ThyssenKrupp Materials AG  
(Chairman)  
ThyssenKrupp Steel AG  
(Chairman)
- b) Ev. und Johanniter-Klinikum  
Duisburg/Dinslaken/Oberhausen  
gem. GmbH  
**within group:**  
ThyssenKrupp Budd Company

**Alfred Seum**

–

**Hermann Josef Strenger**

- a) Bayer AG  
(Chairman)  
(until April 26, 2002)
- b) Agfa-Gevaert N.V.  
(until April 30, 2002)

**Prof. Dr. Jürgen F. Strube**

- a) Allianz Lebens-  
versicherungs AG\*)  
Bayerische Motorenwerke AG\*)  
Bertelsmann AG  
Hapag-Lloyd AG  
HOCHTIEF AG\*)  
Linde AG\*)

\*) listed company outside group

**Dr. Klaus Sturany**

- a) Hannover Rück-  
versicherungs AG\*)  
HOCHTIEF AG\*)  
RAG AG  
**within group:**  
Heidelberger Druckmaschinen AG  
RWE DEA AG  
RWE Power AG  
RWE Solutions AG
- b) **within group:**  
Innogy Holdings plc.  
RWE Trading GmbH  
Thames Water plc.

**Dr.-Ing. E.h. Heinrich Weiss**

- a) Bertelsmann AG  
(until June 30, 2002)  
Deutsche Bahn AG  
Ferrostaal AG  
HOCHTIEF AG\*)  
Voith AG  
**within group:**  
SMS Demag AG  
(Chairman)
- b) Thyssen-Bornemisza Group  
**within group:**  
Concast AG  
(President)  
Concast Holding AG  
(President)

**Former members of the  
Supervisory Board****Dietrich-Kurt Frowein**

- a) Heidelberger Druckmaschinen AG  
Schunk GmbH  
Software AG  
(until November 30, 2002)  
(Chairman until  
September 30, 2002)

**Dott. Gianfranco Gutty**

- a) **within group:**  
AMB Achener und Münchener  
Beteiligungs-AG  
(until September 12, 2002)
- b) Alleanza Assicurazioni S.p.A.  
**within group:**  
Banca Generali S.p.A.  
(Chairman)  
(until September 12, 2002)  
Banco Vitalicio de España,  
C.A. de Seguros y Réaseguros  
(until September 12, 2002)  
BSI – Banca della Svizzera Italiana  
(until September 12, 2002)  
Fiat S.p.A. (until mid-2002)  
Genagricola S.p.A.  
(until September 12, 2002)  
Generali France Holding S.A.  
(until September 12, 2002)  
Holding di Partecipazioni  
Industriali S.p.A.  
(until September 12, 2002)  
IntesaBCI S.p.A.  
(Vice Chairman)  
(until September 12, 2002)  
Mediobanca – Banca di Credito  
Finanziario S.p.A.  
(until September 12, 2002)  
Participatie Maatschappij  
Graafschap Holland N.V.  
(until September 12, 2002)  
Santander Central Hispano S.A.  
(until September 12, 2002)  
Transocean Holding Corporation  
(until September 12, 2002)

**Horst Sauer**

–

## **Employees of Commerzbank AG**

Information pursuant to Art. 340a, (4),  
no. 1, HGB  
As of December 31, 2002

### **Jürgen Berger**

CFM Commerz Finanz  
Management GmbH

### **Dietmar Binkowska**

COMINVEST  
Asset Management GmbH  
CFM Commerz Finanz  
Management GmbH  
CommerzLeasing und  
Immobilien AG

### **Manfred Breuer**

Isola AG

### **Bernd Förster**

SE Spezial Electronic AG

### **Hans-Joachim Hahn**

Commerz Grundbesitz-  
Investmentgesellschaft mbH

### **Klaus Hollenbach**

TNT Express GmbH

### **Herbert Huber**

Saarländerische Investitions-  
kreditbank AG

### **Günter Jerger**

CommerzLeasing und  
Immobilien AG

### **Franz Jung**

Constantin Film AG

### **Andreas Kleffel**

Honsel Management GmbH

### **Wojciech Kostrzewska**

Hochtief Construction AG (HTC)

### **Peter Kroll**

COMINVEST  
Asset Management GmbH  
Commerz Grundbesitz-  
Investmentgesellschaft mbH  
CommerzLeasing und  
Immobilien AG  
SchmidtBank KGaA

### **Klaus Kubbatat**

CommerzLeasing und  
Immobilien AG

### **Dr. Dirk Mattes**

CFM Commerz Finanz  
Management GmbH  
COMMERZ PARTNER Beratungs-  
gesellschaft für Vorsorge- und  
Finanzprodukte mbH  
MEWA Textil-Service AG

### **Dr. Thomas Naumann**

Commerzbank Auslandsbanken-  
Holding AG  
Commerzbank Inlandsbanken-  
Holding AG

### **Andreas Schmidt**

Rasmussen GmbH

### **Dr. Friedrich Schmitz**

COMINVEST  
Asset Management GmbH

### **Dr. Gert Schorradt**

Carmeile AG

### **Frank Schulz**

Südost Woba Dresden GmbH

### **Gerhard Schulz**

Südwest Finanz Holding AG

### **Monika Serreck**

Spielbanken Niedersachsen  
GmbH

### **Dr. Eric Strutz**

comdirect bank AG  
COMINVEST  
Asset Management GmbH  
Commerzbank Auslandsbanken-  
Holding AG  
Commerzbank Inlandsbanken-  
Holding AG  
Hypothekenbank in Essen AG

### **Dr. Rainer Wedel**

JC INSITU  
Beteiligungsges. mbH

### **Günther Wudy**

WV Energie AG

### **Martin Zielke**

COMINVEST  
Asset Management GmbH  
Commerz Grundbesitz-  
Investmentgesellschaft mbH

## **Former employees of Commerzbank AG**

### **Hans Bayer**

DFH Eigenheimbank AG

### **Volker Tibi**

Bioscientia Institut für  
Laboruntersuchungen

### **Christian Traxel**

Flender Werft AG

## glossary

### Asset-backed securities

Instrument for transforming claims tied up in the balance sheet into negotiable securities.

### Assets held for dealing purposes

Under this balance-sheet item, securities, promissory notes, foreign exchange and derivative financial instruments which are used for dealing purposes are shown. They appear at their fair value.

### Associated company

A company included in the consolidated financial statements neither on a fully or partially consolidated basis, but rather according to the equity method; however, a company which is included in the consolidation has a significant influence on its business and financial policies.

### Available for sale

A term used to refer to financial assets that may be disposed of.

### Back-testing

A procedure for monitoring the quality of value-at-risk models. For this purpose, the potential losses projected by the VaR approach are examined over a lengthy period to ascertain whether in retrospect they were not exceeded far more frequently than the applied confidence level would have suggested.

### Benchmarks

Reference figures like indices, which are used, for instance, in portfolio management. For one thing, they can determine the direction of an investment strategy by giving the portfolio manager orientation in assembling portfolios. For another, they serve as a yardstick for investment performance.

### Business continuity planning

A company's emergency planning, covering all of its units.

### Cash flow hedge

The covering of the risk attaching to future interest payments from a floating-interest transaction in the balance sheet by means of a swap. It is measured at fair value.

### Cash flow statement

This shows the breakdown and changes in a company's cash and cash equivalents during the business year. It is divided up into the items operating, investing and financing activities.

### Collateral agreement

An agreement covering the security or collateral to be furnished.

### Confidence level

This indicates the probability with which a potential loss lies within the scope defined by the value-at-risk.

### Corporate governance

Corporate governance establishes guidelines for transparent corporate management and supervision. The recommendations of the German Corporate Governance Code create transparency and strengthen trust in responsible management; in particular, they serve shareholder protection.

### Cost/income ratio

This represents the ratio of operating expenses to income before provisioning, indicating the cost-efficiency of the company or of one of its business units.

### Credit VaR

The concept stems from the application of the value-at-risk concept for market risk to the area of credit-risk measurement. In substantive terms, the credit VaR is an estimate of the amount by which the losses arising from credit risk might potentially exceed the expected standard risk costs within a year, which have been calculated into the margin charged (unexpected loss). This approach is based on the idea that the standard risk costs merely represent the long-term mean value for loan defaults, which may differ (positively or negatively) from the actual loan defaults in the current business year.

**DAX 30**

Deutscher Aktienindex (German stock index), which covers the 30 largest German blue chips with the highest turnover in official trading.

**Deferred taxes**

These are taxes on income to be paid or received in the future, resulting from discrepancies in assigned values between the balance sheet for tax purposes and the commercial balance sheet. At the time the accounts are prepared, they represent neither actual claims on nor liabilities to the tax authorities.

**Derivatives**

Financial instruments whose value depends on the value of another financial instrument. The price of the derivative is derived from the price of an underlying object (equity, currency, interest rate, precious metal, etc.). These instruments offer greater possibilities for steering and managing risk.

**Due diligence**

The term is used to describe the process of intensive examination of the financial and economic situation and planning of a company by external experts (mostly banks, lawyers, auditors). In the run-up to an IPO or a capital increase, due diligence is needed before an offering prospectus can be compiled.

**Economic capital**

The amount which would be sufficient to cover the overall risk of a company, i.e. the aggregate of market, credit and operational risk. It is not identical to equity as shown in the balance sheet.

**Embedded derivatives**

Embedded derivatives are components of an original financial instrument and inseparably linked to the latter, so-called hybrid financing instruments such as reverse convertible bonds. Legally and economically, they are bound up with one another.

**Equity method**

A consolidation method in a group's accounting to cover holdings in associated companies. The company's pro-rata net profit/loss for the year is included in the consolidated income statement as income/loss from equity investments.

**Fair value**

The amount at which financial instruments may be sold or purchased on fair conditions. For measurement purposes, either market prices (e.g. stock-exchange prices) or – if these are unavailable – internal measurement models are used.

**Fair value hedge**

This is a fixed-interest balance-sheet item (e.g. a claim or a security) which is hedged against market risk by means of a swap. It is measured at fair value.

**Financial instruments**

Above all, credits or claims, interest-bearing securities, shares, equity investments, liabilities and derivatives are subsumed here.

**Goodwill**

The difference between the purchase price and the value of the net assets thereby acquired which remains after the hidden reserves have been disclosed when an equity investment is acquired or a company is taken over.

**Hedge accounting**

The presentation of discrepancies between the change in value of a hedging device (e.g. an interest-rate swap) and the hedged item (e.g. a loan). Hedge accounting is designed to reduce the influence on the income statement of the measurement and recognition of changes in the fair value of derivative transactions.

**Hedging**

A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements (interest rates, prices, commodities).

## International Accounting Standards (IAS)

Accounting regulations approved by the International Accounting Standards Committee. The objective of financial statements prepared according to IAS is to provide investors with information to help them reach a decision with regard to the company's asset and financial position and also its earnings performance, including changes in the course of time. By contrast, financial statements according to HGB (German Commercial Code) are primarily geared to investor protection.

## Investor relations

The terms describes the dialogue between a company and its shareholders or creditors. Investor relations targets this special group with the intention of using communicative means to ensure that the capital market gives the company an appropriate evaluation.

## Letter of comfort

Usually, the commitment of a parent company towards third parties (e.g. banks) to ensure the orderly management of its subsidiary and the latter's ability to meet commitments.

## Liabilities from dealing activities

Under this balance-sheet item, the derivative instruments of proprietary trading with a negative fair value appear, and also delivery commitments arising from the short-selling of securities. They are measured at fair value.

## Loss review trigger

A warning signal that a trading unit might exceed its prescribed maximal loss. If this trigger is reached, appropriate measures are taken to prevent further losses.

## Mark-to-market

Measurement of all proprietary-trading activities of a company at current market prices, including unrealized profits – without purchase costs being taken into consideration.

## Mergers & acquisitions

In banking, M&A represents the advisory service offered to companies involved in such transactions, especially the purchase and sale of companies or parts of them.

## Netting

The setting-off of items (amounts or risks) which appear on different sides of a balance.

## Online banking

A variety of banking services handled with IT support and offered to customers electronically (by telephone line).

## Options & futures

Forward transactions, i.e. agreements representing claims to performance to be met at a fixed date in the future. In the case of an option, the taker has the right to performance, which he need not exercise, however. By contrast, the giver of an option is only obliged to perform if the taker requires this. The situation is different for futures, where both contractual partners are obliged to meet the agreed claim of the counterparty at the fixed point in time.

## OTC

Abbreviation for "over the counter", which is used to refer to off-the-floor trading.

## Positive/negative fair value

The positive/negative fair value of a derivative financial instrument is the change in fair value between the conclusion of the transaction and the date of measurement, which has arisen due to favourable or unfavourable overall conditions.

## Profit-sharing certificate

Securitization of profit and loss-sharing rights which are issued by companies of various legal forms and are introduced to official (stock-exchange) trading. Under certain conditions, profit-sharing certificates may be counted as part of banks' liable funds.

### **Rating agencies**

Initially in the USA, and later in Europe and other regions as well, agencies were established whose service consists of analysing companies' credit standing. Standard & Poor's and Moody's are the two best-known rating agencies, whose ratings are used worldwide. Based on an examination of important business data and other information, the rating agencies form creditstanding ratings, ranging from AAA (best rating) to C (poorest rating). Frequently, they relate specifically to debt instruments (such as bonds) issued by these companies; often, the issuers themselves apply for the rating.

For companies, higher or lower ratings mean higher or lower capital-raising costs or even – in extreme cases – exclusion from the capital market as a source of funds.

### **Repo transactions**

Abbreviation for repurchase agreements; these are combinations of spot purchases or sales of securities and the simultaneous forward sale or repurchase of these securities in an agreement involving the same counterparty.

### **Return on equity**

This is calculated by the ratio between the pre- and after-tax profit and the average amount of equity as shown in the balance sheet; it indicates the return which the company achieves on the capital which it employs.

### **Revaluation reserve**

In the revaluation reserve, changes in the fair value of securities and equity investments appear, with no effect on the income statement.

### **Shareholder value**

Shareholder value gives priority to the interests of proprietors or, in the case of listed companies, shareholders. Under this approach, the company's management is committed to increasing the value of the company over the long term and thus to lifting its share price. This contrasts with a "stakeholder policy", which aims to achieve a balance between the interests of shareholders and other groups involved, such as customers, employees, providers of outside funds, banks, etc.

One major component of the shareholder value principle is also a shareholder-oriented, transparent information policy, which above all at major listed companies is entrusted to investor relations.

### **Spread**

The term spread refers to the differential between the buying and the selling price. Latent factors which influence the size of the spread include transaction costs, hedges against price fluctuations and an adverse selection component. The latter factor offers protection for the party setting the price from his potential counterparty, given differing levels of information.

### **Standard risk costs**

These represent the average expected risk costs in a given year (expected loss) or valuation allowances due to the default of customers or counterparties.

### **Stop-loss limit**

This type of limit serves to restrict or prevent losses, such that if the fair value falls below a previously determined level, the trading position in question has to be closed or the asset sold.

### **Stoxx**

The Stoxx "family" of indices is a system of European benchmark, blue chip and sectoral indices. Stoxx Limited itself is a joint venture between Deutsche Börse AG, Dow Jones & Company, SBF-Bourse de France and the Swiss Stock Exchange.

### **Stress testing**

Stress tests are used in an attempt to model the losses produced by extreme market fluctuations, as these cannot as a rule be adequately presented by VaR models. Generally, VaR risk ratios are based on "normal" market fluctuations, rather than on very rare extreme situations which cannot, as a result, be represented statistically, such as the 1987 stock-market crash or the Asian crisis. Stress tests therefore represent a rational complement to VaR analyses, and also one that is required by regulators.

**Subsidiary**

Company controlled by its parent and fully consolidated. If it is of minor significance, it is not included in the consolidation. In this case, the company appears at amortized cost.

**Sustainability**

Sustainability describes business management on a long-term basis which is compatible with acceptable living conditions now and in the future. Its guiding objectives are responsibility for the environment and balanced social relations.

**Swaps**

Swaps are one of the financial innovations; they represent a financing technique in which two parties exchange interest rates or currency positions. Examples here

are the swapping of fixed euro interest rates for floating euro interest rates (interest-rate swap) or amounts in US dollars for euro amounts (currency swap). Depending on whether such transactions affect the assets or the liabilities side of the balance sheet, they are called asset or liability swaps.

**Value-at-risk model (VaR)**

VaR refers to a method of quantifying risk. At present, it is primarily used in connection with market risk. VaR is only informative if the holding period (e.g. 1 day) and the confidence level (e.g. 97.5%) are specified. The VaR figure then indicates the loss ceiling which will not be exceeded within the holding period with a probability corresponding to the confidence level.

**Volatility**

The term volatility is used to characterize the price fluctuation of a security or currency. Frequently, this is calculated from the price history or implicitly from a price-fixing formula in the form of the standard deviation. The greater the volatility, the riskier it is to hold the investment.



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## **business progress 1968–2002\***

	Business volume	Total lending	Customers' deposits	Taxes paid	Allocation to reserves from profit	Equity	Total amount of dividend paid	Staff	Offices
	€ bn	€ bn	€ bn	€ m	€ m	€ m	€ m		
<b>1968</b>	8.5	5.4	6.6	33.2	16.1	346	23.9	14,689	691
<b>1969</b>	9.8	6.5	7.1	41.8	16.3	439	32.0	15,630	743
<b>1970</b>	12.5	8.8	8.0	26.1	5.8	463	30.4	16,952	783
<b>1971</b>	15.9	11.4	9.2	39.2	13.0	541	31.5	17,533	800
<b>1972</b>	18.7	12.6	10.7	45.0	14.6	599	34.8	17,707	805
<b>1973</b>	20.5	13.5	11.1	39.2	9.2	656	40.7	18,187	826
<b>1974</b>	23.0	15.1	11.7	54.8	26.7	735	40.7	17,950	834
<b>1975</b>	29.0	18.2	14.1	97.5	42.5	844	48.8	18,749	855
<b>1976</b>	32.6	21.3	15.0	87.5	57.2	993	55.9	20,275	861
<b>1977</b>	38.6	24.0	17.3	128.0	52.3	1,165	55.9	20,429	870
<b>1978</b>	45.3	29.5	20.0	126.4	50.9	1,212	63.1	20,982	875
<b>1979</b>	52.2	34.8	20.4	97.0	20.5	1,403	64.6	21,656	885
<b>1980</b>	52.4	37.4	20.3	53.6	16.6	1,423	–	21,487	880
<b>1981</b>	53.2	38.6	21.0	52.4	12.9	1,414	–	21,130	878
<b>1982</b>	56.8	41.8	22.6	86.8	43.8	1,416	–	21,393	877
<b>1983</b>	59.1	43.3	23.2	121.3	62.3	1,491	51.7	22,047	884
<b>1984</b>	63.9	46.2	26.5	140.8	77.9	1,607	51.7	22,801	882
<b>1985</b>	71.4	48.3	28.0	164.4	89.5	1,756	72.6	24,154	882
<b>1986</b>	77.1	52.5	30.3	169.0	80.2	2,292	95.5	25,653	881
<b>1987</b>	83.8	55.7	33.5	168.0	89.8	2,379	95.7	26,640	882
<b>1988</b>	93.3	61.7	37.8	192.4	120.2	2,670	104.0	27,320	888
<b>1989</b>	99.1	64.7	43.5	252.4	143.7	3,000	115.3	27,631	897
<b>1990</b>	111.4	74.9	50.5	246.7	112.4	3,257	131.6	27,275	956
<b>1991</b>	117.1	80.7	57.2	276.6	120.1	3,420	132.0	28,226	973
<b>1992</b>	120.4	85.0	61.6	283.4	209.0	3,680	134.0	28,722	998
<b>1993</b>	147.1	92.7	68.2	310.8	143.9	4,230	176.8	28,241	1,006
<b>1994</b>	176.1	112.7	68.8	334.5	306.8	5,386	231.2	28,706	1,027
<b>1995</b>	208.1	133.1	73.2	109.4	204.5	6,297	265.8	29,615	1,060
<b>1996</b>	230.6	158.2	82.8	297.1	332.3	6,909	276.3	29,334	1,045
<b>1997</b>	276.0	185.3	93.3	489.2	295.5	8,765	344.2	30,446	1,044
<b>1998</b>	327.4	207.6	93.6	298.1	511.3	10,060	380.5	32,593	1,052
<b>1999</b>	372.1	223.2	91.0	395.6	500.0	11,141	410.8	34,870	1,064
<b>2000</b>	459.7	239.7	107.7	822.7	800.0	12,523	541.8	39,044	1,080
<b>2001</b>	501.3	239.7	116.4	–114.0	–115.0	11,760	216.7	39,481	981
<b>2002</b>	<b>422.1</b>	<b>171.5</b>	<b>95.7</b>	<b>–103.0</b>	<b>–352.0</b>	<b>8,808</b>	<b>54.2</b>	<b>36,566</b>	<b>904</b>

\* ) as from 1997, according to IAS



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