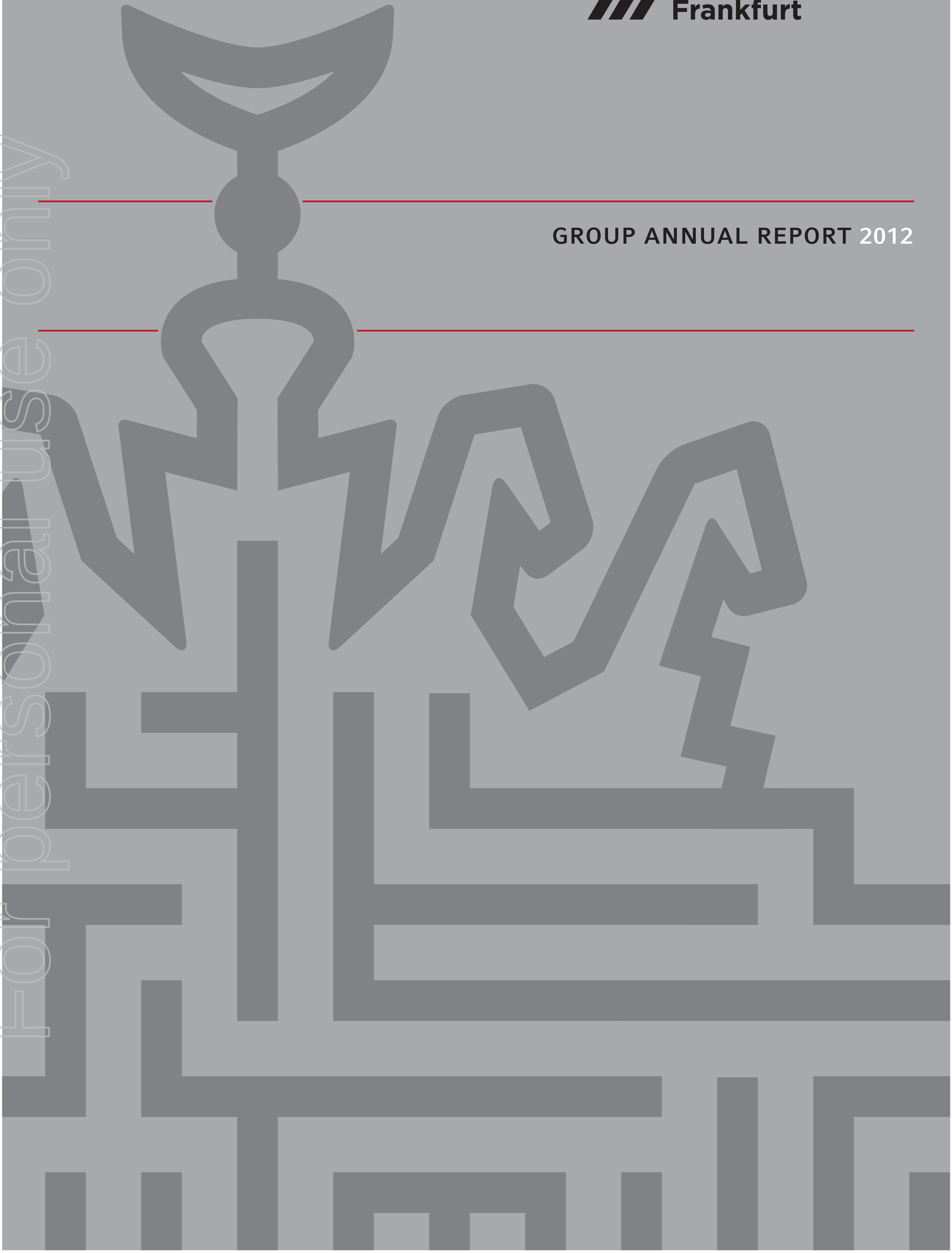
Hypothekenbank Frankfurt

GROUP ANNUAL REPORT 2012



OVERVIEW – HYPOTHEKENBANK FRANKFURT GROUP

	€ million	€ million	Change (%)
Figures from the income statement	**2012**	**2011**	
Net interest income	911	1,021	–10.8
Loan loss provisions	–627	–697	–10.0
Net commission income	92	127	–27.6
Net trading income	–112	244	>–100
Net investment income	–278	–3,712	92.5
Operating expenses	302	360	–16.1
Pre-tax profit/loss	–457	–3,454	86.8
Consolidated result	–573	–3,480	83.5
Balance sheet figures	**2012**	**2011**	
Real estate finance Germany	32,589	40,984	–20.5
Real estate finance International	27,691	34,846	–20.5
Public Finance	81,916	92,974	–11.9
Funding volume	137,257	167,091	–17.9
Subordinated capital	1,835	3,036	–39.6
Equity	3,827	3,844	–0.4
Total assets	173,021	202,981	–14.8
Key ratios (in %)	**2012**	**2011**	**% points**
Return on equity before tax	–8.0	–62.4	54.4
Return on equity after tax	–10.1	–62.9	73.0
Cost-income-ratio	52.9	–15.0	67.9
Capital ratios (in %)	**2012**	**2011**	**% points**
Tier 1 capital ratio according to SolvV	17.0	13.6	3.4
Total capital ratio according to SolvV	19.8	17.4	2.4
Employees	**1,014**	**1,170**	**–13.3**

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Dear Business Friends,

The year 2012 implied many important changes for our company that have set a new course for the future. Commerzbank, the sole owner of Hypothekenbank Frankfurt, decided at the end of June 2012 to completely wind down the portfolios of Hypothekenbank Frankfurt (formerly Eurohypo) over time and in a value-preserving manner. In contrast to what had been originally planned, no part of the Commercial Real Estate portfolio will be continued. This affects all portfolios in the Commercial Real Estate Finance (CRE Banking) and Public Finance areas of our company. One of the reasons for this decision was the EU Commission's resolution to change the requirement of former Eurohypo's disposal which applied to the legal entity and most of the portfolio into a requirement to wind down the company. As part of this plan the brand was to be discontinued. Since 31 August 2012 the bank has been operating under the name of Hypothekenbank Frankfurt AG. The new name does not have any impact on existing agreements with clients or business partners or on banking business operations.

The task of Hypothekenbank Frankfurt is to wind down individual segment portfolios while preserving value and minimising risk, along with optimising the funding associated with these activities. The decision to wind down all portfolios Group-wide represents a new steering concept focussed on a consistent capital management approach across all asset classes. The main purpose of the asset reduction programme is to further relieve regulatory and economic capital, not least in view of the optimal capital allocation within the Commerzbank Group.

The bank's new strategic path will lead to the complete winding down of Hypothekenbank Frankfurt. This means that all jobs in the company will be progressively phased out and locations closed as the portfolio reduction continues. In the second half of the year the Board of Managing Directors and the employee representatives conducted intensive negotiations on the reconciliation of interests and a social plan for Group employees. These negotiations were concluded at the end of January 2013.

PORTFOLIO REDUCTION FASTER THAN PLANNED

The bank has gathered a lot of experience in value-preserving portfolio management. Since 2010 Public Finance has been on a strategic path to wind down its portfolio; all new business had previously been suspended. In 2009 the bank began to withdraw from 22 markets in commercial real estate finance as part of a restructuring project.

In addition, in CRE Banking a suspension of new business was put in place in November 2011 in order to help the Commerzbank Group meet the new capital requirements set by the European Banking Authority (EBA).

We reduced our portfolio faster than planned in 2012. Our original goal to reduce the portfolio volume of CRE on the balance sheet to less than € 60 billion by the end of 2012 was already achieved in the first quarter of 2012. Over the course of the year the segment assets in CRE Banking were reduced by another 22 % to € 52.1 billion. In Public Finance we reduced segment assets during the course of 2012 by € 11.1 billion to € 81.9 billion. As a result of the contribution from Hypothekenbank Frankfurt in particular, the target figure for the Public Finance portfolio defined by the European Commission in 2009, which specified a balance sheet value of less than € 100 billion by the end of 2012 for the entire Commerzbank Group, was already achieved by end-2011.

We have remained true to our basic strategy for portfolio reduction. We decided not to engage in any value-destroying sales; instead, we have been actively taking advantage of market opportunities and maturities that arise. In addition, we have been working with our clients along this difficult path to find solutions for shorter maturities for their loans.

The high level of portfolio reduction and the continued optimisation of the risk-return profile have further relieved some of the pressure on the bank's equity. Risk-weighted assets as at 31 December 2012 were € 40.5 billion, which is € 10.3 billion below the level at the end of 2011. We have also further reduced our risk exposure.

Through active collateral pool management we are working to raise the share of secured funding and to further lower the share of unsecured funding. In 2012 the share of unsecured funding fell by 28 % to € 35.9 billion (€ 49.9 billion).

HIGH LOAN LOSS PROVISIONS BURDEN RESULTS

The success of the winding down programme cannot hide the fact that the pre-tax result of Hypothekenbank Frankfurt Group remained negative at € −457 million. The reasons for the loss are the high level of loan loss provisions on individual large exposures among others in the United Kingdom and Spain. In addition, expenses in net trading income and net investment income, such as sales of public finance bonds as part of the programme of risk-oriented portfolio reductions, also burdened earnings. Another factor was the drop in earnings from net interest income and net commission income due to the portfolio reduction, which necessarily also resulted in lower positive earnings. Compared with the pre-tax result in 2011, which was primarily affected by the write-downs on Greek securities, we were nonetheless able to reduce the loss considerably, as forecasted.

THANKS TO OUR EMPLOYEES

In 2012 we created the necessary conditions for a portfolio reduction in CRE and Public Finance. In fact, we reduced the portfolios more than we had expected. This success would not have been possible without the support of our committed and highly qualified employees. In the name of the entire Board of Managing Directors I would like to express my sincere thanks. Their dedicated work has made a major contribution to the bank's operating stability, which is absolutely essential during these difficult times for the successful implementation of the reduction strategy. We therefore ask our employees to continue with the management and the value-preserving reduction of the portfolios as professionally as they have done in the past. I would also like to thank in the name of the entire Board of Managing Directors all business partners and friends for their understanding of the challenging situation that the company is experiencing.

Sincerely

Thomas Köntgen
Chairman of the Board of Managing Directors

BOARD OF MANAGING DIRECTORS

THOMAS KÖNTGEN

CHAIRMAN OF THE BOARD OF MANAGING DIRECTORS

RESPONSIBLE FOR

- CRE Banking Germany
- Retail Banking
- Business Management
- Staff

DR THOMAS BLEY

CRO

RESPONSIBLE FOR

- Risik Management
- Audit
- Compliance

SASCHA KLAUS

SINCE 1 JULY, 2012

RESPONSIBLE FOR

- CRE Banking International
- Interest Rate and Currency Management

RALF WOITSCHIG

RESPONSIBLE FOR

- Public Finance
- Treasury

DR KATRIN STARK

CFO-COO
FULLY AUTHORISED REPRESENTATIVE
SINCE 1 JULY, 2012[1]

RESPONSIBLE FOR

- Planning and Portfolio Management
- Capital Market Transactions and Communication
- Operations
- Legal
- Finance/Controlling/Tax
- IT

As at 28 February, 2013
[1] Entry as a member of the Board of Managing Directors planned

REPORT OF THE SUPERVISORY BOARD

ULRICH SIEBER

CHAIRMAN OF THE SUPERVISORY BOARD

The business year just concluded implied some far-reaching changes to Hypothekenbank Frankfurt AG (formerly Eurohypo AG). With the decision to fully wind down the bank's portfolios instead of trying to keep part of the Commercial Real Estate portfolio as a core business of Commerzbank as originally planned, the course for Hypothekenbank Frankfurt going forward has been set. After the decision to wind down the public finance business was made in 2010, Hypothekenbank Frankfurt completely abandoned in mid-2012 all new business in commercial real estate financing after a temporary halt to new business in all domestic and international markets. Since then, the focus of activities has been on reducing all assets while preserving value and minimising risks. The goal is to transfer the capital released to Commerzbank units that generate higher return.

In the second half of 2012 the foundation was laid to efficiently wind down all portfolios by implementing a new segment management and structure for Commerzbank's Non Core Assets reduction segment, to which Hypothekenbank Frankfurt has been assigned. The reduction of assets has thus continued apace. We would like to thank our employees for the success we have had so far in making these reductions. Over the past few months they have handled the portfolio reduction very professionally, with a focus on finding solutions and obtaining results. The members of the Supervisory Board have the utmost respect for this task, as most employees have never had to work in such a complex and difficult professional environment. We would therefore like to take this opportunity to thank the entire staff for their dedication and commitment.

MEETINGS OF THE SUPERVISORY BOARD

In the 2012 financial year, the Supervisory Board performed the duties incumbent upon it by law and under the Articles of Association. It advised and monitored the Board of Managing Directors in its management of the bank. The Board of Managing Directors provided the Supervisory Board with regular, comprehensive and up-to-date information regarding economic conditions, the bank's position and progress made in portfolio reduction, key financial indicators, special business transactions and risk management at Hypothekenbank Frankfurt. This information was provided both during meetings and in writing.

Four ordinary meetings of the Supervisory Board were held, at which the Board intensively discussed the business trend of Hypothekenbank Frankfurt, the risk and business strategy, and the various projects in light of the restructuring of Hypothekenbank. The focus was on the ongoing monitoring of the progress made in portfolio reduction in the areas of Commercial Real Estate, Public Finance and Retail Banking as well as the impact of this on the bank. In addition, the Supervisory Board also approved important individual measures, reviewed reports from the Board of Managing Directors, reports from various committees and the results and portfolio planning for 2013.

The Board of Managing Directors also provided detailed reports to the Supervisory Board in regular meetings on the situation and outlook for the Hypothekenbank Frankfurt Group, along with strategic individual steps, key events, and risks and opportunities for the portfolio and earnings going forward. Thus, the Supervisory Board received detailed and up-to-date information at all times during the 2012 financial year. The Board of Managing Directors answered all the questions of the Supervisory Board in full and provided information on the issues fully and promptly whenever asked.

WORK OF THE SUPERVISORY BOARD COMMITTEES

To efficiently carry out its duties the Supervisory Board has created three permanent committees from among its members: the Standing Committee, the Risk Committee and the Audit Committee. The composition of the committees is outlined on page 154 of the annual report. Their duties include preparing the topics and decisions of the Supervisory Board and taking over the authority to make decisions from the Supervisory Board to the extent allowed by law.

The Standing Committee convened three times in the year under review. Its meetings focused on issues pertaining to the Board of Managing Directors, such as appointing members to the Board and compensation for the Board. The Committee members made their decisions at the meetings or by way of a written resolution.

At its four meetings the Risk Committee dealt with the current loan loss provisions for the lending business, existing risks pertaining to interest rates, currencies, market price and liquidity, as well as operational and reputation risks. In addition, the Committee held detailed discussions on developing the methods and instruments for determining risks and the risk strategy. An ongoing topic of discussion was the viability of the reduction plan along with the close examination of specific exposures and sub-portfolios. The committee members took decisions relating to loans and business transactions requiring approval by law, under the Articles of Association or the rules of procedure at the meetings or by way of a written resolution.

The Audit Committee convened five times in the year under review. It nominated PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, to audit Hypothekenbank Frankfurt's annual financial statements and defined the focal points of the audit. The main topics covered in the meetings included the annual and consolidated financial statements as at 31 December 2012, cooperation with the auditor and business performance. Also on the agenda in 2012 were the duties of Internal Audit, compliance issues, and the review of the interim report. Representatives of the auditor provided the Audit Committee with a statement of their independence and were present at all meetings.

In the year under review the Supervisory Board monitored and controlled the financial accounting process through the Audit Committee as part of the internal controlling and risk management system (ICRMS). Further information on the internal control system (ICS) pursuant to section 315 (2) no. 5 of the German Commercial Code can be found on page 39 ff.

COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

The German Corporate Governance Code is primarily aimed at companies which issue listed shares. In view of Hypothekenbank Frankfurt AG's integration into the Commerzbank Group, the Supervisory Board and the Board of Managing Directors no longer require separate recognition of the code, but the principles thereof are part of corporate governance at Hypothekenbank Frankfurt.

REVIEW AND APPROVAL OF THE 2012 ANNUAL FINANCIAL STATEMENTS

The auditors PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, were selected by the Annual General Meeting and appointed by the Supervisory Board. The accounts, annual financial statements as at 31 December 2012 of Hypothekenbank Frankfurt AG, the management report of the company in accordance with the German Commercial Code (Handelsgesetzbuch – HGB), the Group accounts of the bank, the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and the Group management report have been audited and awarded an unqualified opinion by the auditor. The Supervisory Board has approved the audit findings. The annual financial statements, the management report of the company in accordance with the German Commercial Code, the consolidated financial statements in accordance with IFRS, the Group management report and the auditor's report were received by all Supervisory Board members in good time prior to their discussion and approval.

The Audit Committee also discussed these documents at its preparatory meeting, during which the auditors gave a detailed report on the audit findings and audit report for the 2012 business year. At the Supervisory Board's financial results meeting, the Chairman of the Audit Committee informed the Supervisory Board of all the salient points covered in the meeting. The auditors also attended this meeting and presented a report on the main audit findings. The auditors were also willing to answer additional queries. The annual financial statements, the company management report in accordance with the German Commercial Code, the consolidated financial statements in accordance with IFRS, the Group management report and the audit report were discussed and examined in detail by the Supervisory Board.

No objections were raised regarding the results of the audit. The Supervisory Board approved the company's financial statements and the company management report in accordance with the German Commercial Code, the consolidated financial statements in accordance with IFRS and the Group management report. The annual financial statements of the company produced in accordance with the German Commercial Code are thus confirmed.

CHANGES IN THE SUPERVISORY BOARD

On 30 March 2012 Klaus Müller-Gebel, the deputy chairman, resigned from the bank's Supervisory Board. Supervisory Board member Dr Stefan Schmittmann was appointed to replace him as deputy chairman. At the same time, Dr Markus Krebber, a Divisional Board Member at Commerzbank AG, was elected to the bank's Supervisory Board. On 1 July 2012, Ulrich Sieber, a member of the Commerzbank Board of Managing Directors, was appointed to the Supervisory Board of the bank. He took over from Michael Reuther, who stepped down from the Supervisory Board on 30 June 2012. At the Supervisory Board meeting on 5 July 2012, Jochen Klösges resigned as Chairman of the Supervisory Board. At the same time, Ulrich Sieber was elected to the Supervisory Board. With effect from 9 August 2012 Jochen Klösges and Dr Markus Krebber stepped down as members of the Supervisory Board. In an extraordinary general meeting, Stephan Engels, a member of the Board of Managing Directors of Commerzbank AG, and Michael Bonacker, Divisional Board Member of Commerzbank AG, were elected as their successors with effect from 10 August 2012.

The Supervisory Board would like to thank the former chairman and the members who are leaving for the dedication they have shown the Group partially over the years.

CHANGES IN THE BOARD OF MANAGING DIRECTORS

The Supervisory Board of Hypothekenbank Frankfurt appointed Sascha Klaus, Divisional Board Member of Commerzbank AG, to the Board of Managing Directors of Hypothekenbank Frankfurt with effect from 1 July 2012 and Dr Katrin Stark, also Divisional Board Member of Commerzbank AG, as a fully authorised representative of Hypothekenbank Frankfurt.

There were no other changes in the composition of the Supervisory Board and the Board of Managing Directors of Hypothekenbank Frankfurt in the 2012 financial year.

Eschborn, 21 March 2013
The Supervisory Board

Ulrich Sieber
Chairman

INVESTOR RELATIONS

The employees in Capital Market Communication act as the interface between the bank's individual departments, the executive management of Hypothekenbank Frankfurt, the parent company Commerzbank Group and the various capital market participants.

In the second half of the year the dialogue with investors, analysts and rating agencies was primarily driven by the decision to wind down the Hypothekenbank Frankfurt portfolios in a way that preserves value and minimises risk. In individual discussions we explained, for example, the bank's key figures and portfolio strategies. At international conferences we act as a contact point for professionals in the industry. As part of our active portfolio management approach, another one of our tasks is to maintain Hypothekenbank Frankfurt's access to and presence on the capital markets.

ABOUT € 63 BILLION PFANDBRIEFE OUTSTANDING

The Commercial Real Estate and Public Finance business is funded primarily through Pfandbriefe. With an outstanding Pfandbrief volume of €63.4 billion (€77.9 billion), Hypothekenbank Frankfurt was a major issuer on the Pfandbrief market as at 31 December 2012. In the segment with large-volume bonds, so-called Euro Benchmark Covered Bonds, Hypothekenbank Frankfurt was one of the 10 largest international issuers as at the end of 2012, with an outstanding volume of €24.6 billion (€31.2 billion). Hypothekenbank Frankfurt's international market share was about 2%, but in Germany it has a market share of 17%, making it the country's largest issuer of Jumbo Pfandbriefe.

The option of using unsecured funding sources within the Commerzbank Group, along with the European Commission's requirement to wind down Hypothekenbank Frankfurt and the associated changes to the business, meant that there was very little need for capital market funding in 2012. Consequently, the issue volume for Pfandbriefe and senior unsecured funding on the capital market was less than €100 million.

The bank obtained senior unsecured funding in the amount of €2.4 billion, almost exclusively through funding that was provided by the Commerzbank Group.

RATINGS OF HYPOTHEKENBANK FRANKFURT

The rating of the parent company remains a key factor that substantially affects the issuer credit rating. The Commerzbank Group, the sole shareholder in Hypothekenbank Frankfurt AG, supported Hypothekenbank Frankfurt AG's ratings by providing a Letter of Comfort as well as a control and profit transfer agreement for our company.

The rating agencies update and modify their approaches and methods regularly. Hypothekenbank Frankfurt has also adapted to the new conditions. The bank already began to be more selective in its appointment of rating agencies back in 2011. We review the individual ratings of the leading rating agencies continuously. Our decisions take into account the needs of investors, the differences in rating methodologies, the reputation of the agencies, the direct and indirect costs as well as data preparation expenses. Hypothekenbank Frankfurt has implemented a strategy of reducing its portfolio while preserving value. Funding continues to play an important role in this. Also in light of the EU Commission's requirement to wind down the business (see page 24), we have adjusted our methodology for selecting rating agencies, with a special emphasis on the cost-benefit ratio. As a result, in December 2012 our rating agreement with Standard & Poor's was discontinued and the long- and short-term counterparty credit ratings and senior unsecured debt ratings of Hypothekenbank Frankfurt were withdrawn, including the Luxembourg-based subsidiary and the Lettres de Gage Publiques ratings of Hypothekenbank Frankfurt International.

Going forward the bank will concentrate on the rating agencies Moody's Investors Service (Moody's) and Fitch Ratings (Fitch). We are in contact with our rating analysts, who receive appropriate information on our strategy to reduce assets while preserving value, along with our key financial figures, asset quality, our cover pool and funding.

MOODY'S INVESTORS SERVICE

Moody's rates Hypothekenbank Frankfurt and its outstanding issues, including Mortgage and Public Sector Pfandbriefe.

At the end of 2012 the long-term debt rating (issuer rating) of Hypothekenbank Frankfurt was "Baa2, Outlook Negative". The short-term debt rating is "P–2".

The bank's Public Sector Pfandbriefe are rated "Aa1" with the note that "the OC required to achieve Aa1 is currently 10 %". The Mortgage Pfandbriefe are rated "Aa2" (Stable). Hypothekenbank Frankfurt has not made any contractual overcollateralisation commitments.

FITCH RATINGS

Fitch analyses Hypothekenbank Frankfurt as well as its subsidiary, Hypothekenbank Frankfurt International S.A., including its Lettres de Gage Publiques.

The long-term issuer default rating (issuer rating) of our bank has been “A–” since 2011. The short-term issuer default rating has also remained unchanged at “F–1” and the support rating at “1”.

The Lettres de Gage Publiques of Hypothekenbank Frankfurt International in Luxembourg were lowered by Fitch Ratings from “AAA” (Rating Watch Negative) in the meantime to “A” (Stable).

RATINGS

	Moody’s	Fitch
Hypothekenbank Frankfurt AG		
Public Sector Pfandbriefe	Aa1**	–
Mortgage Pfandbriefe	Aa2	–
Long-term debt/counterparty rating	Baa2*	A–
Short-term debt/counterparty rating (Commercial Paper)	P–2*	F1
Subordinated bonds/debts	B3*	B+
Financial strength	E*	–
Support rating	–	1
Outlook	*Negative **Minimum OC of 10 % required	Stable
Hypothekenbank Frankfurt International S.A., Luxembourg		
Lettres de Gage Publiques	–	A
Long-term debt/counterparty rating	–	A–
Short-term debt/counterparty rating	–	F1
Support rating	–	1
Outlook	–	Stable

As at 28 February 2013

DEMAND-BASED INFORMATION ONLINE

The guidelines for our Capital Market Communication department include the principles of true and fair disclosure as well as access to information for all stakeholders, along with transparency and up-to-date information. As a result, we have upgraded and optimised our website as part of the bank's new strategy. At www.hypothekenbankfrankfurt.com under "Investor Relations" we publish prospectuses on our issues, annual and interim reports, rating information, presentations and cover pool data (transparency requirements). In addition, there is information on structured products and other services of our company. As a supplement to the print versions of financial reports, starting with the 2011 annual report, online documents with additional navigable features are also available to Internet users.

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OVERALL ECONOMIC PERFORMANCE

OVERALL ECONOMIC DEVELOPMENTS

The European sovereign debt crisis continued to be the dominant and as yet unresolved issue in 2012. The consolidation efforts in the southern European countries affected were thwarted by the persistent recession and high unemployment rate. Additional support measures are therefore expected in 2013. However, in the autumn of 2012 the European Central Bank (ECB) helped calm the markets when it announced that it would buy an unlimited amount of government bonds. This move helped lower the danger that the single currency union would break apart, while bringing down yields on government bonds in southern European countries. At the same time, Europe's political leaders took action to signal that an exit from the eurozone by a country is currently not an option.

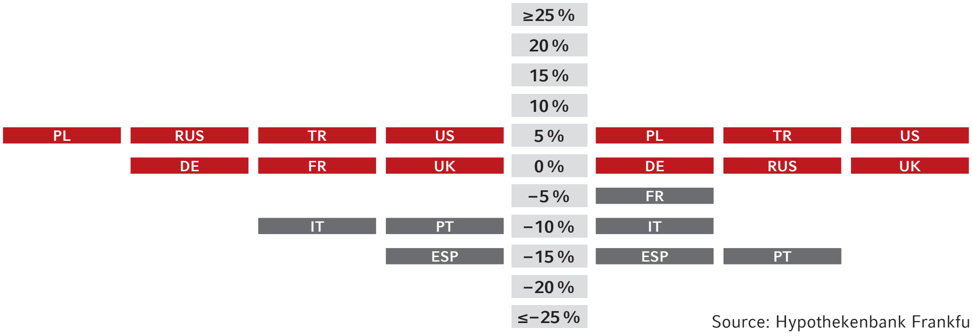
These measures should help reduce the uncertainty on the markets, which has been weighing on the economy of the eurozone's core countries as well. Although the German economy started the year 2012 strongly, it became progressively more difficult to escape the downward trend. By the fourth quarter the German economy had even contracted slightly. As a result, the positive trend on the labour market has stalled, at least temporarily. There was a slowdown in the pace of growth outside Europe as well. The fiscal cliff in the United States, a combination of tax increases and spending cuts that were set to begin automatically in 2013, weighed on the US economy. But now that the US government has managed to defuse the fiscal cliff issue, its economy should not face any major headwinds going forward. The high costs of capital and funding kept the financial markets under pressure in 2012, at least in Europe's peripheral countries. In addition to the uncertainty stemming from the sovereign debt crisis, there were questions and risks regarding the tightened regulatory requirements, such as the upcoming introduction of Basel III, the impact of which was felt on the real estate markets as well. Banks were cautious with long-term real estate financing in particular and raised their conditions for these loans. Interest rates fell once again in 2012 and are now at record lows. These low rates had a positive impact on capital procurement costs and increased demand for real estate investments. But the low interest rates posed a serious challenge for the banking sector and the insurance industry, as the low rates reduced the earnings outlook and lowered returns on the investment side.

COMMERCIAL REAL ESTATE

Against the backdrop of the European sovereign debt crisis and the recession that has spread throughout the eurozone, activity on the CRE markets was primarily cautious, with a slowing trend. Europe's letting markets were marked by weak demand and therefore could not give any positive momentum to the real estate investment markets, which struggled with difficult financing conditions and an uncertain outlook for returns. However, in light of the very low interest rate level, real estate represented a very attractive alternative to other investments that are still considered safe. As a consequence investor interest was increasingly polarised between Core and Non Core properties and between liquid and illiquid markets. In Europe, the main investment centres with the best market opportunities

CRE MARKET VALUE CHANGES WEIGHTED ACROSS ALL SEGMENTS Q4 2012

12-MONTHS REVIEW | 12-MONTHS OUTLOOK



Source: Hypothekenbank Frankfurt RAC Research

continued to be Germany as well as the Paris and London areas. Real estate values tended to remain at least stable in these locations. In the southern European markets, however, prices continued to drop due to falling rents, rising vacancies and higher yields. These areas remain a strong buyer's market. The US property market is in better shape. The improvement in economic growth and a gradual easing of the problems on the financial market had a positive impact on the CRE market dynamic and CRE market values.

PUBLIC FINANCE

The public finance business continued to face special challenges in 2012. A number of events combined to depress confidence in a fundamental and sustainable improvement in the sovereign debt crisis. For example, the tough measures for the restructuring of Greek debt were restricted to private creditors, while the implementation of structural reforms in some countries were slow to move ahead. At the end of 2011 and in early 2012, the European Central Bank countered speculation about a break-up of the eurozone by providing large amounts of funding to help support the banking sector. In addition, the central bank held open the option of making unlimited purchases of government bonds. However, these measures have done nothing more than buy time for a political solution to the crisis. The solutions include, in addition to the necessary structural reforms, the establishment of a banking union and the European Stability Mechanism (ESM), which came into effect on 27 September 2012 as a successor to the European Financial Stability Facility (EFSF).

But the situation remained challenging, as seen in ongoing sovereign rating downgrades and the worsening economic outlook for the eurozone. Moreover, the situations in the United States and Japan have not yet returned to normal either, exacerbating the volatility on the money and capital markets.

CAPITAL MARKETS

The promise made by the ECB in summer 2012 to make unlimited purchases of government bonds from countries that request help from the European stabilisation package changed the dynamic on the bond markets. The increase in risk appetite helped push down yields on 10-year Italian government bonds from 6.5 % to 4.5 %; two-year Italian bonds fell even more to below 2 %.

The danger of further setbacks remains, however. It is still unclear, for example, if the combination of the bond purchasing programme and the ESM will have the desired effect. Moreover, the ECB's bond purchases have relieved some of the pressure on Europe's peripheral countries to reform.

At the same time, the ECB's zero interest rate policy has supported the yield curve of the core countries. The ongoing weakness in the eurozone's economy is also standing in the way of bond yields moving sharply higher. The central bank's support helped reduce the risk premiums for government bonds and quasi-sovereign organisations.

On the covered bond market German Pfandbrief banks are benefiting from the continued excess demand. This situation has been supported not only by the low volume of new issues, but also by the search on the part of investors for higher interest rates than those offered by governments. As a result, both the yields and the spreads of Pfandbriefe with strong cerdit quality have reached record lows to the swap curves. In contrast, the rating trend also pointed lower for the Pfandbrief market, and investor interest focused on a narrow selection of issuers due to the restructuring underway at various banks.

Activities on the syndication market were also affected in 2012 by investors looking to reduce their balance sheets and by other investors going through a phase of strategic growth. These interdependencies were not a sustainable basis for taking on major underwritings, meaning that the activity on the syndication markets continued to feature club deals and arrangements.

On the securitisation market, the business with commercial mortgage backed securities (CMBS) started to pick up following several years of very restricted activity.

BUSINESS DEVELOPMENT

Hypothekenbank Frankfurt AG (formerly Eurohypo AG), a wholly owned subsidiary of Commerzbank Group, manages a portfolio for commercial real estate financing and public finance both in Germany and internationally. In addition, the bank manages a credit portfolio in retail banking. The operation and servicing of this credit portfolio was already transferred to Commerzbank in 2007.

KEY EVENTS FOR CORPORATE POLICIES IN THE 2012 FINANCIAL YEAR

The Commerzbank Group decided in June 2012 to completely wind down both Public Finance (PF) and Commercial Real Estate (CRE) over time. The core of the Hypothekenbank Frankfurt Group's business strategy is the systematic reduction of the portfolios while preserving value and minimising risk, as well as optimising the funding associated with these activities. The objective is to allocate the capital released by the portfolio reduction to business units with higher return and lower risk within the parent company.

The main reasons for the complete portfolio reduction are the high levels of capital commitment within the Group and the increasing liquidity requirements under Basel III – particularly for long-term financing – as well as the cyclical fluctuations in income expected in the future. In addition, the macroeconomic outlook continues to be plagued by uncertainty and risk, which in turn is having a direct impact on the financial markets and banks.

The new strategic direction also allows Commerzbank to meet a requirement set by the EU Commission in March 2012, when the Commission announced that it had changed the decision to sell Eurohypo that it had defined in 2009 into a decision to wind down the company. The agreement with the EU also contained the provision that the Eurohypo brand would have to be discontinued. Accordingly, since 31 August 2012 the bank has been operating under the name of Hypothekenbank Frankfurt AG. The new name refers to a predecessor company of Eurohypo and is also used for two subsidiaries of the bank. The former Eurohypo Europäische Hypothekenbank S.A., headquartered in Luxembourg, is now Hypothekenbank Frankfurt International S.A., and EH Estate Management GmbH is now HF Estate Management GmbH. The renaming did not have any impact on existing agreements with clients or business partners or on banking business operations.

IMPACT ON EMPLOYEES AND LOCATIONS

The group-wide reduction of all portfolios will result over time in a complete winding down of Hypothekenbank Frankfurt, which also means that all jobs will gradually be lost. The headcount reduction will impact all locations and the head office equally. In the second half of the year the Board of Managing Directors and the employee representatives conducted intensive negotiations on the reconciliation of interests and social plan for Group employees. These negotiations were concluded at the end of January 2013 (see page 45).

The reconciliation of interests that was negotiated gives the bank the flexibility it needs to adapt the organisation and its personnel to the operational requirements and the impact of the portfolio reduction. This is an important component for the stability of our work processes.

By the end of 2013 the location in Cologne as well as some departments in Berlin and Hamburg are to be closed. The Leipzig office is to be closed at the end of 2015.

As for the international markets, in 2009 Hypothekenbank Frankfurt started withdrawing from those markets that were unprofitable for it. In 2012 the bank closed its representative office in Bucharest and transferred its subsidiary Eurohypo (Japan) Corporation to Commerzbank. This company is now called Commerz Japan Real Estate Finance Corporation. The Mexico location is to be closed this year. Other locations will be closed going forward as the portfolio reduction progresses and the headcount is adjusted.

SEGMENTS RESTRUCTURED

The changes to the business strategy in 2012 led to a restructuring of the portfolios, which is now reflected in the current segment structure. The portfolios will be combined in the segments CRE Banking Germany, CRE Banking International, Retail Banking Core and Public Finance/Treasury (see Management Report, pages 30 ff. and Notes, pages 106 ff.). Along with the new segment structure there has also been a change in responsibilities in management (see page 10). An integrated controlling system supports targeted control and management of the business units.

STRATEGIC CORPORATE INVESTMENTS AND SHAREHOLDINGS

At the end of 2012 the list of strategic corporate investments comprised Hypothekenbank Frankfurt International S.A., Luxembourg, HF Estate Management GmbH, Eschborn (including its subsidiaries) and Kenstone GmbH, Eschborn. In accordance with their significance to the Group, they are directly assigned to the appropriate business areas for organisational and reporting purposes. All of the bank's other corporate investments are managed by Group Development & Strategy at Commerzbank, which is responsible for monitoring compliance with regulatory requirements and optimising the corporate investment portfolio. In 2012 the bank fully divested itself of its investment in Servicing Advisors Deutschland GmbH, Frankfurt am Main, which in 2011 was still included among the strategic corporate investments (see page 79).

ADVISORY BOARDS AND FOUNDATION TO BE DISCONTINUED

In light of the Group-wide reduction, the Board of Managing Directors of Hypothekenbank Frankfurt decided in the summer of 2012 that it no longer needed the support of the German and international Advisory Board. As part of the bank's strategic realignment, the charitable Eurohypo Foundation was also discontinued effective 31 December 2012. It had been in existence since 2003. The foundation's assets were transferred to the Commerzbank Foundation and is to be used solely for the purposes for which they were used at the Eurohypo Foundation.

PORTFOLIO STRATEGY

The task of Hypothekenbank Frankfurt is to wind down individual segment portfolios while preserving value and minimising risk, along with optimising the funding associated with these activities. The objective is to allocate the capital released by the portfolio reduction to business units with higher return and lower risk within the parent company, thereby opening up new growth prospects for Commerzbank.

REDUCTION STRATEGY TO BE CONTINUED

The focus in 2012 was on reducing the portfolio while preserving value and also reducing risk, as well as implementing a new segment management and structure. Exposure at default (EaD) including non-performing loans (NPL) of the bank fell by 18 % compared to the previous year to € 135 billion. It fell by € 15 billion in the second half of the year alone due to the forced portfolio reduction.

Most of the bank's EaD including NPL of € 73 billion is in the area of PF, while € 54 billion is in CRE Banking and € 8 billion is in Retail Banking Core. Although risk-weighted assets (RWA) have not fallen to the same extent as EaD due to rating changes and adjustments to parameters, they have declined to € 36 billion (€ 44 billion).

NEW STEERING APPROACH IN PLACE

As part of the capital management and risk reduction process, management has introduced a consistent capital management approach for all investment classes. The key figure guiding management is the net capital effect of the portfolio reduction. Exposure at default (EaD) serves as the key benchmark for reducing the size of the portfolio. Exposure at default as the performance indicator also includes NPL. For additional information on EaD and the default portfolio, see page 51.

The Group control system used in the company has the objective of reducing the entire assets of CRE and PF while also preserving their value. The reduction will be carried forward as quickly as possible, under the condition that risks and losses are to be kept to a minimum.

Active portfolio management means that the portfolio reduction will be supported by long-term planning, ongoing controls and non-organic measures. We are placing great emphasis on cooperating with our clients and business partners for solutions.

Management will also be influenced by market action and valuation trends, as well as measures for hedging risks, stabilising the cover pool and streamlining processes.

Considering its integration into the Non Core Assets (NCA) segment within Commerzbank Group, which includes additional reduction units, Hypothekenbank Frankfurt has an efficient process and management information system at its disposal. As part of the planning process, a plan for reducing portfolios at the individual asset level has been created and implemented. Management has good access to investors and capital markets along with an efficient set of tools for reducing portfolios, such as active restructuring and the use of market opportunities as they arise. One example was the sale of a US portfolio in the first half of 2012 comprised of 11 loans amounting to about USD 520 million.

The efficient processes for recognising risks early on coupled with sales of selected non-performing loans expand the possibilities for reducing portfolios while preserving value. We are aiming for a better risk profile on an individual asset basis by increasing collateral and margins. Prolongations and pricing mechanisms were focused on preserving value in portfolio reductions, meaning that with prolongations higher margins and shorter maturities were negotiated.

The focus of the asset reduction programme is to further release regulatory and economic capital, not least in view of the optimal capital allocation within the Commerzbank Group.

Risk management has been established as a management instrument for the entire bank at all organisational and procedural levels. The risks applicable to the bank and their effective management are outlined in the risk report on page 48 ff. The performance of the individual segments in terms of the internal management system is detailed in the Notes to the consolidated financial statements on page 106 ff.

The key features of the accounting-related internal control and risk management system are outlined on page 39 ff.

Hypothekenbank Frankfurt has highly qualified employees who are efficiently and effectively implementing the portfolio reduction process. The operating stability of the bank is guaranteed, so that we were able to minimise operational risks in 2012 (see risk report, page 60).

OPTIMISATION OF FUNDING STRUCTURE

The optimisation of the funding structure in the Hypothekenbank Frankfurt Group is an important part of the reduction strategy. The secured financing of the bank's assets is done in particular through Mortgage and Public Sector Pfandbriefe as well as via Lettres de Gage Publiques (secured bonds under Luxembourg law). In addition, repo transactions are used to fund the portfolio. With an outstanding volume of €72.3 billion (€87.9 billion) as at 31 December 2012, Hypothekenbank Frankfurt AG has, together with its subsidiary Hypothekenbank Frankfurt International S.A., a significant share of the covered bond market with Pfandbriefe and Lettres de Gage Publiques.

Hypothekenbank Frankfurt is also a wholly owned subsidiary of the Commerzbank Group and is included in its funding structure. It also receives commensurate funding from its parent company in order to cover its unsecured funding (for further information, see page 16). As the European sovereign debt crisis is still having a major impact on the financial and capital markets, conditions for unsecured funding continue to be difficult.

Through active collateral pool management we are working to raise the share of secured funding and to lower additionally the share of unsecured funding. In 2012 the share of unsecured funding already fell by 28 % to €35.9 billion (€49.9 billion).

CRE SEES SUCCESS IN PORTFOLIO REDUCTION

The CRE portfolio of the bank is essentially comprised of portfolio and development financing for offices, retail, logistics and residential real estate projects and business hotels, and associated derivatives for hedging interest rate and currency risks on behalf of clients. After the segment structure was restructured in the second half of 2012 (see page 25), the Retail Banking Non-Core portfolio is now also part of the CRE portfolio (CRE Banking Germany).

There was a complete suspension of new business starting in June 2012. This was a continuation of the temporary suspension to new business that was decided in November 2011, thereby making it possible for Hypothekenbank Frankfurt to make its contribution to meeting the additional capital requirements of the European Banking Authority (EBA). The bank has also been restrictive in prolonging loans. In 2012 the prolongation rate for domestic loans was 49 % (52 %), and for international loans it was 59 % (52 %). In addition, the prolongation margins were improved, especially in continental Europe.

Hypothekenbank Frankfurt continued to reduce its portfolio at a rapid pace in 2012 while preserving value and capital. The total exposure (EaD including NPL) of CRE fell over the course of the year by € 12 billion to € 54 billion. The portfolio reduction was achieved through restrictive prolongation management and the proactive support of our clients for funding.

The accelerated reduction was due primarily to the suspension of new business, restrictive prolongation management and the maturing of loans. In addition, the bank's management actively exploited market opportunities for portfolio sales with the goal of preserving the bank's earnings as much as possible.

In Germany the portfolio was reduced almost without any losses due to the economic development. But in some international markets the reduction continued to be challenged by difficult macroeconomic conditions.

To continue optimising the value of its loan portfolio, the bank concentrated on reducing those sections of the portfolio that were not eligible for the cover pool and did not meet the strict cover pool criteria.

Although new business has been suspended since June 2012, in line with the bank's strategy, Hypothekenbank Frankfurt has been largely successful with its measures to exit the existing portfolio business. In 2012 the bank placed a total of € 0.5 billion (€ 2.1 billion), mostly in the form of arrangements and syndications as well as through the active management of existing transactions. Secondary syndications and structured funding will also make their contributions to reducing portfolios.

In the securitisation market, Hypothekenbank Frankfurt focused on managing existing transactions and on various restructuring programmes in the name of CMBS bearers. Now that new business has been suspended, CMBS issues through Hypothekenbank Frankfurt are not expected going forward.

PUBLIC FINANCE SEES ANOTHER SHARP REDUCTION IN ITS PORTFOLIO

The Public Finance business includes the financing of governments, federal states, municipalities and other public bodies as well as supranational institutions. It is comprised of the Public Finance portfolio of Hypothekenbank Frankfurt, including its subsidiary Hypothekenbank Frankfurt International in Luxembourg.

Since 2010 Public Finance has been on a strategic plan to reduce its portfolio; all new business had previously been suspended. There are some exceptions for very negligible amounts due to contractual commitments or cover pool management. Management has continued with this reduction strategy and has sharply reduced the portfolio, in particular through asset sales. In connection with a high level of maturities, EaD including NPL fell in 2012 by an additional € 14 billion to € 73 billion.

The portfolio reduction activities, which are risk-oriented and sometimes involve purposely taking a loss, have been scaled back considerably over the prior-year level in light of the requirements of the European Banking Authority (EBA) to strengthen the capital equity. In addition to portfolio optimisation, the focus of our activities in the first half of 2012 was primarily on reducing RWA due to the requirements the EBA had imposed on Commerzbank. In addition, the portfolio was reduced in a targeted manner for some borrowers. The reduction was also actively supported through the redemption of liabilities; as a result, we exceeded by a wide margin our reduction targets for 2012.

Most of the exposure (EaD including NPL) of € 46 billion is to national governments, federal states, regions, cities and local authorities, while the remainder of the portfolio is to financial institutions (FI) at € 27 billion. The majority of the FI portfolio comprises securities and loans, a large proportion of which have grandfathering clauses and maintenance and guarantee obligations or other declarations of liability from the public sector or were issued in the form of covered bonds. Greek bond holdings were completely sold in 2012 following Greece's bond conversion undertaken as part of the private sector involvement deal (PSI). For more information, see page 97.

BUSINESS DEVELOPMENT IN THE SEGMENTS

CRE BANKING GERMANY

The CRE Banking Germany segment includes the former segments CRE Banking Germany Core and CRE Banking Germany Non-Core. It also includes the non-core assets of the former Retail Banking segment, which at the end of 2012 had total assets of €3.9 billion.

In 2012 we were able to reduce considerably segment assets by 22 % to €24.4 billion (€31.3 billion). This was due primarily to suspending new business, exploiting maturities and scheduled redemptions, as well as because of exceptional redemptions. In addition, active efforts to scale back the portfolio – an action that was driven by the positive development on the German real estate market – contributed to the considerable reduction of the portfolio. Average RWA also fell significantly as a result of the portfolio optimisation measures, down to €12.6 billion (€17.6 billion).

As a result of the contraction in lending, net interest income came in as expected at €351 million, about one fifth below the prior-year level (€438 million). Positive impulses are due to the delayed effects of concluded transactions and exit fees. The trend for loan loss provisions was encouraging, as it fell significantly by 69 % in 2012 to €118 million (€381 million). The sharp decline reflects the higher quality of the portfolio due to the write-downs that have been made; it also reflects the considerably fewer new defaults, while the high figure for the previous year is primarily due to a handful of large individual exposures. At €23 million, net commission income came in at last year's level (€23 million). Losses in net trading income declined considerably in 2012, from €–5 million to €–1 million, due to the closing out of some trading positions. Net investment income was €–1 million, the same level as in the previous year (€–1 million). The bank did not generate any net income from investment properties (€2 million). Against the backdrop of lower personnel expenses and a reduction in the use of services from within the Commerzbank Group, operating expenses continued to fall, declining by one fifth to €104 million (€130 million).

Despite a write-down on goodwill of €58 million and restructuring expenses of €14 million due to the EU Commission's requirement to wind down Hypothekenbank Frankfurt AG, the pre-tax result improved considerably to €78 million (€–55 million). The main reasons for this are the positive trend for loan loss provisions and the much lower operating expenses. As a result, the return on equity before taxes (RoE) was positive at 6.8 % (–3.5 %), while the cost income ratio (CIR) was 28.0 % (28.4 %), slightly below the prior-year level.

OUTLOOK

For 2013 and the following year, we expect that net interest income and net commission income in the CRE Banking Germany segment will decline faster than operating expenses due to the contraction in loan volumes. In addition, there could be some burdens for possible exit measures. As a consequence, the result for the current and following year is likely to be negative.

CRE BANKING INTERNATIONAL

In the CRE Banking International segment, the former segments CRE Banking International Strategic Markets and CRE Banking International Global Restructuring have been combined. They include all the existing loan portfolios of Hypothekenbank Frankfurt in the international markets.

In 2012 we were able to reduce the total assets of this segment by a considerable 22 % to € 27.7 billion (€ 35.3 billion). The primary reasons for the accelerated decline were the suspension of new business, the use of maturities, scheduled redemptions and successful restructurings. Additional factors that contributed to the scaling back of the portfolio were loan disposals, such as in the United States, Israel and Mexico, as well as numerous unscheduled repayments. Average RWA also fell significantly as a result of the portfolio optimisation measures, from € 28.2 billion to € 22.8 billion.

Net interest income fell by 14 % to € 487 million (€ 566 million) due to portfolio reductions and charges on loan disposals. The good trend for margins on prolongations had a positive impact on results. Loan loss provisions, which were affected by the release of provisions in the United States in 2011 and other events, increased by 43 % to € 501 million (€ 349 million), despite the improved portfolio quality in most European countries. The reason for this is the greater need for loan loss provisions on individual large exposures, especially in the United Kingdom and Spain. In addition, results were impacted in the first half of the year by the successful sale of parts of the US portfolio, which impacted loan loss provisions and net interest income. However, the positive effects of this sale outweighed the negative ones, leading to a further reduction in RWA and an easing of the burden on equity. Net commission income declined as expected from € 98 million to € 60 million due to the suspension of new business and lower income from interest and currency management. Due to negative currency effects on interest rate hedging derivatives with customers from continental Europe and the United Kingdom, the loss in net trading income rose to € −88 million (€ −44 million). In contrast, the prior-year result benefited from the proceeds from the sale of CMBS loans in the United States. Net investment income was € −30 million in 2012, compared with € −134 million in 2011. As in previous years, this position was influenced by an impairment on an investment that the bank acquired as part of a restructuring via a debt-to-equity swap. The sale of our Japanese subsidiary had a positive impact on earnings of € 12 million in 2012. Current income from companies accounted for using the equity method improved to € 1 million (€ −8 million), which included valuation effects from participations in real estate companies acquired as part of restructuring measures. Net income on investment properties at the end of 2012 was € −19 million (€ 0 million). We were able to achieve a considerable reduction in operating expenses of 18 % to € 106 million (€ 129 million) because of targeted cost-cutting measures, lower cost allocations and a decline in personnel expenses.

CRE Banking International had a pre-tax result of €−203 million (€3 million) due to the decline in income and the high loan loss provisions in connection with losses in net trading income. Also weighing on the pre-tax result was a one-time restructuring charge of €8 million. As a result, RoE deteriorated to −9.9 % (0.1 %); CIR posted a modest improvement to 25.8 % (26.9 %).

OUTLOOK

For the year overall, we expect that burdens in loan loss provisions, net trading income and net investment income will have a negative effect on results. This downtrend for results looks set to continue in 2014 as well. We therefore expect the CRE Banking International segment to record a negative pre-tax result both this year and next year.

PUBLIC FINANCE / TREASURY

In the Hypothekenbank Frankfurt Group, the Public Finance and Treasury activities of Hypothekenbank Frankfurt AG, including those of its subsidiary Hypothekenbank Frankfurt International S.A. in Luxembourg, are combined in the Public Finance/Treasury segment.

In accordance with the portfolio reduction strategy set for the segment in 2010, Hypothekenbank Frankfurt continued to reduce the balance sheet in the Public Finance/Treasury segment and reduced the segment's assets year-on-year by 10 % to €96.2 billion (€107.1 billion). Alongside regular expiries, the segment assets were rapidly reduced through sales of securities and promissory notes. The average RWA was €10.3 billion (€10.8 billion), slightly below the prior-year level. Due to the minor impact on RWA of the decline in Public Finance assets, the portfolio reduction is not reflected proportionately in the reduction of RWA, especially since there have been opposing effects coming from rating downgrades.

Net interest income at the end of 2012 was €−85 million, compared with €−120 million for the previous year. As in previous years, high liquidity costs in unsecured funding led to a negative Treasury result. On the other hand, the repurchase of registered and bearer shares in the amount of €79 million and sales of promissory notes in the amount of €46 million made a positive contribution to net interest income. In loan loss provisions, general loan loss provisions on promissory notes were the main reason for charges of €7 million (€+29 million) in the Public Finance area. The previous year featured a positive one-off effect due to the sale of a claim. Net commission income was €−3 million (€−4 million). The segment's net income on hedge accounting, which includes the results of valuations arising from the application of IAS 39, improved significantly as at the end of 2012 to €19 million (€−31 million). Net trading income for the segment recorded a charge of €−23 million (€+293 million) in 2012, primarily because of the negative valuation effects of free derivatives. The volatility in net trading income was caused primarily by the interest rate and base effects in free derivatives. A contribution to net trading income in the amount of €−8 million came from the sale of new Greek government bonds, which were recognised in the fair value option category. There was a sharp drop in the charge recorded in net investment income to €–247 million (€–3,577 million). Compared with the figure recorded in the previous year, in which net investment income was heavily affected by write-downs on Greek government bonds, the negative results in 2012 were primarily due to losses of –€125 million on sales from the reduction of risk positions and €–65 million from the impact of the conversion of Greek bonds following the second Greek aid package. We lowered operating expenses by 10 % to €52 million (€58 million), primarily due to a drop in other operating expenses.

Overall, the expenses recorded in net interest income and net investment income led to a negative pre-tax result of €–395 million (€–3,471 million). In 2012 the provisioned exposure to Greece from the previous year resulting from the Greek aid package was fully sold. Additional losses were realised on this sale. As a result, the RoE of the Public Finance/Treasury segment was –42.5 % (–358.2 %). The reduction in operating expenses along with a reduction in losses resulted in a CIR of –15.8 % (–1.7 %).

OUTLOOK

Comparatively high, though falling, liquidity costs will continue to weigh on the development of results in this segment in the current and following year. If market opportunities arise to support the risk-oriented reduction of the portfolio, we will exploit these opportunities with targeted sales of securities. During the years 2013 and 2014 we expect the contribution to results to be negative.

RETAIL BANKING CORE

As part of our restructuring, the former Retail Banking segment has been divided into a non-core and core portfolio. While the non-core portfolio has been assigned to the CRE Banking Germany segment, the core portfolio, comprising the Retail Banking Core segment, is a separate segment. As the processing and servicing of the portfolios was transferred to Commerzbank in 2007, Hypothekenbank Frankfurt only manages the existing loan portfolio, which comes primarily from the predecessor institutions of Hypothekenbank Frankfurt. The goal since then has been to reduce the loan portfolio while preserving value as much as possible through scheduled redemptions and other repayments.

In 2012 the bank once again reduced segment assets by 15 % to €8.2 billion (€9.7 billion). The average RWA was unchanged at €0.7 billion (€0.7 billion).

Net interest income fell by 17 % to €49 million (€59 million) due to the portfolio reduction and to the negative effects of early redemption penalties. The need for loan loss provisions was modest in 2012, which resulted in a figure for these provisions of €1 million (€+4 million). At €2 million, net commission income came in at last year's level (€2 million). The segment was able to lower operating expenses by one fifth to €20 million (€25 million), primarily due to the significant drop in other operating expenses as a result of using fewer services from within the Commerzbank Group.

Despite considerable cost cutting, lower revenues led to a decline in the pre-tax result by 25 % to €30 million (€40 million). RoE was 50.0 % (62.9 %), below the prior-year level, while CIR showed a modest improvement at 38.1 % (41.3 %).

OUTLOOK

For the year overall the segment Retail Banking Core is forecast to record a positive pre-tax result, primarily due to the low loan loss provisions that are expected because of the good portfolio quality. For year-end 2014 we are therefore also forecasting a positive result.

DEVELOPMENT OF INCOME AND FINANCIAL POSITION

INCOME

As part of the strategy to reduce its portfolio while preserving value, in 2012 Hypothekenbank Frankfurt succeeded in sharply reducing its segment assets by 16 % to € 156.7 billion (€ 187.6 billion). The portfolio reduction was inter alia attributed to CRE Banking Germany, which was cut by € 6.9 billion, along with CRE Banking International, which accounted for € 7.6 billion, as well as Public Finance/Treasury at € 10.9 billion and Retail Banking Core at € 1.5 billion.

Net interest income continued to fall in 2012, primarily because of the declining interest-bearing portfolio, losses on loan disposals in CRE and high liquidity costs in Treasury. But with a reduction of 11 % to € 911 million (€ 1,021 million), net interest income remained at a high level if one takes into account the portfolio reduction. This is due in particular to the positive effects from the redemption of own issues and the sale of promissory notes in Public Finance. In addition, the good margin trend in the portfolio helped to promote net interest income.

The suspension of new business pushed down net commission income as expected by 28 % to € 92 million, compared with € 127 million in the prior year.

While loan loss provisions fell by more than half in the first six months of 2012 due to the above-average reduction in high-risk claims, loan loss provisions in the second half of the year were hit by high specific loan loss provisions on large exposures in the United Kingdom and Spain in particular. In addition, general loan loss provisions on promissory notes in Public Finance led to additional losses, after the loan loss provisions in this segment benefited last year from the release of provisions following the sale of a claim. As a result, loan loss provisions for the entire year were only € 627 million, or about 10 % under the prior-year level of € 697 million.

The net income on hedge accounting benefited from the results of valuations arising from effective hedge accounting, improving in 2012 to € 19 million (€ –31 million).

Net trading income recorded a charge of € –112 million, after posting a gain of € 244 million in the previous year. The main reason for this was the negative result from the free derivatives in the Public Finance/Treasury segment, in contrast to the very strong positive result in the prior year. Another factor that weighed on net trading income was the negative impact of interest rate hedging derivatives with clients in commercial real estate financing.

Net investment income showed a significant improvement, coming in at € –278 million (€ –3,712 million). The large loss last year was primarily due to the considerable write-downs on Greek government bonds. There was a loss of € –65 million in 2012 due to the restructuring of Greek bonds and the subsequent disposal of the remaining assets, along with a loss of € –125 million due to the sale of other public finance bonds as part of risk-oriented portfolio reductions. In addition, an impairment on an investment that Hypothekenbank Frankfurt took on as part of a debt-to-equity swap had a negative impact on net investment income. Among others, the sale of Eurohypo Japan Corporation made a positive contribution to net investment income in the amount of € 12 million.

As at 31 December 2012, the current income on investments in companies accounted for using the equity method was positive at € 1 million (€ – 8 million).

In net income from investment properties, valuation effects from properties valued at fair value that the bank acquired as part of its collateral realisation programme resulted in a charge of € 20 million (€ 2 million).

Because of strict cost management, a decline in the use of the Service Level Agreements (SLA) within the Commerzbank Group and the lower headcount, the bank was able to reduce its operating expenses by 16 % to € 302 million (€ 360 million).

Other net income was € – 42 million (€ – 40 million). As in the previous year, this position includes higher charges resulting from provisions for legal risks, but also income from the reduction in repayment claims from holders of profit participation certificates.

Overall, Hypothekenbank Frankfurt was able to considerably reduce its loss compared with the previous year following the write-downs on the bank's Greek exposure, with a pre-tax result of € – 457 million (€ – 3,454 million). Loan loss provisions in the lending business, charges in net trading income and the negative result for net investment income led to further large losses. In addition, the one-time effect of a write-down of goodwill totalling € 58 million (€ 0 million) and restructuring costs of € 41 million (€ 0 million) due to the EU Commission's requirement to wind down Hypothekenbank Frankfurt had a negative impact on the pre-tax result.

Tax expenses stood at € – 116 million (€ – 26 million) due to a write-down on deferred tax assets in several international units. As a result, the Hypothekenbank Frankfurt Group recorded a consolidated result of € – 573 million (€ – 3,480 million).

RoE continues to be negative at – 8.0 % (– 62.4 %). CIR improved to 52.9 %, down from – 15.0 % in 2011.

FINANCIAL POSITION AND NET ASSETS

The development of the financial position and net assets in 2012 was influenced by the European Commission's requirement to wind down Hypothekenbank Frankfurt and the decision by the Commerzbank Group to completely reduce public financing and commercial real estate financing over time in a value-preserving manner. For more information about the € 55 million of investments, please refer to the statement of changes in fixed assets (see page 116 ff.) in the Notes (57). No significant investments are planned for the current financial year. In 2012, liquidity was ensured at all times due to Hypothekenbank Frankfurt's integration into the Commerzbank Group. Details of our liquidity management tools and liquidity risks can be found on page 48 ff. of the risk report. The cash flow statement and associated Notes can be found on page 74 ff. Hypothekenbank Frankfurt adhered to the minimum reserve commitments stipulated by the Bundesbank during the year under review and complied with the capital adequacy and liquidity requirements laid down under banking supervision regulations.

CONSIDERABLE REDUCTION IN TOTAL ASSETS

Hypothekenbank Frankfurt's total assets declined significantly once again, falling by € 30.0 billion (15 %) year-on-year to € 173.0 billion.

The Commercial Real Estate portfolio including the non-core portfolio of Retail Banking fell by € 14.5 billion to € 52.1 billion (€ 66.6 billion) by means of active portfolio reductions and the suspension of new business. The proportion of international business was € 27.7 billion (€ 35.3 billion), or unchanged at 53 %. Germany accounted for € 24.4 billion (€ 31.3 billion), or 47 % of business.

We ceased active marketing of private real estate financing in the Retail Banking Core segment in 2007, which was scaled back by a further € 1.5 billion to € 8.2 billion in the year under review through scheduled redemptions and other repayments.

The volume of the Public Finance portfolios shrank considerably once again as part of the scheduled scaling-back of the portfolio as well as the reduction in risk assets. The suspension of new business was already initiated back in mid-2008. There are some exceptions for very negligible amounts due to contractual commitments or cover pool management. Volumes declined by € 11.1 billion (12 %) to € 81.9 billion as a result of scheduled repayments and the targeted reduction in risk.

Hypothekenbank Frankfurt's Public Finance portfolio also provides broad geographical diversification. The domestic portion stands at 37 % (39 %). Securities held in the Public Finance portfolio totalled € 52.6 billion (€ 59.7 billion), of which € 48.7 billion (€ 56.6 billion) were classified as loans and receivables (LaR) under IAS 39. The remaining volume of € 3.9 billion (€ 3.1 billion) is classified under IAS 39 as available for sale (AfS).

On the liabilities side, funding volumes also decreased. Securitised liabilities also shed € 14.3 billion to € 49.7 billion, with mortgage Pfandbriefe down € 7.2 billion to € 22.1 billion, Public Sector Covered bonds falling € 6.7 billion to € 25.1 billion and other bonds slipping € 0.4 billion to € 2.5 billion. Liabilities to banks and customers declined € 15.5 billion to € 87.6 billion as at 31 December 2012. Liabilities from repo transactions shown under liabilities to banks also declined year-on-year to € 29.0 billion (€ 29.3 billion). Subordinated capital decreased by € 1,201 million due to a combination of maturities and € 283 million in write-downs for profit participation certificate holders.

CAPITAL BASE

Regulatory capital in accordance with the Solvency Regulation (SolvV, Basel II) came to € 8.0 billion (€ 8.9 billion) as at 31 December 2012, which comprised tier 1 capital of €6.9 billion (€6.9 billion) and tier 2 capital of €1.1 billion (€1.9 billion). Core capital included hybrid capital, which remained unchanged at €0.9 billion. Risk-weighted assets declined €10.3 billion year-on-year to €40.5 billion. As at 31 December 2012, the tier 1 capital ratio improved to 17.0% (13.6%), while the total capital ratio rose to 19.8% (17.4%). As such, we have a satisfactory capital base under the Solvency Ordinance.

Balance sheet equity was unchanged at €3.8 billion. Retained earnings fell by €0.4 billion to €0.6 billion due to the assumption of losses by Commerzbank Inlandsbanken Holding GmbH which was lower than the IFRS consolidated result, while the revaluation reserve, which has no impact on income, improved by €0.4 billion to €−1.6 billion. The revaluation reserve relates to valuation changes linked to our Public Finance portfolio in the "available-for-sale" portfolio. Of this, €−0.6 billion applies to securities which we reclassified last year to the category "loans & receivables" due to the absence of an active market.

SUMMARY BUSINESS SITUATION 2012

The business situation at the Hypothekenbank Frankfurt Group in 2012 was affected in particular by the new strategy. Since mid-2012 this new strategy has been focused on reducing assets Group-wide while optimising the funding structure. We actively made the most of opportunities to accelerate the portfolio reduction through the implementation of measures specifically for this purpose and through the suspension of new business. As a result, interest income and commission income both fell. The high loan loss provisions and the need for write-downs on individual large exposures in certain CRE markets had a negative impact on results. Additional charges resulted from one-off effects on the write-down on goodwill and restructurings. These factors, along with charges from the sale of loans and securities, higher refinancing costs and losses on net trading income, resulted in a negative pre-tax result.

The Board of Managing Directors was content with the progress made in reducing the portfolio during the year under review. The bank was able to reduce its losses considerably compared with 2011, as had been forecasted in the previous year. This is due primarily to developments with respect to the sovereign debt crisis, which after the conversion and sale of Greek bonds in the first half of 2012 did not cause new impairments for the Public Finance portfolio.

INFORMATION PURSUANT TO ARTICLE 315 (2) NO.5 OF THE GERMAN COMMERCIAL CODE

GENERAL INFORMATION

Hypothekenbank Frankfurt is incorporated into Commerzbank's internal controlling and risk management system. Key accounting areas are outsourced to Commerzbank. The internal controlling and risk management system is designed to ensure that the financial accounting process complies with the reporting principles set out in the German Commercial Code and IFRS, namely that the consolidated financial statements of Hypothekenbank Frankfurt AG and the Hypothekenbank Frankfurt Group must provide a true and fair view of the Group's assets, financial position and income. Within Commerzbank, the internal controlling and risk management systems are not separate, but instead use the same methods and implementation with reference to the financial accounting process. Below, the term "ICS (internal control system)" will be used. More information about the risk management system can be found on page 48 to 63. in the Risk Report.

The goal of compliant financial reporting could be impaired in a way that the above-stated objective is not met and that material information is omitted or reported incorrectly. The bank considers information to be material if its absence or any inaccuracies could influence financial decisions taken by the addressee. In such cases, the information may refer to a single transaction or equally to a combination of transactions.

Risks for financial reporting can arise due to mistakes in business processes. Fraudulent activity may also result in an inaccurate presentation of certain information. The bank therefore needs to minimise the risk of incorrect presentations, valuations or statements within the financial reporting system.

The ICS is designed to provide reasonable assurance that the statutory requirements have been met, that business activities are both suitable and profitable, and that the financial reports are complete and accurate. It should be noted that, despite the bank's best efforts, the methods and processes used in the ICS can never be completely ensured, but they do offer reasonable assurance.

No major changes were made to the internal controlling and risk management system ICS for financial reporting after the reporting date.

LEGAL PRINCIPLES AND RULES

Article 289 (5) of the German Commercial Code (in the case of Hypothekenbank Frankfurt AG) and Article 315 (2) no. 5 of the German Commercial Code (for the Hypothekenbank Frankfurt Group) stipulate that companies must describe the essential features of the ICS in the management report. The minimum risk management requirements (MaRisk) have been incorporated into Hypothekenbank Frankfurt's internal controlling system.

The structure of the bank's internal controlling system is based on the internationally-recognised framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). From this the bank has set the following objectives: effective and efficient business processes, compliance with the applicable legislation and regulations and accurate financial reporting. Under the COSO framework, a risk assessment is required to establish whether the financial accounting process is reliable (for example, ensuring that all transactions are duly recorded and that the balance sheet is correct). The bank performs this risk assessment in accordance with the recommendations of the International Standards of Auditing and Quality Control, no. 315, 2009 edition (hereinafter ISA 315).

ORGANISATION

Sound enterprise management, one that includes a strategic Group-wide orientation that also factors in risks, is based on a detailed governance framework.

The governance framework sets out uniform and compulsory minimum requirements for the organisational structure with respect to documentation and updating. The system is predicated on the principle of clear allocation of responsibilities, based on the organisational chart and extending from the Board of Managing Directors to individual employees. This also includes the service level agreements (SLA) between Hypothekenbank Frankfurt and Commerzbank. Hypothekenbank Frankfurt monitors compliance with these agreements. The scope and structure of the governance framework are determined by legal and regulatory requirements as well as by Commerzbank's corporate governance approach, as approved by the Board of Managing Directors. The governance framework therefore translates key features of corporate governance into practical rules and contains the following elements: organisational chart for the full Board of Managing Directors, rules of procedure, organisational charts, business objectives, job descriptions and competence rules. Any tasks that are mutually incompatible are allocated to separate business areas in accordance with the principle of separation of functions. In order to minimise financial reporting risks, key controlling tasks are subject to dual control.

The Board of Managing Directors bears ultimate responsibility for the implementation of the bank's ICS, whereby the bank's Chief Financial Officer (CFO) is responsible for the accounting process. While the full Board of Managing Directors is responsible for defining the bank's ICS and providing evidence of its suitability, the CFO is responsible for defining the operational checks – in the form of suitable controls which have to be integrated into the relevant processes – and for ensuring that the ICS is effective for the accounting process. The Board of Managing Directors is responsible for ensuring that the individual and Group financial statements comply with the regulatory requirements.

The Supervisory Board monitors financial reporting, primarily through an Audit Committee created specifically for this purpose. In addition, the Audit Committee is responsible for guaranteeing the independence of the statutory auditor, commissioning the statutory auditor, defining the main audit points and agreeing the auditor's fee. Group Audit reports throughout the year to the

Supervisory Board or its appointed committees on the audit activities and all significant audit findings.

The preparation of the annual financial statements of Hypothekenbank Frankfurt in accordance with the relevant legislation and internal and external rules is the responsibility of Group Management Finance (GM-F) at Commerzbank, which reports to the CFO. GM-F carries out this task on an outsourcing basis. To this end, GM-F produces the Hypothekenbank Frankfurt AG financial statements and consolidates the financial statements of the individual Group companies to produce the consolidated financial statements.

Within GM-F, the Accounting Policies & Guidelines department is responsible for preparing and publishing Group-wide accounting guidelines. GM-F fosters consistent and accurate reporting across the Group by establishing and attuning of accounting guidelines. The published guidelines are constantly updated. Staff is also able to take advantage of regular training courses on relevant issues; the bank's Intranet also contains more detailed operating procedures.

GM-F's accounting activities are supported by other business areas in the bank. In particular, Group Information Technology is responsible for providing and developing the IT systems used for accounting purposes.

CONTROLS TO MINIMISE RISK

At the bank, technical or manual (organisational) checks are an integral part of operating processes. The IT systems carry out technical checks, such as sum checks and error checks. The technical checks are often supplemented by manual controls, such as limiting the number of staff who are able to edit certain screens. A range of measures ensure data quality: dual control principle, competence rules, separation of functions and technical measures (IT access rights). Additional checks serve to verify that the data used for processing is complete and accurate.

MONITORING BY GROUP AUDIT

Group Audit is mandated by the Board of Managing Directors to provide independent, objective and risk-oriented advisory services so as to optimise Hypothekenbank Frankfurt's business processes and areas outsourced to Commerzbank to ensure that they are adequate, secure and profitable. Group Audit supports the Board of Managing Directors by assessing the suitability and effectiveness of the risk management, the internal controlling system and business processes by auditing key projects and making recommendations. All of this helps safeguard business processes and assets. As the internal auditor, Group Audit implements the Group's risk management policy.

Group Audit reports directly to the Commerzbank Board of Managing Directors and to the Hypothekenbank Frankfurt Board of Managing Directors on matters relating to Hypothekenbank Frankfurt. In particular, Group Audit is not bound by any instructions with regard to the reporting process and how to evaluate the audit results. Building on the MaRisk, the audit examines all

Group processes and activities in terms of risk, irrespective of whether those activities and processes are performed within the Group or outsourced. Group Audit takes into account ICS, reporting, information systems and financial reporting when assessing the effectiveness and suitability of the internal controlling and risk management system. Group Audit has an unrestricted right to information in the performance of its duties. Group Audit prepares a written report upon completion of each audit, a copy of which is sent to the relevant members of the Board of Managing Directors. Group Audit uses the audit reports to monitor and document the timely resolution of any deficiencies identified. Failure to comply with the deadlines stipulated triggers an escalation procedure. Group Audit also prepares an annual report on the audits Group Audit has performed over the course of the financial year, the main shortfalls identified and the remedial measures taken, which it presents to the Board of Managing Directors.

FINANCIAL REPORTING PROCESS

The IT systems are a key component in preparing the annual financial statements and must therefore fulfil the requirements of the internal controlling and risk management system with regard to the accounting process. The bulk of the Hypothekenbank Frankfurt financial statements are prepared using a closed system (SAP). All programmes contain numerous plausibility checks which are an integral part of the system architecture used for all accounting. Within the financial reporting process, all information which is relevant for the preparation of the Hypothekenbank Frankfurt Group and Hypothekenbank Frankfurt AG financial statements in accordance with IFRS and the German Commercial Code respectively is transmitted by the reporting offices (Hypothekenbank Frankfurt AG, subsidiaries and foreign branches) to GM-F. The data for the consolidated financial statements is entered in the IDL consolidation application. Subsidiaries essentially report information in accordance with IFRS. Information from all key units is also verified by the relevant local auditors. GM-F then carries out additional plausibility checks based on this information. Once all of the checks have been completed successfully, GM-F proceeds with all the consolidation processes involved in producing the consolidated financial statements. A whole range of individual consolidation processes are involved in the preparation of the consolidated financial statements (consolidation of capital, debt, expenses, income), together with currency translation and the elimination of intra-Group gains.

Company-specific segment reporting is based on the SAP data, which is cross-checked against the information held in the external accounting system.

OUR EMPLOYEES

Hypothekenbank Frankfurt is continuously expanding the knowledge and skills of its employees. Only if these employees are able to successfully implement the portfolio reduction in real estate and public finance while preserving value can risks be reduced over the long run and the value of Commerzbank, the owner of our bank, be increased. This is why training was a key area of focus for Human Resources in 2012.

OFFERING OPPORTUNITIES

The cross-divisional selection process – the so-called audits – plays a major role in the promotion of junior executives. The audits help us identify staff with potential who would benefit from additional training in the Commerzbank Management Programme (CMP). Employees who pass the audit test have the potential to take up a position at the executive level. A large number of women in the selection process helps ensure that there will be enough qualified women in executive positions. To guarantee a fair and balanced assessment of the candidates, each audit now has at least one female observer.

We also included diversity training in CMP last year in order to promote increased awareness of the importance of balancing professional life and family life. Hypothekenbank Frankfurt works with pme Familienservice to provide child care services. At the Eschborn location there are 14 places available for nursery school and kindergarten children. In addition, we also offer short-term child care services, holiday supervision and overnight child care for emergencies. The family service also provides advisory services for working mothers and fathers and helps with child care placement throughout Germany.

We have established some agreements in the company to help parents find a balance between family and work. For example, regular meetings with mandatory attendance are not to be scheduled after 5 p.m.

In addition, we have investigated Group-wide whether management positions can be part-time. The investigation showed that about 80 % of Hypothekenbank Frankfurt management positions do not have to be full-time. The mentoring programme is another measure to promote junior executives. Every year all members of top management at both the first and second management level work with two junior executives. Approximately 30 mentees took part in the programme in 2012. One of the objectives is to raise the percentage of women among junior executives from less than one third to one half.

BUILDING ON ONE'S SKILLS

Hypothekenbank Frankfurt used knowledge transfer and the exchange of experience in the training of its employees in order to continue the training programme that was started in 2011 and to adapt it to the current situation focussing on portfolio reduction. In 2012 we offered 28 events on our internal training calendar. Experts from Hypothekenbank Frankfurt held practical discussions on topics such as "Leading in difficult times" or "Practice-oriented work with Excel". Several hundred employees and numerous internal speakers took part in the new format in 2012, demonstrating that training is also a question of personal commitment. This format is to be continued in 2013.

A key element of the training initiative is the three-year Bachelor of Arts degree in business administration. Five Hypothekenbank Frankfurt employees are currently studying at the Berufsakademie Rhein-Main while also working part-time at the bank. In 2012 the Board of Managing Directors set up "Talk Time" for B.A. students, which is a continuation of the "Tea Time" tradition for trainees. The students meet with a member of the Board of Managing Directors in a relaxed environment so that they can exchange ideas.

SUPPORT FOR EMPLOYEES IN NEED

It is important for our employees to know that the company is there for them at the difficult moments in life. For example, employees can turn to the Adolf Braun Foundation if they run into a difficult situation through no fault of their own. This foundation provides rapid, uncomplicated assistance when, for example, an employee needs a helping hand following an accident. In addition to this foundation, there is the Rheinhyp support foundation, which was founded in 1932. It provides a one-off benefit of € 30,000 (gross) to the family members of an employee who has died. The foundation is also active in other areas. For example, since 2010 it has been awarding an one-off € 2,000 payment (gross) to employees who are supported by the Foundation and have become a father or mother.

CHANGE IN STAFF HEADCOUNT AND PERSONNEL STRUCTURE

As at the end of 2012, the Hypothekenbank Frankfurt Group had 1,014 employees, 46 % of whom were women. The total headcount was down 12 % against the previous year. The decrease was due to necessary job cuts and to the fact that some staff was transferred within the Commerzbank Group. The average period of service in Germany was 17.7 years in 2012, and the average age of our employees was 46.2 years. Staff turnover, as measured by the number of departures during the year, was 10 % in 2012. The absentee rate stood at 4.64 %, including the long-term sick. Part-time employees accounted for about 14 % of the workforce, while severely disabled employees made up 4.5 % of the workforce (thereof around 1 % equals).

THANKS TO OUR EMPLOYEES

We would like to thank everyone who has been involved in the close and constructive cooperation on human resource matters: the staff, executives and all management bodies of Hypothekenbank Frankfurt, as well as the Commerzbank employees who are working for us. We would especially like to thank our employees for their dedication and hard work. We do not take what they do for granted, particularly in light of the current difficult situation in which Hypothekenbank Frankfurt is operating.

SUPPLEMENTARY REPORT AND FORECAST

SUPPLEMENTARY REPORT

EVENTS AFTER 31 DECEMBER 2012

In December 2011 Hypothekenbank Frankfurt Group (formerly Eurohypo) received a three-year, € 10 billion funding arrangement from the European Central Bank as part of its longer-term refinancing operations (LTRO). Thanks to the ECB's stabilisation measures and the ongoing reduction of non-strategic portfolios, the bank repaid this amount on 30 January 2013 – two years before it was due.

In addition, at the end of January the Board of Managing Directors and the employee representatives of Hypothekenbank Frankfurt agreed to a reconciliation of interests and social plan for all employees of Hypothekenbank Frankfurt in Germany. This agreement creates the conditions, on the basis of labour laws, to implement the strategic plan going forward. The reconciliation of interests that was worked out calls for a headcount reduction of 350 by the end of 2015 for Hypothekenbank Frankfurt in Germany. The bank will also reduce its workforce at subsidiaries and at international locations as the portfolio reduction progresses. A total headcount reduction of about 500 will take place by 2015.

Otherwise, no events that would have had a significant impact on our results occurred in the period from 1 January to 28 February 2013.

FORECAST

NOTE ON FORWARD-LOOKING STATEMENTS

The forecast and other parts of this annual report contain expectations and predictions. These forward-looking statements are based on planning assumptions and estimates made on the basis of the information available to us at the time of approval of the 2012 annual report. We are not under any obligation to update these statements in the light of new information or future events. Statements concerning the future are always subject to risks and uncertainties (see also Notes on page 76 f.).

Actual results and developments may therefore deviate substantially from the current forecasts. Any such deviations are likely to be the result of changes in the competitive situation and the general economy or developments on the international real estate and capital markets. In addition, potential defaults by borrowers or counterparties in trading transactions, changes in national and international legislation, particularly taxation rules, together with other risks, some of which are presented in more detail in the Risk Report, may have an impact on the bank's results.

OVERALL ECONOMIC PERFORMANCE

There was a significant ease in the uncertainty surrounding the European sovereign debt crisis at the beginning of the year. This decline in uncertainty also lowered the risk considerably that the European single currency union would break up. Nevertheless, the crisis will continue to have an important impact on economic trends in the current year, especially due to the numerous other factors weighing on the economy, such as a restrictive budgetary policy and the excesses of earlier years that still have not been corrected. As a result, we are forecasting modest economic growth for the eurozone, which in turn will not offer much of a momentum to the CRE markets.

This is especially true for the southern European markets, as the recession there will likely cause CRE market values to lose additional ground. In contrast, the German CRE investment market and the German economy, which has been improving since the beginning of the year, should continue to benefit from the low interest rate environment and the weakness in the other markets. This will lead to solid investment demand and stable prices.

The CRE market in the United States will continue to make modest gains, as the US Congress came to an agreement on largely limiting the tax increase scheduled to come into effect in January and postponed any spending cuts. This so-called fiscal cliff would have caused major damage to the US economy, and as such was the greatest risk factor for a positive trend on the US CRE market.

In light of the modest outlook for Europe's economy, the ratio of debt to GDP for some countries will see only a slight improvement, if at all. The political fortitude to push through uncomfortable measures remains essential, especially in Germany in light of the upcoming elections and the forthcoming decisions to be made at the European level. In the United States, the political picture is different, as the recent presidential election opened the way for an urgently needed budget consolidation. We expect the volatile environment and weak economic situation to continue, as it is difficult to assess what kind of political compromises will be reached. Thus the trend for public finance going forward depends heavily on how the sovereign debt crisis unfolds and the political decisions that Europe makes in light of this development.

OUTLOOK FOR THE HYPOTHEKENBANK FRANKFURT GROUP

DEVELOPMENT AND IMPACT OF THE PORTFOLIO REDUCTION

The public finance crisis in Europe and the continuing volatility on the markets, along with the heightened capital requirements imposed by the European banking supervision authorities, reinforced Commerzbank, our parent company, in its decision to completely wind down the portfolios of the Hypothekenbank Frankfurt Group. Thus the business objective of Hypothekenbank Frankfurt will continue to be to reduce all portfolios while preserving value and minimising risk.

In 2012 we were able to reduce the total exposure (EaD including NPL) more than we had forecasted, to € 135 billion. Under the assumption that there will be additional chances for opportunistic portfolio disposals, we will continue the accelerated portfolio reduction this year and next from the point of view of risk and earnings. We are assuming that EaD including NPL in CRE Banking will be cut in half by 2016. As at 31 December 2012 it amounted to € 54 billion. In the Public Finance/Treasury segment, which had an EaD including NPL of € 73 billion at the end of 2012, we expect to reduce the portfolio by one third by the end of 2016.

The value-preserving portfolio reduction that is planned will reduce RWA further while stabilising the capital ratio. This will ensure that the bank is in a better position in terms of the Basel Committee on Banking Supervision's increased core capital and liquidity regulations (Basel III).

In 2013 the net capital relief expected as a result of the portfolio reduction will not yet offset the losses stemming from the reduction.

The focus will also be on optimising the funding structure, in addition to asset reduction. The emphasis will be on secured financing instruments, such as Pfandbriefe and repo transactions. In light of the declining need for funding we will be able to continue reducing the share of unsecured funding over the course of the year and beyond. Most of the existing maturities will not be replaced in future.

DEVELOPMENT OF KEY PERFORMANCE INDICATORS GROUP-WIDE

The reduction in assets across all segments and asset classes had a significant impact on the development of key performance indicators.

Net interest income will continue to decrease due to the portfolio reductions, lower earnings and restrictions on portfolio prolongations. Although the liquidity costs for funding will fall due to a decline in the need for funding, this will lead to negative effects in net interest income. For the entire year and for the following one, we are forecasting that net interest income will decline by about one third.

Net commission income, which in part has benefited from the delayed effects of concluded transactions and successful restructurings, will decline by about one half over the course of this and also next year, primarily due to the suspension of new business.

Loan loss provisions will decline slightly for the year overall compared to the prior year, due in part to the sovereign debt crisis that is weighing on companies. Loan loss provisions will also fall in 2014 due to the impairments that took place in prior years.

We will modestly reduce our operating expenses for the year and in 2014 as part of our strict cost management and the headcount adjustments in connection with the portfolio reduction. We will be able to continue reducing our personnel expenses and other operating expenses in connection with the streamlining of our business processes.

The overall impact of these factors is that, at the end of the year, the Hypothekenbank Frankfurt Group will record a negative pre-tax result in the range of mid-to-low three-digit million euros. Because of the fact that the bank is consciously becoming smaller, which also necessarily means that earnings are also falling, the Board of Managing Directors assumes that the negative earnings trend will carry over into 2014. Nevertheless, the bank will be able to reduce its losses if the sovereign debt crisis, the course of which is difficult to forecast, does not lead to any additional write-downs in the Public Finance portfolio. Should market opportunities arise to sell off loans in a way that protects earnings, the Board of Managing Directors will take advantage of this to accelerate the portfolio reduction.

RISK REPORT

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RISK-ORIENTED OVERALL BANK MANAGEMENT

RISK MANAGEMENT ORGANISATION

Hypothekenbank Frankfurt defines risk as the danger of possible losses or profits foregone due to internal or external factors. Risk management, which is an integral part of corporate management, distinguishes between quantifiable risks – those for which a value can normally be given in annual financial statements or in capital backing – and non-quantifiable risks such as reputational and compliance risks.

Risk management activities are grouped in the Corporate Center Risk Management back office unit and are the direct responsibility of the relevant member of the Board of Managing Directors, the Chief Risk Officer (CRO). The CRO is responsible for implementing the risk policy principles for quantifiable risks as defined by the Board of Managing Directors. The CRO regularly reports to the Board of Managing Directors and the Risk Committee of the Supervisory Board on the bank's overall risk situation.

Within the Group, specific committees have been established to carry out operational risk management tasks (e.g. Risk Management Committee, Credit Committees). These committees have been given certain delegated powers and support the Board of Managing Directors in making risk-related decisions.

INTEGRATION INTO THE COMMERZBANK GROUP

In order to establish and ensure appropriate and effective risk management at Group level, in accordance with the regulatory requirements (Section 25 of the Germany Banking Act and minimum requirements for risk management (MaRisk)), the Group parent company Commerzbank is responsible for defining uniform strategic guidelines, rules and principles as part of the "Global Functional Lead Concept".

The Group has defined standard roles, responsibilities and processes that are designed to take into account risk relevance and efficient use of subsidiary-specific factors in order to improve the way that subsidiaries are incorporated into the Group's risk management and to ensure that risk management meets all the statutory requirements. To this end, with the use of a controlling and profit transfer agreement, the parent company has the power to issue directives, in accordance with its status under supervisory, company and employment law. The subsidiaries function as centres of competence within the Group for their core business area. In this way, the whole of Hypothekenbank Frankfurt is tied into the Commerzbank Group's risk management and control structure, and as such integrated into its methods and organisational structure. Members of the Board of Hypothekenbank Frankfurt and managers at Hypothekenbank Frankfurt are represented on the risk-specific committees at Group level. Responsibility for risk methodologies and procedures, validation and backtesting has been transferred to the parent company's central risk management.

RISK-TAKING CAPABILITY AND RISK STRATEGY

The risk-taking capability analysis is a key part of Hypothekenbank Frankfurt's overall bank management and Internal Capital Adequacy Assessment Process (ICAAP). The aim is to ensure that Hypothekenbank Frankfurt holds sufficient capital for its overall risk profile at all times. In the 2011 financial year, Hypothekenbank Frankfurt's risk-taking capability model was altered to bring it into line with the Commerzbank Group methodology. This means that Hypothekenbank Frankfurt's risk-taking capability can now be monitored with reference to the Group parent company using a gone concern approach, which is primarily designed to protect first-rank lenders. This objective should be met even in the event of extraordinarily high losses from an unlikely extreme event.

When determining the economically required capital, allowance is made for potential unexpected fluctuations in value. Where such fluctuations exceed forecasts, they represent the actual risk to be covered by available economic capital (capital available for risk coverage). The quantification of capital available for risk coverage reflects a nuanced consideration of the accounting values of assets and liabilities under economic value adjustment of certain items in the balance sheet.

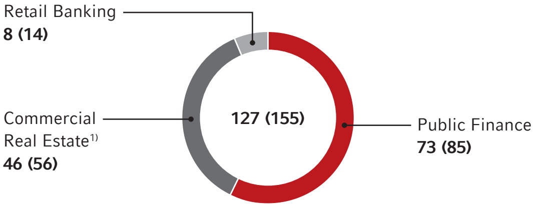
The capital requirement for the risks taken is calculated using the internal economic capital model. When setting the economic capital requirement, allowance is made for all types of risk at Hypothekenbank Frankfurt classified as material in the annual risk inventory. The economic risk approach therefore also includes types of risk not contained in the regulatory requirements for bank capital adequacy, and also reflects the effect of portfolio-specific interactions. The confidence level for the economic capital model corresponds to the underlying gone concern assumptions and ensures a consistent risk-taking capability approach.

Risk-taking capability at the level of Hypothekenbank Frankfurt is monitored and managed monthly.

The ongoing European sovereign debt crisis has continued to have an adverse impact on Hypothekenbank Frankfurt's stand-alone risk-taking capabilities. As at 31 December 2012 our minimum economic risk-taking capability did not match the bank's own requirements and Hypothekenbank Frankfurt fell short of its utilisation level on a stand-alone basis. Because Hypothekenbank Frankfurt has been closely integrated into the Commerzbank Group and given the Commerzbank's risk-taking capability, Hypothekenbank Frankfurt meets the risk-taking capability requirements even though it has exceeded the utilisation level, since the ongoing asset reduction programme will release more capital. There is also a profit transfer agreement and a letter of comfort with Commerzbank. As at 31 December 2012 the regulatory core capital ratio was 17.0 % (previous year 13.6 %).

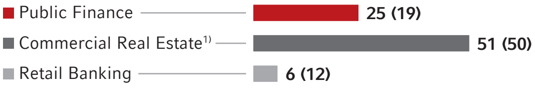
The risk strategy principles set out a binding, clear and transparent risk policy for Hypothekenbank Frankfurt that is in line with the business strategy and accompanied by strategic requirements for all risk categories listed in the annual risk inventory as material. The Board of Managing Directors and the supervisory bodies are kept informed about developments on a regular basis.

EXPOSURE AT DEFAULT (EAD) BREAKDOWN IN € BILLION AS AT 31.12.2012 (31.12.2011)



[1] 2012 reclassification of Retail Banking Non-Core, now included under Commercial Real Estate (CRE), in the previous year's figures is still included in the Retail Banking segment.

RISK DENSITY IN BASIS POINTS AS AT 31.12.2012 (31.12.2011)



Overall risk density 33 (30)

The risk strategy is reviewed at least once a year, then adopted by the Board of Managing Directors and approved in consultation with the Supervisory Board. The risk strategy is complemented by rules on implementing the bank's own internal requirements.

DEFAULT RISK

Default risk refers to the risk of losses due to defaults by counterparties as well as to changes in this risk. In addition to credit default risk and risk from third-party debtors, Hypothekenbank Frankfurt also includes under default risk issuer and counterparty risk as well as country and transfer risk.

RATING SYSTEMS

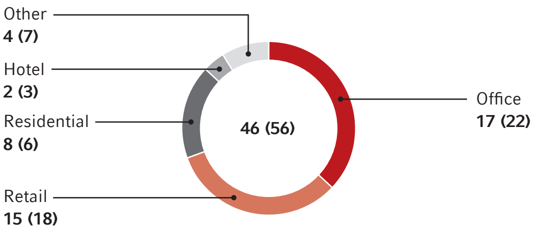
To assess default risk, the bank determines a rating for every borrower as part of a credit quality assessment. The loss given default is also calculated, which factors in the mortgage lending and market values, recovery rate, recovery time, etc. As indicated above, Hypothekenbank Frankfurt is integrated in the Group limit and management system, which means that Commerzbank is responsible for defining, developing, validating and monitoring the rating method. Retail Banking tends to use a scoring procedure, the so-called CORES method. CRE Banking uses rating procedures to evaluate commercial real estate finance business (IRIS CRE). This essentially covers the categories of customer, property and exposure risk. Public Finance uses the internal rating system for countries (Rating Sovereign and Country Risk) and for banks (RFI Bank). Local and regional governments ratings methods (R-LRG, R-LRG-US, R-LRG-ST, the latter two for the US) are used for local and regional authorities in Germany and internationally.

EAD AS AT 31.12.2012

					Total	
in € billion	CRE	Country[1]	Bank	Other[2]	31.12.2012	31.12.2011
Greece	0.2	0.0	0.0	0.0	0.2	0.9
Ireland	0.1	0.0	0.3	0.3	0.7	1.0
Italy	2.2	8.3	0.3	0.1	11.0	10.6
Portugal	1.9	0.8	0.1	0.1	2.9	3.1
Spain	3.6	2.1	3.1	0.7	9.5	11.0

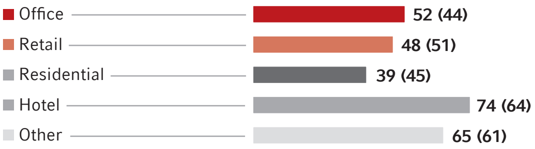
[1] including sub-sovereign institutions
[2] government-guaranteed bonds

COMMERCIAL REAL ESTATE EAD BREAKDOWN IN € BILLION AS AT 31.12.2012[1] (31.12. 2011)



[1] 2012 reclassification of Retail Banking Non-Core, now included under Commercial Real Estate (CRE), in the previous year's figures is still included in the Retail Banking segment.

COMMERCIAL REAL ESTATE RISK DENSITY IN BASIS POINTS AS AT 31.12.2012[1] (31.12. 2011)



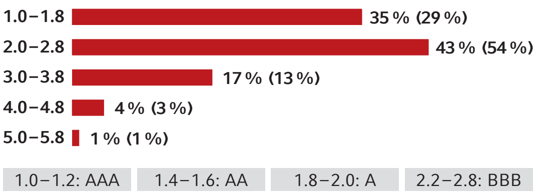
Overall risk density 51 (50)

DEFAULT RISK MANAGEMENT

Hypothekenbank Frankfurt and Commerzbank have a uniform overall bank management concept. The definition of the capital base and monitoring compliance with regulatory and economic target quotas are performed at Group level. The capital base for internal business area management at portfolio level is economic capital; this is used for calculation of capital limits at the business area level Group-wide. Their measurement is based on the credit risk parameters of probability of default (PD), loss given default (LGD) and exposure at default (EaD), assuming a confidence level of 99.91 %. The time horizon is one year. Economic capital and modelling of stress scenarios are calculated at least quarterly using the credit portfolio model. The key parameters are default rates, recovery rates and macroeconomic data (gross domestic product, inflation rate, etc.). We use the risk figures EaD, expected loss (EL), economic capital consumption (Credit Value at Risk, CVaR) and risk density (EL/EaD) to manage default risk. EaD for the performing book of Hypothekenbank Frankfurt portfolio was € 127 billion at end-2012 (€ 155 billion). The table on page 51 shows exposure in Greece, Ireland, Italy, Portugal and Spain based on country of domicile and location of asset. In the 2012 financial year, Greek bond holdings were reduced to zero following the bond conversion undertaken as part of the private sector involvement deal (PSI). Further details can be found in the Notes to the annual report (page 97).

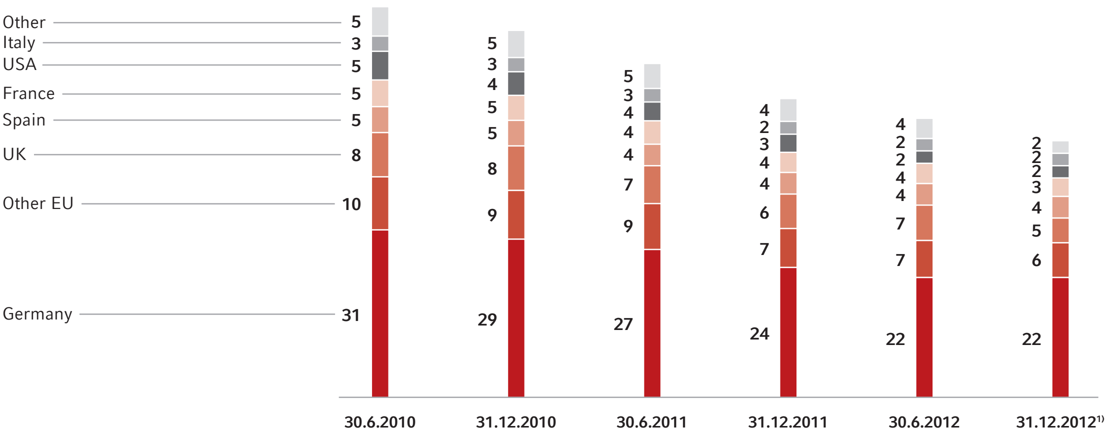
The deterioration in the overall economic environment is generally visible in downgrades of the rating distribution; the risk density in the bank's total portfolio rose from 30 bp to 33 bp. As a general rule, Hypothekenbank Frankfurt limits credit risk by holding collateral in the form of land charges on real estate, guarantees, sureties and life insurance policies.

COMMERCIAL REAL ESTATE RATING BREAKDOWN AS AT 31.12.2012[1] (31.12.2011)



[1] 2012 reclassification of Retail Banking Non-Core, now included under Commercial Real Estate (CRE), in the previous year's figures is still included in the Retail Banking segment.

EAD PORTFOLIO REDUCTION COMMERCIAL REAL ESTATE IN € BILLION



[1] 2012 reclassification of Retail Banking Non-Core, now included under Commercial Real Estate (CRE), in the previous year's figures is still included in the Retail Banking segment.

COMMERCIAL REAL ESTATE

The decision taken by Commerzbank in the second quarter to fully wind down Hypothekenbank Frankfurt (formerly Eurohypo) led to strategic adjustments with regard to the reduction of assets. The non-core components of the Retail Banking portfolio (€ 3 billion) were added to CRE Banking Germany segment with a view to winding down the portfolio in full while preserving value. Commerzbank is responsible for operating and marketing the remaining Retail Banking portfolio (Retail Banking Core). The bank has further decreased its total exposure (EaD) in the CRE segment to € 46 billion (€ 56 billion) in the performing book. The majority of that exposure came from the office (€ 17 billion), retail (€ 15 billion) and residential (€ 8 billion) sub-portfolios. This resulted in a further tangible reduction of € 10 billion during the year. The portfolio reduction has been achieved through scheduled and exceptional redemptions and portfolio disposals, but also through market-related transfers to the default portfolio and repayments.

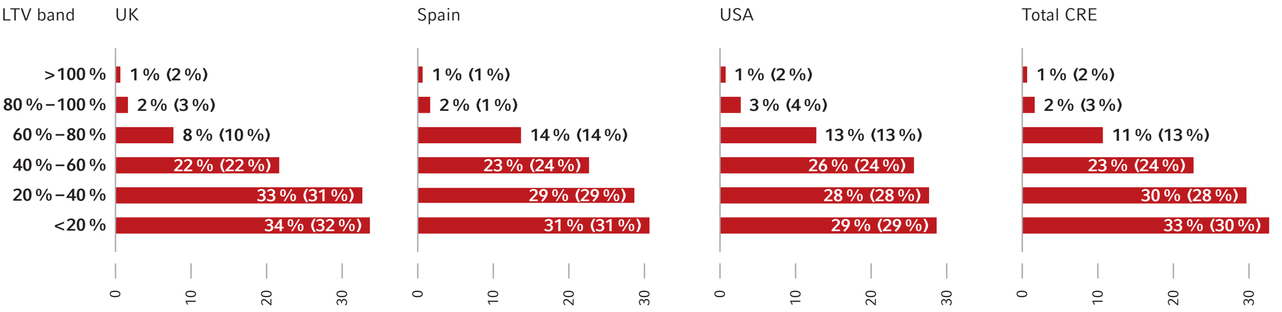
New business was completely suspended following the strategy change undertaken at the end of the first half; existing commitments for 2012 were fulfilled.

The uncertainties resulting from the sovereign debt crisis abated significantly over the course of the year. However, the persistent recession in the eurozone is weighing on the real estate markets, especially in the southern peripheral countries. Here, market prices in CRE continued to trend strongly downwards. Solid demand for core real estate is supporting price levels, which is working to the benefit of liquid investment markets in particular such as London, Germany and the United States. Non-core objects, by contrast, are much more difficult to place on the market.

At the same time, the risk density of the CRE portfolio, an indicator that is still cautious about risk levels but which is stabilising, fell only slightly year-on-year.

With market values mostly stable, the loans in our portfolio that are secured by a land charge continue to display loan-to-value ratios (LtVs) that largely meet our requirements. LtVs in our Southern European markets, the United States and France are mainly in a range extending to 80 %. The concentration of investors and financing banks

COMMERCIAL REAL ESTATE
LOAN TO VALUE (STRATIFIED BREAKDOWN)
AS AT 31.12.2012[1) 2)] (31.12.2011)



Portfolio volumes in %

1) – Performing book, based on market values
– Excluding margin lines and corporate loans
– Additional collateral not taken into account

2) 2012 reclassification of Retail Banking Non-Core, now included under Commercial Real Estate (CRE), in the previous year's figures is still included in the Retail Banking segment.

on low-risk core objects in liquid real estate centres will widen the gap between European core markets and the peripheral countries of Southern Europe. The proximity of France to this second group of countries is increasing, while the pace of recovery in the United States is set to pick up.

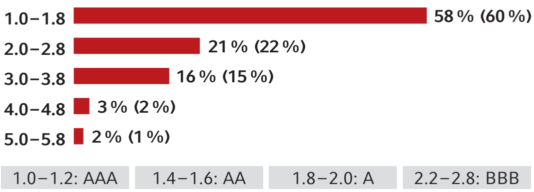
PUBLIC FINANCE

EaD in Public Finance was decreased by € 12 billion to € 73 billion in 2012 through the exploitation of maturities and active asset reduction. Active sales of assets were a key contributing factor to this result, bringing earnings down by € 146 million. Further details can be found in the Management Report (page 32).

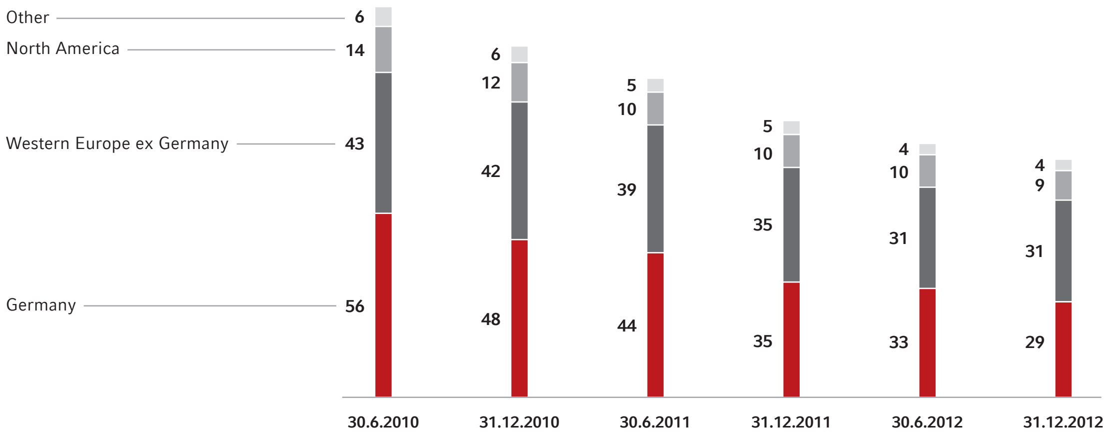
On 30 March 2012 the European Commission informed the Federal Republic of Germany that the divestiture obligation from 2009 had been changed into a requirement to wind down Hypothekenbank Frankfurt (see page 24 for specific details). Prior to this requirement, the risk-oriented, passive reduction of Public Finance assets had already begun and continues to be driven firmly forwards. In line with the strategy, new business is only entered into in isolated cases as required to manage the cover pool. The Public Finance portfolio comprises receivables and securities, most of which are classified as loans and receivables (LaR) under IAS. The Public Finance segment lends to national governments, federal states, regions, cities, local authorities and supranational institutions (EaD € 46 billion). The largest exposure is in Germany and Western Europe. The share of North America (US / Canada) is around 18 %.

The remaining portfolio consists of financial institutions (FI; EaD € 27 billion), mainly domiciled in Germany and Western Europe (94 %). The majority of the FI portfolio comprises securi-

PUBLIC FINANCE
RATING BREAKDOWN
AS AT 31.12.2012 (31.12.2011)



EAD PORTFOLIO REDUCTION PUBLIC FINANCE IN € BILLION



ties and loans, a large proportion of which have grandfathering clauses, maintenance and guarantee obligations or other declarations of liability from the public sector or were issued in the form of covered bonds.

Holdings in Greek bonds were reduced in 2012 to zero following Greece's bond conversion undertaken as part of the private sector involvement (PSI) deal. Further details can be found in the Notes to the annual report (page 97).

Hypothekenbank Frankfurt is now only involved in a limited volume of structured transactions – mostly ABS portfolios within the Public Finance business. The student loan portfolio, worth around € 4 billion, has an institutional guarantee mechanism that is ultimately backed by the US government.

As at 31 December 2012 the bank did not hold any credit default swaps (CDS) (2011: € 1.0 billion). The only trading book transactions made in 2012 were currency forward transactions. There were no other trading book activities.

It is hard to predict how the Public Finance segment will evolve, as its future is dependent on how the sovereign debt crisis develops and on the political decisions taken in the light of those developments.

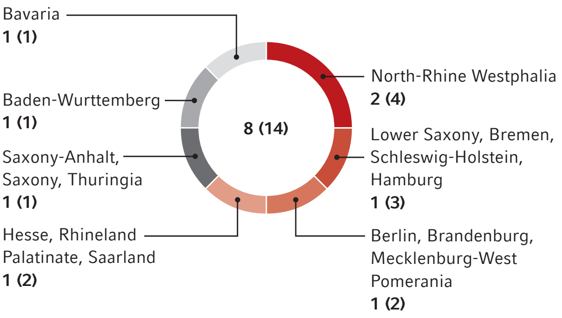
RETAIL BANKING

Since the new business activities were transferred from Hypothekenbank Frankfurt's Retail Banking segment to Commerzbank in 2007, Hypothekenbank Frankfurt only manages the existing loan book, with the aim of reducing assets while protecting earnings.

On the back of the decision to wind down Hypothekenbank Frankfurt, another non-core component of the existing portfolio – primarily multi-dwellings, some with a small business component – has been split off and assigned to the CRE Banking Germany segment. The Private Customers division at Commerzbank is responsible for operating and marketing the remaining Retail Banking portfolio (Retail Banking Core).

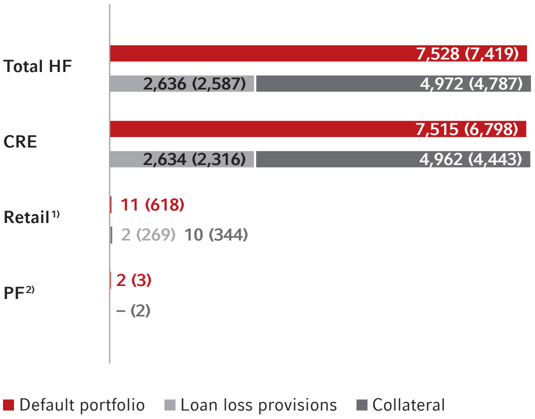
The EaD of the Retail Banking segment was € 8 billion as at 31 December 2012. The portfolio structure is still focused on owner-occupied homes (€ 6 billion) and flats (€ 2 billion).

RETAIL BANKING
REGIONAL BREAKDOWN IN € BILLION
AS AT 31.12.2012[1] (31.12.2011)



[1] Following the 2012 reclassification includes only the core portfolio; the non-core portfolio is additionally included in the previous year's figures.
[2] The figure includes receivables from the category loan loss provisions LaR; impaired shares are not shown in this chart.

DEFAULT PORTFOLIO IN € MILLION
AS AT 31.12.2012 (31.12.2011)



Thanks to the portfolio's robust LtVs due to the residual terms and predominantly first-ranking collateral, the portfolio risk can be considered unchanged, given forecasts of relatively stable economic conditions in Germany.

LOAN LOSS PROVISIONS

LOANS AND RECEIVABLES

During the period under review loan loss provisions totalled € 627 million: domestic commitments accounted for € 118 million (CRE Banking Germany Core including Retail Non-core) against € 501 million for international commitments (CRE Banking International) and € 1 million for the Retail Core portfolio). The remaining € 7 million in loan loss provisions are attributable to Public Finance / Treasury.

Loan loss provisions developed differently from one individual foreign market to the next: In Spain the need for loan loss provisions fell slightly by 11 %, but remained at a high level of € 219 million due to the ongoing difficult market environment.

The US portfolio confirmed the process of stabilisation begun the previous year, recording loan loss provisions of just € 5 million.

The rise in write-downs in the United Kingdom to € 165 million was due to several individual exposures and was significantly higher than the previous year's level.

The Germany portfolio continued to stabilise.

Overall, loan loss provisions were down slightly on the previous year.

Market forecasts and development trends are taken into consideration in our stress scenarios and are a key element of our risk management. In addition to charges against earnings from specific loan loss provisions, impairments to corporate investments and financial investments (including AfS) of € 1 million further diminished earnings, although they were significantly lower than the previous year (€ 3.1 billion).

The economic, tax and social environment in certain countries poses further risks for European and global development. Given the poor economic outlook not much movement is expected on the CRE markets in the current financial year, although we are anticipating fewer write-downs for the year as a whole than in the previous year.

DEFAULT PORTFOLIO

The bank's default portfolio was €7.5 billion as at 31 December 2012. The modest year-on-year increase (€7.4 billion) is attributable to new inflows – especially in the UK – in spite of significant disposals. Collateral and loan loss provisions generated a coverage ratio of 100%.

In CRE and Retail Banking, almost all collateral relates to land charges on commercial and residential real estate. General loan loss provisions (GLLP) amounted to €129 million.

As at 31 December 2012 there was a total of €277 million in loans with interest and principal payments (€446 million) that were past due according to Basel II but not yet in default, of which €141 million had been received by 24 January 2013. Around 85% of the outstanding volume in CRE and Retail Banking is secured by collateral in the form of land charges/mortgages. Please refer to the Notes (1), page 76 ff. for information on the accounting policies.

To reduce other risks, some real estate is taken over by property realisation companies. In the year under review, three properties with a combined value of €49 million were acquired that were classified as "investment property" under IAS 40. Disposals totalling €122 million (€23 million) generated a profit of €3 million (€0.3 million). Depreciation on existing properties came to €24 million in 2012, while write-ups came in at €1 million. As part of restructuring measures, we acquired participations in real estate companies valued at equity, which have been reported as at-equity investments totalling €67 million. The at-equity investments generated current results of €1 million in 2012 together with write-downs totalling €43 million. One property from restructuring which until now had been valued according to IFRS 5 was reclassified to the IAS 40 real estate portfolio since the envisaged timeframe for sale could not be achieved. Another property reported in accordance with IFRS 5 was disposed of in 2012, generating income of €4 million. Most of the properties are serviced and managed by companies in which Hypothekenbank Frankfurt owns a majority stake via its subsidiaries, usually HF Estate Management GmbH. The aim is to increase the value and performance of the commercially focussed real estate portfolio through HF Estate Management GmbH's property expertise so that the properties can be placed on the market again in the medium term.

ARREARS AS AT 31.12.2012

in € million	> 0 ≤ 30 days	> 30 ≤ 60 days	> 60 ≤ 90 days	total
Retail Banking Core	6	12	6	24
Commercial Real Estate	101	33	119	253
Public Finance	0	0	0	0
Total	**107**	**45**	**125**	**277**

COVER PORTFOLIO

Hypothekenbank Frankfurt is a major issuer of mortgage and public sector Pfandbriefe.

Property financing and public-sector lending form the basis for cover pool for mortgage and public sector Pfandbrief issues.

Hypothekenbank Frankfurt has a risk management system which complies with the requirements of Section 27 of the German Pfandbrief Act (PfandBG). Both the mortgage Pfandbrief and public sector Pfandbrief businesses are fully integrated into Hypothekenbank Frankfurt's risk management system and are regularly subject to comprehensive internal and external reviews. Detailed information on Hypothekenbank Frankfurt's cover portfolios is given in the information on the transparency rules in accordance with Section 28 of the German Pfandbrief Act (PfandBG), published on the Hypothekenbank Frankfurt website and the Association of German Pfandbrief Banks website, as well as in the Notes on page 160 ff.

MARKET AND LIQUIDITY RISKS

MARKET RISK

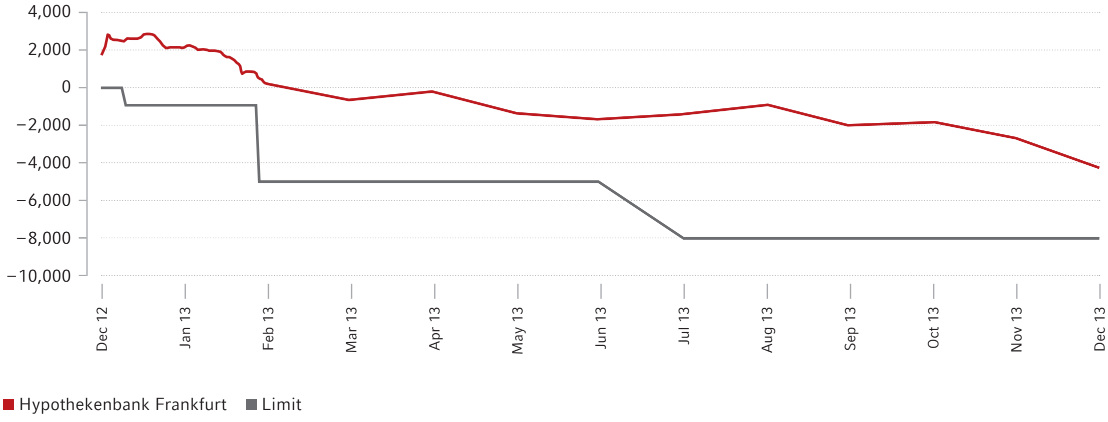
Market price risk comprises the risk of sustaining losses due to changes in market prices (interest rates, spreads, exchange rates, share prices, etc.) or in parameters that affect prices such as volatility and correlations. Losses may have an immediate effect on results or be reflected in the revaluation reserve or in hidden debts/reserves.

Management and monitoring of these risks are handled at Group level. The Group uses a range of instruments: sensitivities, value-at-risk figures (VaR), stress tests and scenario analyses. The stress test calculation is based on a combination of historical and synthetic simulations, for example for interest rates, credit spreads, exchange rates and share prices. This includes hypothetical changes in risk parameters and past worst-case scenarios. Market risk is calculated on a daily basis and limit utilisation is monitored. On 13 February 2012 the Hypothekenbank Frankfurt Group exceeded its VaR limit on a one-time basis as a result of the Greek debt conversion and subsequent reclassification of the new PSI and EFSF bonds as non-LaR assets. The VaR limit, which had not been changed since December 2010, was increased slightly at the beginning of September 2012 from € 110 million to € 120 million; average limit utilisation was 82 %.

We also monitor market liquidity risk, which refers to cases where limited market liquidity prevents the bank from realising or hedging risk positions at reasonable conditions to the extent desired. For hedging purposes, derivatives are mainly used in Hypothekenbank Frankfurt.

Market risk exposure is determined by the banking books in Hypothekenbank Frankfurt's investment portfolio: Public Finance positions are the key drivers. The VaR (97.5 %, 1 day) was € 90 million as at 31 December 2012, only slightly higher than the € 87 million at the end of 2011. Credit spread risks for all Public Finance

AVAILABLE NET LIQUIDITY IN € MILLION
AS AT 31.12.2012



positions are also measured and limited using sensitivity analyses (upshift 1 bp). As at end-2012 credit spread sensitivity within the Public Finance portfolio was €−42 million (€−50 million) for LaR items; for AfS items, it remained unchanged at €−4 million.

LIQUIDITY RISK

Liquidity risk in the narrower sense is the risk that Hypothekenbank Frankfurt will be unable to meet its current and future payment obligations as and when they fall due. In a wider sense, it includes the risk that the bank will not be able to finance future payments on time, in full, in the correct currency or at standard market conditions.

Hypothekenbank Frankfurt's liquidity is integrated into the Commerzbank Group's liquidity management system. The ability to meet payment obligations is measured and monitored using two interlinked concepts:

- for periods of up to one year – available net liquidity (ANL) concept
- periods of one year or more – stable funding concept

Commerzbank's internal liquidity risk model is the basis for liquidity management. This liquidity risk measurement approach calculates the available net liquidity (ANL) for the next 12 months on the basis of contractual and economic cash flows and liquid assets. Stress testing is a key component. It indicates the potential liquidity impact of unforeseen events, which is then used to define sustainable contingency planning.

The regulatory provisions of the Liquidity Regulation were observed at all times. The solvency of Hypothekenbank Frankfurt was adequate at all times during the period under review – even under the assumptions of the stress scenarios. The bank is actively involved in Commerzbank's preparations to introduce the liquidity risk ratios defined in Basel III[1)].

For quantitative information on liquidity risk, see the Notes (84, Maturity breakdown) on page 141 f.; for details on derivatives, see the section starting on page 130 ff.

[1)] The term Basel III describes the reform package of the Basel Committee of the Bank for International Settlements (BIS) for existing bank regulations Basel II.

OPERATIONAL RISK AND OTHER RISKS

OPERATIONAL RISK

Operational risk is defined in accordance with the Solvency Regulation as the risk of loss resulting from the inadequacy or failure of internal processes, systems and people or from external events. The definition includes litigation risks, but does not cover reputational or strategic risks. Functions in the area of operational risk (OpRisk) necessary for fulfilling Group-wide and regulatory requirements have been transferred to Commerzbank by Hypothekenbank Frankfurt.

The Group has qualified as an institution for the internal capital model (advanced measurement approach, AMA). All quantitative and qualitative requirements for managing operational risk have been implemented, including corresponding management mechanisms. Commerzbank calculates regulatory and economic capital and is responsible for modelling stress scenarios for operational risk.

In 2012 operational risk losses came to approximately € 5 million, largely stemming from provisions for legal risk and legal costs. The regulatory capital required for operational risks calculated using the advanced measurement approach was € 110 million as at 31 December 2012.

Outsourcing

Outsourcing risk comes under operational risk. This risk is quantified within the methods and procedures applicable there, in as far as this is possible and economically meaningful.

In order to meet the Pillar 2 requirements of the Basel framework, the minimum requirements of risk management (MaRisk) necessitate a holistic view of risk and hence that unquantifiable risk categories also be taken into consideration. These are subject to Group-wide qualitative management and controlling processes.

BUSINESS RISK

Business risk is deemed to be a potential loss that results from deviations of actual income (negative deviation) and costs (positive deviation) from budgeted figures. Business risk is modelled using empirical data on the difference between actual and target income and expenses. This risk is mainly determined by business strategy and internal budget planning as well as through changing operating conditions for business volumes, technical processes and the competitive situation of the bank and its competitors for customers. Business risk is managed through clear target returns and cost-income ratios for each segment combined with flexible cost management when these targets are not met.

NON-QUANTIFIABLE RISK

In order to meet the Pillar 2 requirements of the Basel framework, the minimum requirements of risk management (MaRisk) necessitate a holistic view of risk and hence that unquantifiable risk categories also be taken into consideration. These are subject to Group-wide qualitative management and controlling processes.

Personnel risk

Personnel risk is included in the definition of operational risk set out in Section 269 (1) of the Solvency Regulation. Within our internal control system, personnel risk is broken down into the following factors:

Adjustment risk: Internal and external training are used to ensure that our employees' qualifications reflect current developments, thereby enabling them to perform their duties and responsibilities successfully.

Motivation risk: Employee surveys are used to identify potential changes in staff loyalty at an early stage, so as to be able to introduce appropriate management measures.

Departure risk: Hypothekenbank Frankfurt must ensure that the absence or departure of employees will not result in long-term disruptions to operations. Staff turnover rates are reviewed regularly in terms of quality and quantity.

Supply risk: The quantitative and qualitative staffing of Hypothekenbank Frankfurt must be based on internal operating requirements, business activities, strategy and the risk situation.

Hypothekenbank Frankfurt believes that staff is a vital resource. Our success is built on our employees' specialist knowledge, expertise, skills and dedication. Group Human Resources uses a personnel risk management system in order to identify, assess and manage risk from an early stage, not least through the use of selected human resources tools. The Hypothekenbank Frankfurt Board of Managing Directors receives regular updates on personnel risk.

Business strategy risk

Strategic risk is the medium to long-term risk of negative impacts on the achievement of Hypothekenbank Frankfurt's strategic goals, for example as the result of changes in the market environment or inadequate implementation of Group strategy.

Group strategy is developed further within the context of a structured strategy process. The results of this strategy process are then used to define a sustainable business strategy which outlines key business activities and the measures needed to achieve the goals set. In order to ensure an appropriate implementation of the Group strategy designed to achieve the business objectives, strategic controlling is conducted through regular monitoring of quantitative and qualitative goals both in the Group as well as in the segments.

Responsibility for strategic corporate management lies with the Board of Managing Directors. Certain decisions relating to business policy (participations and sale > 1 % of equity) additionally require the agreement of the Standing Committee of the Supervisory Board. All larger-scale investments are subject to careful review by the Investment and Resources Allocation Committee.

Reputational risk

The risk of deterioration of the bank's reputation among investors, clients, employees, business partners and the public is described as reputational risk. Risks to the bank's reputation are usually the consequence of other types of risk, such as compliance risk. The management's aim is early identification and monitoring of these risks, as well as raising awareness of them among employees. Capital Market Communication is responsible for managing reputational risks. The central tasks are the definition, measurement and analysis of potential reputational risks and the coordination of public relations with Commerzbank in the event of a crisis. The Board of Managing Directors and Supervisory Board are informed regularly of current reputational risks by the responsible reputation manager.

Compliance risk

Hypothekenbank Frankfurt's operations are contingent upon the trust and confidence of our clients, our Pfandbrief investors, our staff and the public in our capacity and potential and especially in the integrity of our bank and the entire Commerzbank Group. This confidence is based particularly on compliance with applicable statutory, regulatory and internal regulations and conformity with customary market standards and codes of conduct (compliance) in business activities. The Board of Managing Directors has primary responsibility for compliance. In 2013 it has once again assigned this function to Management Group Compliance at Commerzbank. The purpose of compliance is to identify at an early stage any compliance risks that could cast doubt on the integrity and therefore the business activities of the company, to prevent such risks if possible, manage them or resolve them appropriately in the interests of the parties involved.

OUTLOOK

The ongoing European debt crisis will continue to have a direct impact on Hypothekenbank Frankfurt's risk management activities in 2013. As before, we will focus our activities on strengthening our capital base by systematically reducing risk-weighted assets while also stabilising the quality of our portfolio.

The outlook for the real estate market in 2013 is directly dependent on the economy overall, and in particular on the effects of the ongoing sovereign debt crisis. The material risks (loan loss provisions) that might emerge cannot be definitively estimated as of now due to the fragile situation.

DISCLAIMER

Hypothekenbank Frankfurt uses state-of-the-art internal risk measurement methods and models that are based on standard banking sector practices to calculate the figures presented in this report. The results obtained with the risk models are suitable for the purposes of the management of the bank. The measurement approaches are regularly reviewed by Risk Control, Internal Audit, the external auditors and the German supervisory authorities. Although the models and regular controls have been carefully designed, models cannot reflect all real-life factors, nor the complex behaviour and interactions of those factors. The limits of risk models are particularly relevant in extreme situations. Supplementary stress tests and scenario analyses can only indicate the risks that a portfolio may be exposed to in extreme market situations. However, stress tests cannot cover all conceivable scenarios. The analyses cannot give a definitive indication of the maximum loss in the case of an extreme event.

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FINANCIAL STATEMENTS
HYPOTHEKENBANK FRANKFURT GROUP
AS AT 31 DECEMBER 2012

Our Group accounts are drawn up in accordance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and their interpretation by the Standing Interpretations Committee and the International Financial Reporting Interpretation Committee, applying all standards and interpretations that are mandatory in the European Union for the financial year 2012.

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HYPOTHEKENBANK FRANKFURT GROUP

STATEMENT OF COMPREHENSIVE INCOME

INCOME STATEMENT

	Notes	1.1.–31.12.2012 € million	1.1.–31.12.2011 € million	Change € million	Change %
Interest income		5,318	6,711	–1,393	–20.8
Interest expenses		4,407	5,690	–1,283	–22.5
Net interest income	30	**911**	**1,021**	**–110**	**–10.8**
Loan loss provisions	31	–627	–697	–70	–10.0
Net interest income after loan loss provisions		**284**	**324**	**–40**	**–12.3**
Commission income		118	157	–39	–24.8
Commission expenses		26	30	–4	–13.3
Net commission income	32	**92**	**127**	**–35**	**–27.6**
Net income on hedge accounting	33	19	–31	50	>100.0
Net trading income	34	–112	244	–356	>–100.0
Net investment income	35	–278	–3,712	3,434	92.5
Current income of companies accounted for using the equity method	36	1	–8	9	>100.0
Net income on investment properties	37	–20	2	–22	>–100.0
Operating expenses	38	302	360	–58	–16.1
Other net income	39	–42	–40	–2	–5.0
Impairments of goodwill	40	58	–	58	–
Restructuring expenses	41	41	–	41	–
Pre-tax profit/loss		**–457**	**–3,454**	**2,997**	**86.8**
Taxes on income	42	–116	–26	–90	>–100.0
Consolidated result		**–573**	**–3,480**	**2,907**	**83.5**
Attributable to minority interests		0	0	0	–
Attributable to Hypothekenbank Frankfurt shareholders		–573	–3,480	2,907	83.5

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

	Notes	1.1.–31.12.2012 € million	1.1.–31.12.2011 € million	Change € million	Change %
Consolidated result		**–573**	**–3,480**	**2,907**	**83.5**
Change in revaluation reserve	70	**385**	**–397**	**782**	**>100.0**
Reclassification adjustments for realised gains (+)/losses (–)		4	409	–405	–99.0
Unrealised net gains (+)/losses (–) during the period		381	–806	1,187	>100.0
Change in cash flow hedge reserve	70	**7**	**3**	**4**	**>100.0**
Reclassification adjustments for realised gains (+)/losses (–)		7	3	4	>100.0
Unrealised net gains (+)/losses (–) during the period		–	–	–	–
Change in currency translation reserve	70	**–10**	**3**	**–13**	**>–100.0**
Reclassification adjustments for realised gains (+)/losses (–)		–10	–	–10	>–100.0
Unrealised net gains (+)/losses (–) during the period		0	3	–3	–100.0
Change in companies accounted for using the equity method during the period		**–**	**–**	**–**	**–**
Other comprehensive income		**382**	**–391**	**773**	**>100.0**
Total comprehensive income		**–191**	**–3,871**	**3,680**	**95.1**
Total comprehensive income attributable to minority interests		0	0	0	0
Total comprehensive income attributable to Hypothekenbank Frankfurt shareholders		–191	–3,871	3,680	95.1

OTHER COMPREHENSIVE INCOME

in € million	1.1. – 31.12.2012 pre-tax	1.1. – 31.12.2012 tax	1.1. – 31.12.2012 after tax	1.1. – 31.12.2011 pre-tax	1.1. – 31.12.2011 tax	1.1. – 31.12.2011 after tax
Change in revaluation reserve	553	–168	385	–580	183	–397
Change in cash flow hedge reserve	10	–3	7	5	–2	3
Change in currency translation reserve	–10	–	–10	3	–	3
Change in companies accounted for using the equity method during the period	–	–	–	–	–	–
Other comprehensive income	**553**	**–171**	**382**	**–572**	**181**	**–391**
Attributable to minority interests	–	–	–	0	0	0
Attributable to Hypothekenbank Frankfurt shareholders	553	–171	382	–572	181	–391

APPROPRIATION OF PROFIT

APPROPRIATION OF PROFIT

in € million	2012	2011
Consolidated result attributable to Hypothekenbank Frankfurt shareholders	−573	−3,480
Transfer of profits (–)/assumption of losses (+)	174	4,200
Allocations to releases from (–)/retained earnings (+)	399	−720
Consolidated result	–	–

BALANCE SHEET

ASSETS

	Notes	31.12.2012 € million	31.12.2011 € million	Change € million	Change %
Cash reserve	6, 45	8	18	−10	−55.6
Claims on banks	7, 8, 46, 48	20,430	23,145	−2,715	−11.7
of which pledged as collateral	85	12,129	11,723	406	3.5
Claims on customers	7, 8, 47, 48	80,271	101,699	−21,428	−21.1
Positive fair values attributable to derivative hedging instruments	10, 49	7,192	6,294	898	14.3
Trading assets	11, 50	10,600	10,069	531	5.3
Financial investments	12, 51	52,642	59,774	−7,132	−11.9
At-equity investments	13, 52	67	113	−46	−40.7
Intangible assets	14, 53	4	67	−63	−94.0
Fixed assets	15, 54	107	115	−8	−7.0
Investment property	16, 55	116	155	−39	−25.2
Non-current assets held for sale	17, 56	399	59	340	>100.0
Current tax assets	19, 58	18	54	−36	−66.7
Deferred tax assets	19, 58	747	1,048	−301	−28.7
Other assets	59	420	371	49	13.2
Total		**173,021**	**202,981**	**−29,960**	**−14.8**

LIABILITIES

	Notes	31.12.2012 € million	31.12.2011 € million	Change € million	Change %
Liabilities to banks	20, 60	59,290	72,266	−12,976	−18.0
Liabilities to customers	20, 61	28,263	30,816	−2,553	−8.3
Securitised liabilities	20, 62	49,704	64,010	−14,306	−22.3
Negative fair values attributable to derivative hedging instruments	21, 63	15,886	15,570	316	2.0
Trading liabilities	22, 64	12,475	11,815	660	5.6
Provisions	23, 24, 65	752	447	305	68.2
Current tax liabilities	19, 66	6	41	−35	−85.4
Deferred tax liabilities	19, 66	8	18	−10	−55.6
Other liabilities	67	75	218	−143	−65.6
Subordinated capital	26, 68	1,835	3,036	−1,201	−39.6
Hybrid capital	26, 69	900	900	–	–
Equity	27, 70	3,827	3,844	−17	−0.4
Subscribed capital	70	914	914	–	–
Capital reserve	70	3,992	3,992	–	–
Retained earnings	70	579	978	−399	−40.8
Revaluation reserve	70	−1,634	−2,019	385	19.1
Cash flow hedge reserve	70	−25	−32	7	21.9
Currency translation reserve	70	0	10	−10	−100.0
Consolidated result		–	–	–	–
Total before minority interests		3,826	3,843	−17	−0.4
Minority interests		1	1	0	–
Total		**173,021**	**202,981**	**−29,960**	**−14.8**

STATEMENT OF CHANGES IN EQUITY

	Notes	Subscribed capital	Capital reserve	Retained earnings
Equity as at 1.1.2011	70	**914**	**3,992**	**258**
Total comprehensive income				
Consolidated result				
Change in revaluation reserve				
Change in cash flow hedge reserve				
Change in currency translation reserve				
Change in companies accounted for using the equity method during the period				
Allocations to retained earnings (+)/ releases from (–) retained earnings	70			720
Transfer of profits (–)/assumption of losses (+)				
Changes in shareholdings				
Other changes				
Equity as at 31.12.2011	70	**914**	**3,992**	**978**

	Notes	Subscribed capital	Capital reserve	Retained earnings
Equity as at 1.1.2012	70	**914**	**3,992**	**978**
Total comprehensive income				
Consolidated result				
Change in revaluation reserve				
Change in cash flow hedge reserve				
Change in currency translation reserve				
Change in companies accounted for using the equity method during the period				
Allocations to retained earnings (+)/ releases from (–) retained earnings	70			−399
Transfer of profits (–)/assumption of losses (+)				
Changes in shareholdings				
Other changes				
Equity as at 31.12.2012	70	**914**	**3,992**	**579**

Revaluation reserve	Cash flow hedge reserve	Currency translation reserve	Consolidated result	Total before minority interests	Minority interests	Minority interests revaluation reserve	Total
−1,622	−35	7	–	3,514	1	0	3,515
−397	3	3	−3,480	−3,871			−3,871
			−3,480	−3,480			−3,480
−397				−397			−397
	3			3			3
		3		3			3
				–			–
			−720	0			0
			4,200	4,200			4,200
				–			–
				–			–
−2,019	−32	10	–	3,843	1	0	3,844

Revaluation reserve	Cash flow hedge reserve	Currency translation reserve	Consolidated result	Total before minority interests	Minority interests	Minority interests revaluation reserve	Total
−2,019	−32	10	–	3,843	1	0	3,844
385	7	−10	−573	−191			−191
			−573	−573			−573
385				385			385
	7			7			7
		−10		−10			−10
				–			–
			399	0			0
			174	174			174
				–			–
				–			–
−1,634	−25	0	–	3,826	1	0	3,827

STATEMENT OF CASH FLOWS

DISCLOSURE OF CASH FLOW STATEMENT

The statement of cash flows has been prepared in accordance with IAS 7. It shows the composition of and changes in cash and cash equivalents during the financial year. The statement of cash flows is broken down into operating activity, investment activity and financing activity.

Cash inflows and outflows from claims on banks and customers, securities from the trading portfolio and other assets are reported as cash flow from operating activities. Inflows and outflows from liabilities to banks and customers, securitised liabilities and other liabilities also form part of cash flow from operating activities. The interest and dividend payments resulting from operating activities are similarly reflected in cash flow from operating activities.

Changes in cash flow from operating activities result in part from the disposal of consolidated companies.

Cash flow from investment activities shows transactions in financial assets, intangible assets and fixed assets. Also indicated are cash flows connected to the sale or acquisition of subsidiaries. Cash flow from investment activities comprises proceeds from capital increases as well as incoming and outgoing payments in connection with subordinated and hybrid capital. Dividend payments are also indicated here.

Cash and cash equivalents includes any cash equivalents that are readily convertible to liquid funds and are only subject to an insignificant risk of change in value. This includes the cash reserve, which comprises the cash on hand and the balances with central banks (see Note 45). Claims on banks due on demand are not included.

Cash flow statements are not very meaningful for the Hypothekenbank Frankfurt Group. They replace neither our liquidity nor financial planning, nor are they used as a management tool.

STATEMENT OF CASH FLOWS

in € million	Notes	2012	2011
Consolidated result		**−573**	**−3,480**
Non-cash items included in the consolidated result to reconcile the net profit with the cash flow provided by operating activities:			
Depreciation, impairments, write-ups of fixed assets and financial assets, changes in provisions and changes in value attributable to hedge accounting	38, 39	498	3,379
Changes in other non-cash items		−421	−733
Loss/profit from the sale of assets		179	397
Profit from the sale of fixed assets	35, 39	−5	−7
Other adjustments (net interest income)		−911	−1,021
Sub-total		**−1,233**	**−1,465**
Change in assets and liabilities from operating activities after correction for non-cash items:			
Claims			
– on banks	46	2,593	1,131
– on customers	47	16,670	19,376
Securities held for trading purposes		–	–
Other assets from operating activities		52	143
Liabilities			
– to banks	60	−12,802	−13,267
– to customers	61	−3,306	−2,824
Securitised liabilities	62	−14,145	−16,415
Other liabilities from operating activities		−277	−74
Interest received	30	5,530	6,991
Dividends received	30	–	2
Interest paid	30	−4,562	−6,125
Income tax paid	42	−27	−43
Cash flow from operating activities		**−11,507**	**−12,570**
Proceeds from the sale of			
– financial assets and at-equity investments		8,216	11,976
– fixed assets		156	50
Outgoing payments for the acquisition of			
– financial assets and at-equity investments		−165	−35
– fixed assets		−23	−5
Effects of changes in the companies included in the scope of consolidation			
– Cash flow from acquisitions less cash equivalents acquired		−36	–
– Cash flow from disposals less cash equivalents sold		47	–
Cash flow from investing activities		**8,195**	**11,986**
Proceeds from capital increases	70	–	–
Dividend payments	70	–	–
Changes in funds from			
– proceeds from assumption of losses	70	4,200	672
– proceeds or payments from subordinated capital	68	−898	−100
Cash flow from financing activities		**3,302**	**572**
Cash and cash equivalents at the end of the previous period		**18**	**30**
+/− Cash flow from operating activities		−11,507	−12,570
+/− Cash flow from investing activities		8,195	11,986
+/− Cash flow from financing activities		3,302	572
+/− Effects of exchange-rate changes on cash and cash equivalents		0	0
Cash and cash equivalents as at 31 December		**8**	**18**
of which:			
Cash on hand	45	0	0
Balances with central banks	45	8	18

NOTES

SIGNIFICANT ACCOUNTING PRINCIPLES

Eurohypo AG was rebranded Hypothekenbank Frankfurt AG in August 2012. Hypothekenbank Frankfurt AG is a bank and has its registered office in Eschborn, Germany. The present consolidated financial statements as at 31 December 2012 were prepared in accordance with section 315 a clause 1 HGB and Regulation (EC) 1606/2002 (IAS Regulation) of the European Parliament and the European Council of 19 July 2002 as well as other regulations on the adoption of certain international accounting standards on the basis of the International Accounting Standards (IAS) defined and published by the International Accounting Standards Board (IASB) and the International Financial Reporting Standards (IFRS) and their interpretations by the International Financial Reporting Interpretations Committee (IFRIC). All standards and interpretations that are mandatory in the EU for the 2012 financial year have been applied.

As permitted under the regulations, we have not applied standards and interpretations which are required to be adopted only for the 2013 financial year or later (IFRS 9, 10, 11, 12 and 13, the revised IAS 19, 27, 28 and 32, and IFRS 7 amendments arising from the IASB's annual improvement process).

The adoption of IFRS 9, which has been partially published by the IASB and not yet approved by the EU, could have significant effects on the Group's accounting practices. Due to the fact that significant portions of the standard have not yet been finalised and the standard has yet to be adopted by the EU, it is impossible to quantify the effects with any degree of accuracy.

We do not expect IFRS 10, 11 and 12, which have already been adopted but which are not yet applicable, to result in any major changes to the consolidated companies or significantly impact the retained earnings or total assets of the Group.

The expected changes and effects resulting from the first-time use of the revised IAS 19 for the 2013 financial year are presented on page 92 f.

No material impact on the consolidated financial statements is expected from the other standards and interpretations.

The revised standards and interpretations applicable for the first time in 2012 (IAS 12 and IFRS 7; amendments arising from the IASB's annual improvement process) had no material impact on the consolidated financial statements.

In addition to the statement of comprehensive income and the balance sheet, the consolidated financial statements also include the statement of changes in equity, the cash flow statement and the Notes. The segment report can be found in Note 44 on pages 106 to 107.

The management report including the separate report on the opportunities and risks related to future developments (risk report) pursuant to section 315 HGB can be found on pages 39 to 42 of our Annual Report.

All currency figures in the consolidated financial statements are given in euro. All figures are shown in millions of euro unless otherwise stated. In the statement of comprehensive income, the balance sheet, the statement of changes in equity, the condensed cash flow statement and the Notes, amounts below €500,000 are shown as €0 million; where an item is €0, this is represented by a dash.

ACCOUNTING AND VALUATION POLICIES

(1) BASIC PRINCIPLES

The consolidated financial statements are based on the going concern principle. Financial assets and liabilities are measured at amortised cost except where IFRS requires otherwise. This mainly affects certain financial instruments under IAS 39, investment property and assets held for sale. Income and expenses are treated on an accruals basis and are recognised in the income statement for the financial period to which they apply. Interest including all contractual agreements relating to financial assets or liabilities is reported under net interest income for the period to which it applies or, if it results from trading transactions, under net trading income. Dividend income is only recognised if a corresponding legal entitlement exists. Commission income and expenses are recognised in net commission income firstly on the basis of the accounting policies of the related financial instruments and secondly on the basis of the nature of the activity. Commission for services which are performed over a certain period of time is recognised over the period in which the service is performed. Fees associated with the completion of a particular service are recognised at the time of completion of the service. Performance-related commission is recognised when the performance criteria are met. Commission on trading transactions is recorded in net trading income.

Costs of borrowing incurred directly in connection with the acquisition, construction or manufacture of significant assets (be they tangible or intangible) are capitalised, provided the time taken to create the useful asset is at least 12 months. Financial assets and liabilities relating to the same business partner are netted and shown in the balance sheet on a net basis if there is a legally enforceable right to net the amounts and the transactions are fulfilled on a net basis or the asset is realised simultaneously with the settlement of the liability. In addition to the netting of positive and negative fair values attributable to derivatives and associated netting payments, this also applies to the netting of claims and liabilities from reverse repo and repo transactions (securities repurchase agreements).

We mainly use financial statements prepared as at 31 December 2012 for full consolidation and at-equity valuation in the consolidated financial statements. In individual cases, we use the last available annual financial statements for companies valued at equity where their latest financial statements are not yet available at the time of drawing up the consolidated financial statements for the year.

In accordance with IFRS 5, subsidiaries and companies valued at equity where there is an intention to sell and this is highly likely to happen within one year are shown separately in the relevant balance sheet items, the Notes and the statement of changes in equity until the final transfer takes place (see Notes 52 and 55).

An estimate of the current or non-current nature of all balance sheet items is provided in Note 84. Within the Hypothekenbank Frankfurt Group, remaining terms are reported for all financial instruments that are subject to contractual maturities.

The consolidated financial statements contain figures which have been determined on the basis of estimates and assumptions, as permitted. The estimates and assumptions used are based on past experience and other factors such as planning figures and forecasts currently considered probable. The forecasts and analyses, together with the assessment factors and valuation methods on which they are based, are reviewed regularly and compared with actual events. In our view, the parameters used are appropriate and reasonable. Estimate uncertainty is present in the calculation of pension obligations, goodwill and the fair value of investment properties, amongst others. Pension obligations are calculated using the projected unit credit method for defined-benefit pension plans. When calculating these obligations, assumptions have to be made regarding long-term salary and pension trends and average life expectancy. Changes in the valuation assumptions from year to year and variations in the actual annual effects are shown in the actuarial gains and losses (for details of the impact of changes to the parameters, see Note 65 on provisions). The annual impairment test for goodwill is carried out using the discounted cash flow method. Future expected net commission income is included in this test, based on the most recent management forecasts. For an analysis of the uncertainties linked to estimating goodwill and the fair value of financial instruments, see Notes 53 and 81. For uncertainties linked to estimating the fair value of investment properties, Note 55 contains analyses based on the property yield and land value parameters. Estimates for deferred taxes, loan loss provisions, fair value valuation models and the valuation of financial instruments are all subject to uncertainties. Please refer to the risk report in the management report for more information about loan loss provisions.

The assumptions and parameters used for the estimates made are based on appropriate management discretion. This relates in particular to the use and application of suitable parameters, assumptions and modelling techniques when valuing financial instruments which have no market prices available or where no parameters for comparison can be observed in the market. Where different models produce a range of potential valuations, the choice of model used is at the discretion of management.

- The following is a summary of the key issues affected by management judgements:
- The reclassification of certain financial assets from “financial instruments available for sale” to “loans and receivables”.
- Loan impairments and provisions for off-balance sheet lending commitments (primarily the choice of decision-making criteria or the assessment of the value of collateral).
- The impairment tests on other financial assets, companies recognised at equity and financial instruments available for sale (especially the choice of criteria for determining where or not impairment has occurred).

- The impairment tests on non-financial assets such as goodwill and other intangibles (especially the criteria for determining the amount recoverable).
- The impairment tests on deferred income tax assets under IAS 12.24 ff, especially the choice of methodology for producing the tax planning and judging the probability that taxable income is likely to be generated in future.
- The creation of contingency provisions.

The financial statements for the Hypothekenbank Frankfurt Group are drawn up in accordance with the accounting principles set out in these Notes.

(2) CHANGES IN ACCOUNTING AND VALUATION POLICIES

We have employed essentially the same accounting and valuation policies as for the financial statements as at 31 December 2011.

We have further developed our valuation models for secured derivatives in accordance with the changed market standards for discounting. This led to a charge of € 8 million in trading income and income of € 4 million in net income on hedge accounting for the current financial year.

(3) CONSOLIDATED COMPANIES AND PRINCIPLES OF CONSOLIDATION

Consolidated companies

Our consolidated financial statements cover all material subsidiaries in which the Hypothekenbank Frankfurt Group either directly or indirectly holds more than 50 % of voting rights or exercises a controlling influence by other means. This also includes significant special purpose vehicles and funds that are controlled as defined in SIC 12. Significant associated companies and joint ventures are valued using the equity method. Subsidiaries, associated companies and joint ventures which are of minor significance for insight into the Group's assets, financial position and income have not been fully consolidated or valued at equity; instead, they are accounted for under financial assets as shares in non-consolidated subsidiaries or investments. As in the previous year, these companies account for less than 0.1 % of the Group's total assets. A full list of all shareholdings of the Hypothekenbank Frankfurt Group can be found in Note 97.

During the year, the following companies were established

- Property Invest Ferdinando di Savoia S.r.l., Milan, Italy
- Property Invest Roma S.r.l., Milan, Italy
- Brussels Urban Invest S.A., Brussels, Belgium

In addition, Number X GmbH was reassigned to the group of consolidated companies from the group of non-consolidated subsidiaries as it exceeded the materiality threshold.

As a result, assets of € 41 million and debts of € 29 million have been fully consolidated in the financial statements.

No differences requiring goodwill to be capitalised arose from first-time consolidation.

Significant changes in the group of fully consolidated companies resulted from the sale of Eurohypo Japan Corporation, Tokyo, Japan. The sales proceeds totalled € 46 million. As a result, assets of € 1,327 million and debts of € 1,281 million have been removed from the consolidated financial statements. The sales result of € 12 million was included in net investment income.

During the previous year, the following companies were merged with a company consolidated in the Hypothekenbank Frankfurt Group:

- Forum Immobiliengesellschaft mbH, Eschborn
- Futura Hochhausprojektgesellschaft mbH, Eschborn
- Messestadt Riem "Office am See II" GmbH, Eschborn
- Unica Immobiliengesellschaft mbH, Eschborn

The following companies have fallen permanently below our materiality threshold for consolidation and have been deconsolidated and classified as non-consolidated subsidiaries:

- Grundbesitzgesellschaft Berlin Rungestr. 22–24 mbH i. L., Eschborn
- Messestadt Riem "Office am See I" GmbH, Eschborn
- Messestadt Riem "Office am See III" i. L., Eschborn
- TARA Immobiliengesellschaft mbH, Eschborn

During the course of the financial year,

- Number X Real Bologna S.r.L Milan, Italy,

was added to the group of non-consolidated subsidiaries.

There was a material change to the companies valued at-equity this year as a result of the sale of Servicing Advisors GmbH, Frankfurt am Main. The proceeds of € 120,000 were included in net investment income.

Liquidations (including companies that have ceased operations, fallen permanently below our materiality threshold or no longer have to be consolidated):

- EHY Sub Asset LLC, Delaware, USA
- Eurohypo Representacoes Ltda, Sao Paulo, Brazil
- Cap Kiel Betriebs GmbH i. L., Kiel

Principles of consolidation

Subsidiaries are companies in which Hypothekenbank Frankfurt AG directly or indirectly holds a majority of the voting rights or is able to determine the company's financial and business policies and can thereby exercise a controlling influence in order to benefit from its activities. They are consolidated from the date when the Group acquires a majority of the voting rights or a controlling influence.

During the course of consolidation, we measure the total assets and liabilities of subsidiaries anew at the date of the acquisition irrespective of the size of the stake held. The revalued assets and liabilities are transferred to the consolidated balance sheet taking account of deferred taxes. Any hidden reserves and debts which have been identified are dealt with in subsequent accounting periods in line with the applicable standards. If a positive difference remains after revaluation, this is shown as goodwill.

Associated companies are companies in which Hypothekenbank Frankfurt AG has a significant direct or indirect influence. A significant influence is presumed if between 20 % and 50 % of the voting shares are held. Further criteria for determining significant influence include material business transactions with the associated company, membership of a management or supervisory body or involvement in shaping the business policy of the associated company. Joint ventures are companies in which we share control with other companies. Joint control can be the result of equal voting rights or contractual agreements.

Associated companies and joint ventures are valued using the equity method and reported as at-equity investments in the balance sheet. The acquisition costs of these investments including the related goodwill are determined at the date of first inclusion in the consolidated financial statements. The same rules are applied as for subsidiaries. We retain the equity carrying amount for material associated companies and joint ventures.

Subsidiaries cease to be consolidated when the Bank no longer has a controlling influence. Associated companies and joint ventures are no longer valued using the equity method once the proportion of voting shares held falls below 20 % or the Bank no longer has the ability to influence the associated company. The equity valuation of joint ventures ends when joint management is discontinued.

Holdings in subsidiaries which are of minor significance and therefore not consolidated, investments and joint ventures are shown at their fair value, or if this cannot be reliably established, at cost under financial assets.

The obligation to consolidate special purpose vehicles in certain circumstances arises from SIC 12. Consolidation is required if a financial analysis shows that

- the special purpose vehicle conducts its activities in such a way as to meet the special needs of the company or at its request so that the company derives benefit accordingly;
- the company has sufficient decision-making powers to obtain the majority of the benefits of the activities of the special purpose vehicle or delegates these decision-making powers by setting up an autopilot mechanism;
- the company has the right to obtain the majority of the benefits of the activities of the special purpose vehicle and may therefore be exposed to risks incidental to the activities of the special purpose vehicle;
- the company retains the majority of the residual or ownership risks related to the special purpose vehicle in order to obtain benefits from its activities.

In the Hypothekenbank Frankfurt Group, the obligation to consolidate special purpose vehicles is reviewed using a process that covers both transactions where a special purpose vehicle is founded by us with or without the involvement of third parties and transactions where we enter into contractual relationships with an existing special purpose vehicle either with or without the involvement of third parties. Consolidation decisions are subject to regular reviews. The list of all consolidated special purpose vehicles is contained in Note 97.

There are no restrictions on the ability of special purpose vehicles to transfer financial resources such as cash dividends on equity instruments or interest payments and repayments of debt instruments to the Hypothekenbank Frankfurt Group. This applies to special purpose vehicles where the Hypothekenbank Frankfurt Group holds shares with voting rights under company law which enable it to control all operational decisions including the transfer of financial resources. There are also no restrictions with regard to special purpose vehicles where the Hypothekenbank Frankfurt Group does not hold shares under company law but has a right to financial transfers on the basis of corresponding debt contracts with the special purpose vehicles.

Claims and obligations and also expenses and income arising from material intra-Group transactions are eliminated in the process of consolidating debt, expenses and income. Intra-Group gains are deducted unless they are of minor significance.

(4) FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT (IAS 39)

In accordance with IAS 39, all financial assets and liabilities, including derivative financial instruments, must be recognised in the balance sheet. A financial instrument is a contract which simultaneously creates a financial asset for one company and a financial liability or equity instrument for another company. Upon the first occasion that they are reported, financial instruments must be measured at their fair value; this is the transaction price at the time they are acquired. Fair value is the amount at which an asset could be exchanged or a debt settled between knowledgeable, willing parties in an arm’s length transaction on the balance sheet date. Fair value is determined by the price established for the financial instrument on an active market (mark-to-market, valuation hierarchy level I). If no market prices are available, instruments are measured on the basis of the listed prices for similar instruments on active markets. If no listed prices are available for identical or similar financial instruments, we use valuation models that as far as possible use market data as inputs to determine fair value (valuation hierarchy level II – mark-to-model). If insufficient currently verifiable market data is available when using valuation models, unobservable market parameters are also used. These input parameters may contain data in the form of approximations, some of which may be based on historic data (valuation hierarchy level III). Please see Note 81 for detailed information on valuation hierarchies.

The following notes provide an overview of how the rules of IAS 39 in their current version have been applied within our Group:

a) Acquisitions and disposals of financial instruments:

A financial asset or financial liability is entered in the accounts if the Group is a contracting party to agreements relating to the financial instrument. In the case of standard spot purchases and sales of financial assets, the trading date and settlement date are usually different. For these standard spot purchases and sales, the transaction may be entered either using trade date accounting or settlement date accounting. The Hypothekenbank Frankfurt Group uses settlement date accounting for sales and disposals that fall under the heading of loans and receivables, whilst available for sale assets and financial assets or financial liabilities at fair value through profit or loss are recorded using trade date accounting.

The IAS 39 rules on disposals focus on the concept of risk and reward and the power of disposal; the evaluation process for derecognition gives precedence to the evaluation of risk and reward over the assessment of transferring power of disposal. If only part of the risks and rewards are transferred and the power of disposal is retained, the continuing involvement approach must be applied. The financial asset is then accounted for, using certain accounting and valuation methods, in order to reflect the extent of the continuing involvement. The scope of the continuing involvement is determined by the extent to which the Group still bears the risk of any change in value for the transferred asset. A financial liability (or part thereof) is written off when it is no longer valid, namely when the obligations set out in the contract have been settled, lifted or have expired. The rules on the derecognition of financial liabilities also apply to the repurchase of Group debt securities. If there is a difference between the carrying amount of the liability (including premiums and discounts) being bought and the purchase price for bearer securities, this must be recognised under trading income, and all other liabilities entered under other income. If issued and resold at a later date, that constitutes a new financial liability, where the acquisition cost equal the proceeds from the disposal. Any difference between the new acquisition cost and the contractual price at maturity are distributed using the effectiv interest rate method over the remaining lifetime of the debt security.

b) Categorisation of financial assets and liabilities and their valuation

The following explanations provide an overview of the IAS 39 categories. These are loans and receivables, held-to-maturity, fair value, available for sale and other financial liabilities.

Loans and receivables:

Non-derivative financial instruments with fixed or determinable payment claims for which no active market exists are assigned to this category. This applies irrespective of whether the financial instruments were originated by the bank or acquired in the secondary market. An active market exists if listed prices are regularly made available, for example by an exchange or a broker, and these prices are representative of current transactions between unconnected third parties. Valuation is at amortised cost, which must be adjusted through profit or loss in the event of an impairment. Premiums and discounts are recognised in net interest income over the lifetime of the asset.

The new carrying amount of securities recategorised in loans and receivables under financial investments is set as fair value at the time of reclassification. The revaluation reserve after deferred taxes at this time remains under other reserves and is released over the remaining term of the reclassified securities holdings.

Impairments are taken for financial investments categorised as loans and receivables in the same way as for the lending business. Any impairments on these financial instruments are recorded under net investment income and deducted directly from the investments. If the impairment indicator for particular securities no longer applies or no longer indicates an impairment, the impairment loss must be reversed to a level not exceeding amortised cost. Similarly, an improved risk environment can lead to the reversal of an impairment that was previously recognised at the portfolio level.

Financial assets held to maturity:
Non-derivative financial assets with fixed or determinable payments and a fixed maturity may be included in this category if there is both an intention and the ability to hold them to maturity. Valuation is at amortised cost, which must be adjusted through profit or loss in the event of an impairment. Premiums and discounts are recognised in net interest income over the lifetime of the asset. In 2012, the Hypothekenbank Frankfurt Group again made no use of the held-to-maturity financial assets category.

Financial assets or liabilities at fair value through profit or loss:
one of the following criteria must apply if an asset is put in this category:

Financial assets or liabilities held for trading:
This category includes all financial assets and liabilities held for trading purposes and those derivatives that do not function as hedging instruments.

Derivative financial instruments used as hedging instruments are recognised as trading assets or trading liabilities from trading activities only if they do not meet the conditions for applying the hedge accounting rules (see below). Otherwise, they are shown as fair value attributable to hedging instruments.

Trading assets and trading liabilities from trading activities are valued at their fair value on the balance sheet at the reporting date. If the fair value cannot be obtained from an active market, items are measured by means of comparable prices, indicative prices from pricing service providers or other banks (lead managers) or internal valuation models (net present value or option pricing models). Interest rate and cross-currency derivatives are measured using market standards, making allowance for the frequency at which variable coupons are reset. Costs may be incurred to take out new derivatives positions if a counterparty defaults and a positive market value remains after all netting agreements and collateral agreements have been taken into consideration. These potential costs must be considered when determining the fair value of trading positions. In such cases, the Hypothekenbank Frankfurt Group sets up counterparty default adjustments (CDAs) to take account of a potential default by a counterparty. Valuation and realisation gains or losses are included under trading income in the income statement. We also record interest and dividend income and refinancing costs under trading income arising from trading transactions.

If transactions are executed for which the fair value is calculated using a valuation model where not all material input parameters are based on observable market parameters, these transactions are recorded at the transaction price. The difference between the transaction price and the fair value produced by the valuation model is known as day one profit or loss. The day one profit or loss is not recognised immediately but is instead recognised over the term of the transaction in the income statement. Where a reference price can be calculated for a transaction on an active market or the material input parameters are based on observable market data, the accrued day one profit or loss is recognised directly as trading income.

Designated at fair value through profit or loss:
Under the fair value option, it is possible to value every financial instrument at fair value and record the net result of this valuation in the income statement. The decision as to whether use the fair value option has to be made on the date the financial instrument is acquired and is irrevocable.

The fair value option may be used for a financial instrument provided that

- an accounting mismatch will be prevented or significantly reduced, or
- a portfolio of financial instruments is managed, and its performance measured, on a fair value basis, or
- the financial instrument contains one or more embedded derivatives that must be separated.

If the fair value option is applied to financial instruments, the instruments are still posted under the relevant balance sheet items. The valuation gains and losses are entered under trading income in the income statement; interest income and expenses are recognised under net interest income.

Financial assets available for sale:

This category includes all non-derivative financial instruments which have not been assigned to any of the above categories or which have been designated as available for sale. These are primarily interest-bearing securities, equities and investments. They are valued at fair value. If the fair value cannot be obtained from an active market, items are measured by means of comparable prices, indicative prices from pricing service providers or other banks (lead managers) or internal valuation models (net present value or option pricing models). If, in exceptional circumstances, the fair value of an equity instrument cannot be reliably determined, valuation is at cost less any impairments required. Valuation gains and losses are recognised net of deferred taxes directly in equity in a separate item under capital and reserves (the revaluation reserve). Premiums and discounts on debt instruments are recognised in net interest income over the lifetime of the liability. Interest, dividend income and current income from assets in this category are also shown under net interest income. If the financial asset is sold, the cumulative valuation previously recognised in the revaluation reserve is released and recognised in the income statement.

In accordance with IAS 39.59, financial instruments shown under this category must be reviewed for any objective indications (such as breach of contract, a loss event, or increased probability of financial reorganisation or insolvency) that not all of the expected cash flows from the asset will be realised. An impairment exists if the net present value of the expected cash flow is less than the amortised cost of the financial instrument concerned. In the event of an impairment, the net change is no longer recognised in the revaluation reserve as equity, but is instead shown as an impairment expense under net investment income in the income statement.

In the Hypothekenbank Frankfurt Group, equity instruments in the available for sale portfolio are written down if the fair value falls below the acquisition cost either significantly (≥20 %) or on a long-term basis (over a period of at least nine months). In addition to these quantitative trigger events, the instruments are reviewed according to the qualitative trigger events described in IAS 39.59. Equity instruments in the financial assets available for sale category may not be written up through profit or loss; instead, any write-ups are booked directly to the revaluation reserve. No write-ups whatsoever may be made for unlisted equity instruments for which the fair value cannot be reliably determined and which are therefore measured at acquisition cost less any necessary impairment.

Where qualitative trigger events under IAS 39.59 have occurred, debt instruments are examined individually to see if there is any need for impairment. In implementing the qualitative trigger events operationally, the Hypothekenbank Frankfurt Group has developed additional indicators for write-downs. For example, debt instruments in the available for sale portfolio are generally written down if the borrower's rating is CCC or lower and fair value is below amortised cost.

If the reasons for an impairment of debt instruments cease to apply, the debt instrument is written up with the maximum write-up being the amount of the amortised cost. Any amount in excess of the acquisition cost is recognised in the revaluation reserve.

Other financial liabilities:

All financial liabilities not categorised as held for trading and for which the fair value option has not been used fall under the category of other financial liabilities. This category includes liabilities to banks and customers and securitised liabilities. Valuation is at amortised cost. Premiums and discounts are recognised in net interest income over the lifetime of the asset.

c) Net gains and losses

The net gains and losses include fair value valuations, impairments, write-ups, realised gains and losses on disposals and amounts recovered on written-down financial instruments from the IAS 39 categories described above. The components are shown in the Notes on net interest income, loan loss provisions, net trading income and the net investment income for each IAS 39 category.

d) Financial guarantee contracts

IAS 39 defines a financial guarantee as a contract under which the guarantor is obliged to make certain payments that compensate the party to whom the guarantee is issued for a loss arising in the event that a particular debtor does not meet payment obligations on time as stipulated in the original or amended terms of a debt instrument. This may include, for example, bank guarantees and sureties. If the guarantee is issued to the Hypothekenbank Frankfurt Group, the guarantee is not recognised in the balance sheet and only taken into account if the impairment of a secured asset is being determined. When the Hypothekenbank Frankfurt Group is the guarantor, the liability arising from a financial guarantee is recognised when the contract is signed. Initial measurement is at fair value at the date of recognition. The fair value of a financial guarantee is zero at the date of entering into the guarantee, because for fair market contracts the value of the premium agreed generally corresponds to the value of the guarantee obligation (the net method). Subsequent measurement is at the higher of modified cost or the amount of the provision required under IAS 37 and IAS 39 when a drawing is likely.

If a financial guarantee is part of a financial commitment where there is an intention to trade, it must be categorised as held for trading. Treatment of such guarantees then differs from the above description and is in accordance with the rules for held for trading items (see Note 4 b).

e) Embedded derivatives

IAS 39 also regulates the treatment of derivatives embedded in original financial instruments. These include, for example, reverse convertible bonds (bonds with a right to repayment in the form of equities) or bonds with index-related interest payments. In accordance with IAS 39, under certain conditions the embedded derivative must be shown separately from the original host contract as a standalone derivative.

Embedded derivatives must be shown separately if the following three conditions are met:

- The characteristics and risks of the embedded derivative are not closely related to those of the original host contract
- A separated derivative with the same terms as the embedded derivative would meet the definition of a derivative under IAS 39
- The host contract is not measured at fair value through profit and loss.

In this case, the separate embedded derivative has to be regarded as part of the trading portfolio and recognised at fair value. Any valuation gains or losses have to be recognised as net income from trading. The host contract is recognised and measured by applying the rules of the category to which the financial instrument is assigned.

If the above three conditions are not fulfilled, the embedded derivative is not shown separately and the hybrid financial instrument is valued as a whole in accordance with the general provisions of the category to which the financial instrument is assigned.

f) Hedge accounting

IAS 39 contains extensive rules on accounting for hedges, provided the hedging instruments (especially derivatives) are demonstrably used to hedge risks on underlying non-trading transactions.

There are two main forms of hedge accounting used:

Fair Value Hedge Accounting:

IAS 39 prescribes the use of hedge accounting for derivatives which are employed to hedge the fair value of recognised assets or liabilities against one or more identified risks. The market risk or interest rate risk relates primarily to the Group's issuing and lending business, the securities portfolio and liquidity management, where this involves fixed-income securities. Interest rate and cross-currency swaps are the primary instruments used to hedge these risks.

Under the regulations for fair value hedge accounting, derivative financial instruments used for hedging purposes are shown at fair value as fair values from derivative hedging instruments. Changes on revaluation are recognised on the income statement under gains or losses on hedge accounting. The matching changes in fair value arising on the risk hedged for the hedged asset or liability must also be recognised. The matching changes in value on the hedging instruments and the underlying transactions hedged are taken to income as gains or losses on hedges. That part of the change in fair value which is not attributable to the risk hedged is treated according to the rules for the relevant valuation category.

Fair value hedge accounting may record interest rate risk either using the micro fair value hedge or the portfolio fair value hedge method:

Micro fair value hedge accounting links the underlying transaction to one or more hedging transactions to form a hedge. Where there are changes in fair value due to the risk hedged, the carrying amounts of the underlying transactions are adjusted through profit or loss.

Portfolio fair value hedge accounting recognises interest rate hedging at portfolio level. Rather than hedging individual transactions or groups of transactions with similar risk structures, the method takes the amount of underlying fixed-income transactions for each maturity range in a portfolio, depending on the expected repayments and rate adjustment dates. Portfolios may contain assets only, liabilities only, or both. With this type of hedge accounting, measurement changes in the underlying transactions are recognised as separate asset or liability items in the balance sheet.

The Hypothekenbank Frankfurt Group uses micro fair value hedge accounting.

Cash Flow Hedge Accounting:

IAS 39 prescribes the use of cash flow hedge accounting for derivatives which are employed to hedge the risk of a change in future cash flows. A cash flow risk exists in particular for floating-rate loans, securities and liabilities and for expected transactions (for example, forecast fundraising or financial investments).

Derivative financial instruments used in cash flow hedge accounting are shown at fair value as fair values attributable to derivative hedging instruments. Changes in value are divided into effective and ineffective portions. The effective portion of the hedging transaction is taken directly to equity, net of deferred taxes, under the cash flow hedge reserve. The ineffective portion is shown in the income statement under net income on hedge accounting. However, the matching change in value of the hedged underlying transaction is not recognised in the balance sheet. The change in value of underlying transactions is recognised on the date when the cash flow of the underlying transaction affects income for the period. At that time, the changes in value reflected in the reserve for cash flow hedges are released and recognised in the income statement for the period.

At the Hypothekenbank Frankfurt Group, we used cash flow hedge accounting prior to 2009.

A number of conditions must be satisfied in order for the hedge accounting rules to be applied. These relate primarily to the documentation of the hedge and to its effectiveness.

The hedge must be documented at the time it is established. Documentation must include, in particular, the identification of the hedging instrument and the underlying hedged transaction as well as details of the risk hedged and the method employed to determine the effectiveness of the hedge.

In addition to documentation, IAS 39 calls for evidence of an effective hedge throughout the period of the hedge, in order for the hedge accounting rules to be applied. Effectiveness in this context refers to the ratio of change in fair value of the cash flow resulting from the hedged underlying transaction to the change in fair value of the cash flow resulting from the hedge. If these changes almost completely balance each other out, a high degree of effectiveness exists. Proof of effectiveness requires, firstly, that a high degree of effectiveness can be expected from a hedge in the future (prospective effectiveness). Secondly, when a hedge exists, it must be demonstrated that it was consistently highly effective during the period under review (retrospective effectiveness). Both prospective and retrospective effectiveness must lie between 0.8 and 1.25. In the Hypothekenbank Frankfurt Group, prospective effectiveness is measured using a shift scenario (the dollar-offset method) and retrospective effectiveness is measured by regression analysis.

(5) CURRENCY TRANSLATION

Monetary assets and liabilities denominated in foreign currencies and outstanding spot forex transactions are translated at the spot rates effective on the reporting date, and currency forwards are translated at the forward rates effective on the reporting date. As a rule, expenses and income are translated at the spot rates effective at the time of realisation. Average rates may also be used to translate expenses and income provided these rates are not subject to significant fluctuations. Currency-hedged expenses and income are translated at the hedging rate. Expenses and income resulting from the translation of balance sheet items are recognised in the income statement as net trading income.

Non-monetary items such as corporate investments are translated at historic rates where they are measured at amortised cost. Where measurement is at fair value, we translate at the rate on the day. In line with the recognition of gains or losses, the results of translating gains or losses from non-monetary items are either booked directly to equity or recognised in the income statement.

Income and expenses in the financial statements of consolidated subsidiaries and at-equity investments prepared in foreign currencies are translated at the market rates effective on the relevant transaction date. To simplify matters, the translation may also use the approximate translation rate on the day of the relevant transaction, for example the average rate in a period. All differences resulting from translation must be recognised directly as a separate equity component in the reserve for currency translation. Translation gains and losses on consolidation are also recognised directly in equity in the reserve for currency translation. Translation differences on the disposal of these assets are recognised in net investment income at the time of disposal or partial disposal of these companies prepared in foreign currencies. In the case of partial repayments of capital in foreign currencies that do not lead to the deconsolidation of the companies, the proportional effect on the reserve from the currency conversion is recognised in the income statement.

(6) CASH RESERVE

The cash reserve of the Hypothekenbank Frankfurt Group comprises cash on hand and balances with central banks. These are reported at nominal value.

(7) CLAIMS

The Hypothekenbank Frankfurt Group's claims on banks and customers not held for trading purposes and not quoted on an active market are shown at amortised cost. Premiums and discounts are recognised in net interest income over the lifetime of the liability. Claims on banks and customers arising from trading transactions are recognised at fair value. The carrying amounts of claims that qualify for micro fair value hedge accounting are adjusted for changes in fair value attributable to the hedged risk. Embedded derivatives that must be separated are measured at fair value and shown either under trading assets or trading liabilities.

(8) LOAN LOSS PROVISIONS

We provide for the special risks in on-balance sheet and off-balance sheet lending categorised as loans and receivables by setting aside specific loan loss provisions (SLLPs), portfolio loan loss provisions (PLLPs) and general loan loss provisions (GLLPs).

When taking provisions, we distinguish between claims in default and claims not in default, and between claims which are insignificant (volume up to € 1 million) and those that are significant (volume greater than € 1 million). All claims that have been identified as in default under the rules of Basel II are marked as defaulted or non-performing. The following events may indicate a customer is in default:

- Impending insolvency (more than 90 days overdue).
- The Bank is working on turning around/restructuring the customer, with or without making a contribution.
- The Bank calls in its claims.
- The customer is in insolvency proceedings.

We set aside specific loan loss provisions for significant defaulted claims using consistent standards across the Group. Specific provisions are based on the net present value of expected future cash flows. The cash flows cover expected payments, the proceeds from realising collateral and any other cash flow that may be generated. The risk provision is therefore the difference between the carrying amount of the loan and the net present value of total expected inflows. For interest-free loans, the unwinding effect from the increase in net present value as a result of the passage of time is recognised as interest income using the original effective interest rate.

Portfolio loan loss provisions are taken for insignificant defaulted claims on the basis of internal parameters.

We allow for credit risk on claims that are not in default by taking general loan loss provisions. The amount of the general loan loss provision for business both on and off the balance sheet is calculated using parameters derived from Basel II methodology.

Insofar as it relates to claims on the balance sheet, the aggregate provision for loan losses is deducted directly from the corresponding asset items. However, provisions for the off-balance sheet business (contingent liabilities, lending commitments) are shown under provisions for lending risks.

Unrecoverable amounts for which no specific provision has been taken are written off immediately. Amounts recovered on claims written off are recognised in the income statement in risk provisioning. Impaired claims are partly or wholly written off utilising any existing specific valuation allowances, if the claim proves to be partly or wholly unrecoverable. Any portions of written-down claims which exceed the existing provisions are also directly written off in the event that they are unrecoverable.

(9) REPURCHASE AGREEMENTS AND SECURITIES LENDING TRANSACTIONS

Repo transactions combine the spot purchase or sale of securities with their forward sale or repurchase, the counterparty being identical in both cases. The securities sold under repurchase agreements (the spot sale) are still recognised and measured in the consolidated balance sheet as part of the securities portfolio in the appropriate category. The securities are not derecognised, as we retain the risks and opportunities associated with the ownership of the asset that is the subject of the repo.

Financial assets that have been transferred but not derecognised are subject to the same risks and opportunities as financial assets that have not been transferred, which are described in Note 4.

The inflow of liquidity from the repo transaction is recognised in the balance sheet as a liability either to banks or customers, depending on the counterparty involved. The agreed interest payments are booked as interest expense in accordance with the respective maturities and reported in net trading income or, if they are not the result of trading transactions, in net interest income.

Cash outflows from reverse repos are recognised as claims on banks or customers and, where the claims are part of the banking book, measured at amortised cost. Reverse repos on trading transactions are measured at fair value. The securities bought under repurchase agreements and on which the financial transaction is based (the spot purchase) are not recognised or measured in the balance sheet. The agreed interest payments from reverse repos are booked as interest income under net income from trading in accordance with the respective maturities or, if they are not the result of trading transactions, in net interest income.

We enter into securities lending transactions with banks and customers to meet our obligations to deliver or to be able to carry out repos. These transactions are recognised in the same way as repurchase agreements. The securities lent remain part of our securities holdings and are measured in accordance with IAS 39. Borrowed securities are not recognised or measured on the balance sheet. In securities lending transactions, counterparty credit risk can be avoided by lodging collateral, for example in the form of cash. Where collateral is given for a lending transaction, this is known as "cash collateral out"; where collateral is received, it is known as "cash collateral in". "Cash collateral out" is also posted as margin for derivatives. Cash collateral provided by us for securities lending transactions is recognised as a claim, whilst collateral received appears as a liability.

Income and expenses from securities lending is recognised under net trading income according to the relevant maturity, or if it is not from trading transactions, under net interest income.

(10) POSITIVE FAIR VALUES ATTRIBUTABLE TO DERIVATIVE HEDGING INSTRUMENTS

Derivative financial instruments used for hedging purposes which qualify for micro fair value hedge accounting and have a positive fair value are reported under this item. The hedging instruments are measured at fair value.

Listed hedging instruments are measured at market prices; unlisted hedging instruments are measured using comparable prices and internal valuation models (net present value or option pricing models). The net valuation gains/losses calculated under hedge accounting for fair value hedges are recognised in the income statement under gains or losses on hedge accounting. We show the effective portions of the gains or losses on cash flow hedges in equity under the reserve for cash flow hedges. Ineffective portions of the gains or losses on cash flow hedges are shown in the income statement under net income on hedge accounting.

(11) TRADING ASSETS

Under this item we recognise original financial instruments, which are measured at fair value. These include fixed-income and equity-related securities, promissory notes and investment fund units. Also shown here are all derivative financial instruments that are not used as hedging instruments under the hedge accounting rules and have a positive fair value. Lending commitments with a positive fair value that are classified as part of the trading book are reported here, too.

(12) FINANCIAL INVESTMENTS

Financial investments comprise financial instruments that are not allocated to any other balance sheet item. Financial investments include all bonds, notes and other fixed-income securities, shares and other equity-related securities, investment fund units, corporate investments and shareholdings in non-consolidated subsidiaries which are not held for trading purposes, unless they are classified as available for sale under IFRS 5. Investments in associated companies or joint ventures that are not valued using the equity method for materiality reasons are reported under financial investments as investments.

Financial instruments from the category loans and receivables contained in this item are measured at amortised cost.

The fair value at the date of reclassification is recognised as the new carrying amount for reclassified securities holdings. The revaluation reserve after deferred taxes for reclassified securities remains under the same item in equity and is released over the remaining term of the reclassified securities holdings.

Financial investments assigned to the category available for sale are measured and recognised at fair value.

Premiums and discounts are recognised in net interest income over the lifetime of the liability. Net interest income also includes interest income from bonds, dividend payments on shares and shareholdings in non-consolidated companies and current income from participating interests.

If, however, an effective hedge with a derivative financial instrument exists for financial instruments shown here, that part of the change in fair value attributable to the hedged risk is shown under net gains or losses from hedge accounting.

(13) AT-EQUITY INVESTMENTS

Investments in associated companies and joint ventures are reported as at-equity investments. Joint ventures are also reported using the equity method. Unrealised gains on transactions with joint ventures are eliminated on consolidation on a pro rata basis, insofar as the situation has a material impact.

(14) INTANGIBLE ASSETS

We report software and goodwill under intangible assets. Valuation is at amortised cost. As it has a limited useful life, we amortise software on a straight-line basis over its expected useful life. Annual impairment tests are carried out for goodwill with an unlimited useful life.

Write-downs of goodwill are reported under a separate item in the income statement. Amortisation of software and other intangible assets and depreciation of land, buildings, operating and office equipment are shown under depreciation on fixed assets and amortisation of intangibles under operating expenses.

Impairment test methodology

On each annual reporting date or if a trigger event occurs, all goodwill is examined with a view to its future economic utility on the basis of cash generating units. The carrying amount of the equity committed to each segment as a cash generating unit (including any attributable goodwill) is compared with the recoverable amount of that unit. The recoverable amount is calculated on the basis of the value in use. This is based on the expected results for the relevant unit and the capital effects set out in the mid-term plan as approved by the Board of Managing Directors for the individual segments defined as cash generating units under IFRS 8 and described in Note 55. Where the value in use is less than the carrying amount, the net realisable value (fair value less cost to sell) is also calculated. The higher of the two values is applied.

If the reason for an impairment carried out in a previous financial year no longer applies, the assets are written up at a maximum to cost. Write-ups of goodwill are not permitted.

Software is amortised on a straight-line basis over its expected useful economic life of two to ten years and charged to operating expenses. Software includes both software developed in-house and software purchased externally.

(15) FIXED ASSETS

Land and buildings as well as operating and office equipment reported here are carried at cost of acquisition less scheduled depreciation. Impairments are taken to the extent that the carrying amount exceeds the higher of fair value less costs to sell or value in use. If the reason for an impairment carried out in a previous financial year no longer applies, the assets are recognised up to a maximum of the amortised cost. Useful life is determined by reference to likely physical wear and tear, technical redundancy and legal and contractual restrictions. All fixed assets are depreciated over the following terms:

USEFUL LIFE

	Years
Office buildings	40
Residential buildings	up to 50
Operating and office equipment	2 up to 23

Acquisitions of low-value fixed assets in the financial year are recorded directly as an operating expense in the reporting period for reasons of materiality. Interest on borrowings to finance fixed assets is not capitalised. Measures to maintain fixed assets are recorded as an operating expense in the year in which they arise.

Depreciation is reported under operating expenses. Gains and losses on the disposal of fixed assets are recorded under other operating income.

(16) INVESTMENT PROPERTY

Investment properties are defined as land and buildings held for the purpose of earning rental income or because they are expected to increase in value. The Hypothekenbank Frankfurt Group mainly reports property acquired during collateral realisation under investment property.

Investment property is valued at the date of acquisition at cost, taking into account any directly attributable transaction costs. The fair value model is used for the subsequent valuation of property held as a financial investment. Fair value is determined on the basis of valuations that are reviewed annually by internal surveyors and the prices achievable in the current market. Commercial properties are usually valued based on capitalised earnings; individual apartment buildings are generally valued on a tangible asset or comparative value basis. Gains and losses arising from changes in fair value are recognised in the income statement for the period.

(17) NON-CURRENT ASSETS HELD FOR SALE

Non-current assets and disposal groups that can be sold in their current state and the sale of which is highly probable must be classified as held for sale. The corresponding assets must be shown at fair value less disposal costs where this is lower than the carrying amount. Interest-bearing and non-interest-bearing financial instruments and investment properties may be reclassified to the relevant balance sheet items once only under IFRS 5. Measurement continues to be in accordance with IAS 39 or 40. If the IFRS 5 valuation results in impairments, these must be recognised under net investment income for disposal groups and under other net income for non-current assets. Any subsequent write-up is limited to the sum of previously recognised impairments.

Once the sale is completed, the gain or loss on disposal is reported under other net income for non-current assets and under net income from investments for disposal groups.

(18) LEASING

Under IAS 17, leases are classified as operating leases if substantially all the risks and rewards incidental to ownership are not transferred to the lessee. Finance leases, on the other hand, are leases in which substantially all the risks and rewards are transferred to the lessee. The transfer of risks and rewards is essentially determined by the net present value of the cash flows associated with the lease. Where the net present value is at least the same as the capital cost of the leased asset, the lease is classified as a finance lease. Leased assets primarily comprise property and motor vehicles.

If substantially all the risks and rewards incidental to ownership of the leased asset are still held by the lessor (an operating lease), the asset is still recognised in the balance sheet. The leased assets are recognised in the consolidated balance sheet under other assets. The leased assets are carried at cost, less any scheduled depreciation or impairments accumulated over their useful life. In the absence of any specific rules on income distribution, lease income is recognised on a straight-line basis over the duration of the lease under other income.

The Hypothekenbank Frankfurt Group does not have any finance leases; liabilities relating to operating leases are set out in Note 94.

(19) TAXES ON INCOME

Current tax assets and liabilities are calculated by applying the current tax rates for refunds from or payments to the relevant tax authorities.

Deferred taxes are recognised on the basis of substance over form. Thus deferred tax effects are entered under the economic entity whose business generates the effect, irrespective of whether it is liable for the actual tax debt.

Hypothekenbank Frankfurt AG, as an indirect subsidiary of Commerzbank AG, therefore recognises deferred taxes for Germany but is not the taxable entity. The same applies to Hypothekenbank Frankfurt International S.A., Luxembourg, as a subsidiary of Commerzbank AG, Luxembourg branch.

Deferred tax assets and liabilities are recognised to reflect differences between the IFRS carrying amounts of assets or liabilities and their taxable value, provided that these temporary differences are expected to increase or reduce future income taxes. In addition, deferred tax assets are recognised for tax loss carryforwards and tax credits that have not yet been used. The valuation of deferred taxes is based on the income tax rates approved as at 31 December 2012 that will be applicable to the realisation of the temporary differences.

Deferred tax assets on favourable timing differences, tax losses not yet used and tax credits not yet used are only recognised to the extent that the same tax entity is likely to generate taxable income in the foreseeable future under the same tax authority.

Deferred tax assets and liabilities are recognised either under income taxes in the income statement or directly in the relevant equity item, depending on why they arose.

Income tax expenses and income are reported under income taxes in the consolidated income statement and in the Notes broken down into current and deferred tax assets and liabilities for the financial year. Other taxes that are not related to income appear under other operating income/expense. Current and deferred tax assets and liabilities appear as separate asset or liability items in the balance sheet.

Deferred tax assets and liabilities have been netted where the right to net current income taxes exists and the deferred tax assets and liabilities relate to income taxes charged by the same tax authority to the same taxable entity.

As in the previous year, taxable temporary differences in connection with holdings in Hypothekenbank Frankfurt Group companies were less than € 1 million. Deferred tax liabilities were not recognised on this because the differences will not be unwound in the foreseeable future and the shareholder can control the unwinding.

The difference between current and deferred tax assets and current and deferred tax liabilities is defined in Notes 58 and 66.

(20) LIABILITIES TO BANKS AND CUSTOMERS AND SECURITISED LIABILITIES

Financial liabilities are recognised at amortised cost. Embedded derivatives that must be separated are measured at fair value and shown either under trading assets or trading liabilities. As part of micro fair value hedge accounting, hedged liabilities were adjusted by the amount of fair value attributable to the hedged risk.

(21) NEGATIVE FAIR VALUES ATTRIBUTABLE TO DERIVATIVE HEDGING INSTRUMENTS

Derivative financial instruments used for hedging purposes and which qualify for micro fair value hedge accounting are shown under this item if they have a negative fair value. The hedging instruments are measured at fair value.

(22) TRADING LIABILITIES

Derivative financial instruments that are not used as hedging instruments under hedge accounting and which have a negative fair value are shown as liabilities from trading activities. Liabilities from trading activities are recorded at fair value through profit and loss.

(23) PROVISIONS

A provision must be shown if, on the balance sheet date, as the result of a past event, a current legal or de facto obligation has arisen, an outflow of resources to meet this obligation is likely and it is possible to make a reliable estimate of the amount of the obligation. We therefore recognise provisions on the scale deemed necessary for liabilities of uncertain amount to third parties and for anticipated losses related to pending transactions.

Different types of provisions are taken through a number of different items in the income statement. Provisions for the lending business are charged to loan loss provisions and restructuring provisions to restructuring expenses. The remaining provisions are charged to operating expenses or other net income.

Restructuring provisions are reported if the Hypothekenbank Frankfurt Group has a detailed formal plan for restructuring measures and has already begun implementing this plan or has already announced the key features of the restructuring measures. A detailed plan sets out the business segments affected, the approximate number of staff whose positions will be affected, the associated costs and the period over which the restructuring measures will be carried out. The detailed plan must be communicated in such a way as to allow those affected to make due preparations. The restructuring expenses item in the income statement also includes expenses that are directly linked to the restructuring measures and are not covered by the restructuring provisions.

Discounting

The amount recognised as a provision represents the best possible estimate of the expense required to meet the current obligation on the reporting date. Risks and uncertainties are taken into account in the estimate. Non-current provisions are stated at net present value.

(24) PROVISIONS FOR PENSIONS AND SIMILAR COMMITMENTS

Company pension provision for current and former employees (and their surviving dependants) of Hypothekenbank Frankfurt AG and some domestic subsidiaries is based on a number of different pension schemes (both defined benefit and defined contribution plans).

Employees obtain an entitlement to benefits based on an external pension commitment (a defined contribution plan). To finance the scheme, the Group, together with its current employees, pays a fixed amount to external pension providers (including Versicherungsverein des Bankgewerbes a.G. (BVV), Berlin, and Versorgungskasse des Bankgewerbes e.V., Berlin).

The level of the current and future pension benefits is determined in this case by the contributions paid and the associated investment income. The IAS 19 accounting principles for defined contribution plans are applied to these indirect systems, which means that the contributions to the external providers are shown as staff expenses. No provisions are set aside.

There are also pension entitlements and current benefit obligations based on a direct pension commitment by Hypothekenbank Frankfurt where the level of the benefit is fixed and determined by factors such as age, remuneration and length of service (a defined benefit plan). The IAS 19 accounting principles for defined benefit pension plans are applicable to these pension schemes and provisions are therefore set aside.

In order to meet direct pension obligations in Germany, cover assets have been transferred to a legally independent trustee, Commerzbank Pension-Trust e. V. (CPT). The trust assets held by CPT qualify as plan assets as defined by IAS 19.7. In accordance with IAS 19.54, the transferred assets are netted against the net present value of the pension obligations, which results in a corresponding reduction in pension provisions within the Group.

The pension expenses for direct pension commitments reported under staff expenses consist of several components: they include the service cost, which represents the entitlements earned by members during the financial year, and the interest cost on the net present value of the pension obligations, as the time when the pension obligation will have to be met has moved closer by one year. The expected net income from the plan assets in the scheme reduces the pension expenses, however. Moreover, the level of pension expenses continues to be affected by the amortisation of actuarial gains and losses not previously recognised in the income statement.

The amount of the provision in accordance with IAS 19.54 is therefore as follows:

Net present value of the defined benefit obligation (DBO)
minus the fair value of plan assets
minus/plus unrecognised actuarial gains or losses
minus/plus any unrecognised retroactive service cost or income

= amount of pension provision

For defined benefit schemes, the provisions for pensions and similar obligations (age-related short-time working, early retirement and anniversary provisions) are calculated annually by an independent actuary using the projected unit credit method. The calculation is based on biometric assumptions (for example, Heubeck tables 2005 G), the current market interest rate for top-quality long-term corporate bonds, staff turnover and career trends and anticipated future salary and pension increases.

In accordance with IAS 19.92 ff., any actuarial gains or losses not yet amortised do not have to be recognised until the reporting period at the beginning of which they exceed the 10 % corridor around the higher of the DBO and the fair value of plan assets.

Hypothekenbank Frankfurt has decided to recognise unrecognised actuarial gains or losses sooner than prescribed by the regulations in IAS 19. Above a threshold of 75 % of the 10 % corridor, 20 % of gains or losses within the corridor are amortised.

Since the changed IAS 19 standard came into effect as of 1 January 2013, the corridor method is no longer used. Actuarial gains and losses are now recognised in full directly in capital outside the income statement. Based on the interest rate level at the end of 2012, we expect this to result in a net charge on equity of around € 33 million and a matching rise in pension provisions of around € 46 million. In addition, the retroactive service cost is to be immediately and fully recognised in the income statement because of retroactive plan adjustments. However, this does not result in any additional cost within the Commerzbank Group, since there has been no unrecognised retroactive service cost to date. As a result of these changes, the netting of pension liability and plan assets leads to full recognition of the net pension liability. Furthermore, if plan assets are used to finance the pension liabilities, net interest expenses are determined in accordance with the changed IAS 19. This consists of calculating interest on the net debt or net assets (defined benefit obligation less fair value of plan assets) using the same interest rate. Compared with the previous use of different interest rates for interest expenses and income from the plan assets, and previous amortisation effects, this would result in an additional expense of about € 4 million for the 2012 financial year.

(25) Staff remuneration plans

Description of the remuneration plans

a) Commerzbank Incentive Plan (CIP)

The Commerzbank Incentive Plan (CIP) was launched in 2011; this allows beneficiaries to receive a cash component and a certain number of Commerzbank shares. The CIP applies to the whole Commerzbank Group.

Depending on level, the mechanism of the new variable remuneration model includes a short-term component (the short-term incentive or STI) and a long-term component (the long-term incentive or LTI). The STI counts as compensation for the previous financial year. The LTI counts as compensation for a vesting period of four years.

The proportion of variable remuneration paid in the form of shares depends on the risk-taker group (roles with a significant impact on the overall risk profile).

- Risk-taker I (members of the Board of Managing Directors and management level 1)
- Non-risk-takers (other employees whose variable remuneration exceeds a certain minimum amount).

For risk-takers, half of the long- and short-term remuneration components come in the form of shares. For non-risk-takers, half of the amount of the long-term component in excess of the minimum amount (tax exempt allowance) comes in the form of shares.

The share-based elements of remuneration are estimated during the year on the basis of forecasts and recognised as an expense. The amount of variable remuneration per employee and hence the portion in shares is definitively determined at the annual appraisal (performance appraisal I) in the first three months of the following year. This amount is the upper limit to variable remuneration for the entire four-year vesting period and can only be revised downwards subsequently as a result of the annual appraisals with reference to Group-specific quantitative and individual qualitative performance indicators. The number of shares granted is determined by dividing the share portion of the variable remuneration by the average Xetra closing price of the Commerzbank share in January and February, and in December of the preceding year.

For the STI the final availability of the shares is subject to a six-month retention period. The right to the LTI is deferred until after performance appraisal II at the end of the four-year vesting period (including the previous financial year), i.e. three years after the number of shares has been set. This is also subject to a six-month retention period after the rights have been acquired.

If Commerzbank pays dividends during the term of the CIP, a cash payment in the amount of the dividend will also be paid on maturity.

Employees in locations abroad where settlement in equity instruments is not legally permitted, or is permitted but would impose an inconvenient administrative burden on the employee, will receive settlement in cash.

b) Share awards

Share awards are essentially a component of variable remuneration for non-pay scale employees of Hypothekenbank Frankfurt AG that is deferred and involves allocating virtual Commerzbank shares. Upon expiry of the vesting period they solely entitle the holder to receive the gross equivalent cash value for the number of shares determined at the time of the commitment. The size of the provision for variable remuneration and thus the percentage of variable remuneration that has to be converted into share awards depends on how successful the Bank has been and is set early the following financial year. The number of share awards is determined at the time of allocation by dividing the amount of variable remuneration to be converted by the average closing price on Xetra for January and February of the allocation year and December of the previous year.

The payment amount is also calculated using the average closing price of the Commerzbank share on Xetra in January and February of the year in which payment will be made and December of the previous year. The amount to be paid out three years after the allocation date is calculated by multiplying this average price by the number of share awards determined on the allocation date.

If Commerzbank pays dividends during the term of the share awards, a cash payment in the amount of the dividend multiplied by the number of share awards allocated will also be made.

The Commerzbank Incentive Plan (CIP) was launched because of the Bank Remuneration Ordinance (Instituts-VergV) which came into force in October 2010. For financial years from 2011 onwards, share awards are therefore applicable to selected employees only.

c) Long-term performance plan (LTP)

Prior to 2008, Commerzbank AG and various subsidiaries in Germany such as the Hypothekenbank Frankfurt Group set up long-term performance plans (LTPs) for senior managers and selected other staff.

These were variable remuneration plans lasting three to five years which were linked to the Commerzbank share price and required staff to invest their own money in Commerzbank shares. Payment was determined in accordance with specific performance criteria for the Commerzbank share. No new LTPs have been offered since 2009, and none will be until further notice.

The 2008 LTP plan is still running, and in theory it will be possible to pay remuneration based on the performance of the shares and/or the index until the end of 2013.

No LTP payments were made in 2011 or 2012. We do not expect the criteria for exercising payment to be triggered in 2013, either. The LTP is recognised in the balance sheet as a share-based payment settled in cash.

Accounting treatment

The accounting treatment of the remuneration schemes described is based on IFRS 2 Share-based Payment. IFRS 2 draws a distinction between share-based remuneration settled in equity instruments and those settled in cash. In both cases, where share-based payments are made, these must be recognised at fair value in the financial statements for the year.

- Share-based payments settled in the form of equity instruments
  The fair value of share-based payments settled in the form of equity instruments is recognised as personnel expense and simultaneously reported as a provision. The fair value of the STI component is determined at the time the rights are granted. The fair value of the LTI component is calculated once at the time of performance appraisal I (March n+1) as the average of the Xetra closing prices in January and February and in December of the preceding year and recognised linearly as an expense over the vesting period. The amount recognised as an expense may only be adjusted if the Bank's estimates of the number of equity instruments to be finally issued change.

  If rights cannot be exercised because the conditions for exercise (e. g. a performance target) are not met, no change is made to the amounts already recognised in equity.

- Share-based payments settled in cash
  That part of the fair value of share-based payments settled in cash that relates to work performed before the measurement date is recognised under staff expenses and a matching provision created. Fair value is determined anew on each reporting date, up to and including the payment day. All changes in the fair value of the liability must be taken to the income statement. Hence, on the payment date the provision should be as equal as possible to the payment to the beneficiaries.

  At the time of allocation, the portion of provisions for personnel matters that relates to share awards is re-posted to the provision for share awards. The amount is calculated as the product of the number of allocated rights and the average closing price on Xetra in January and February of the allocation year and December of the previous year. On the following balance sheet dates, the provisions fluctuate in line with the share price of Commerzbank Aktiengesellschaft. Fluctuation discounts are not applied as share awards do not expire upon termination or death.

  If Commerzbank Aktiengesellschaft pays dividends during the holding period, a cash payment equal to the amount of the dividend will be made for each share award on the payment date in addition to the payment value of the share award, for which provisions must be taken if necessary.

- Measurement models
  The provision for share awards was measured on the basis of the closing price of the Commerzbank share on 31. Dezember 2012 zugrunde gelegt. A Monte Carlo model which simulates changes that would boost future share prices is used to determine the fair value of the LTP, the Commerzbank Group's existing employee remuneration plan. The model is based on the assumption that stock returns are statistically normally distributed around a mean equal to a risk-free deposit.

(26) SUBORDINATED AND HYBRID CAPITAL

Under subordinated and hybrid capital we report issues of profit participation certificates, securities and non-securitised subordinated liabilities, and hybrid capital instruments. These are recognised at amortised cost less any expected reduction in repayment claims under profit participation certificate issues. Premiums and discounts are recognised in net interest income over the lifetime of the liability. The carrying amounts of the subordinated and hybrid capital used for micro fair value hedge accounting are adjusted for the fair value changes arising from the hedged risk.

(27) EQUITY AND MINORITY INTERESTS

Under IFRS, a company's capital and reserves (equity) represents a residual claim on its assets after deduction of all its liabilities or claims for which the investor has no termination option.

In accordance with IAS 39, changes in the value of available for sale assets and effective portions of the changes in value of cash flow hedges are taken directly to equity.

Buybacks of own equity instruments are deducted from equity in accordance with IFRS and the resultant gains or losses recognised directly in equity. Under IAS 1, minority interests are recognised in equity.

Translation gains and losses from the translation of financial statements of consolidated subsidiaries and at-equity investments prepared in foreign currencies are reported directly in equity as reserves from currency translation.

(28) TRUST TRANSACTIONS

Trust transactions involving the management or placement of assets for the account of others are not shown in the balance sheet. Commissions received from such transactions are included under net commission income in the income statement.

(29) CONTINGENT LIABILITIES AND IRREVOCABLE CREDIT COMMITMENTS

This item mainly shows contingent liabilities arising from guarantees and indemnity agreements and also includes irrevocable lending commitments at nominal value.

Situations where the reporting company acts as guarantor to the creditor of a third party for the fulfilment of a liability of that third party must be shown as guarantees. Indemnity agreements refer to contractual obligations that are linked to achieving a given target or service.

All obligations that could incur a credit risk must be shown as irrevocable lending commitments. These include obligations to grant loans (for example, lines that customers have been advised of externally), to buy securities or to issue guarantees or acceptances.

Provisions for contingent liabilities and irrevocable lending commitments are shown under provisions for risks from the lending business.

Income from guarantees is reported in net commission income and its amount is determined by applying agreed rates on the nominal amount of the guarantee.

IMPACT OF THE EUROPEAN SOVEREIGN DEBT CRISIS

At the emergency eurozone summit on 21 July 2011, the banks and insurance companies agreed to make a contribution to supporting Greece. After completing their negotiations on 21 February 2012 and reaching agreement with the troika on 24 February 2012 the private-sector creditors were invited by Greece to participate in a debt swap of Greek bonds. Under this Private Sector Involvement (PSI) creditors were asked to waive € 535 per € 1,000 nominal of their existing Greek bond holdings. The following bonds were offered in exchange for the remaining nominal € 465 per € 1,000 bond:

- New Greek sovereign bonds with integrated but detachable GDP warrants[1] with a nominal value of € 315 (term from 11 to 30 years)
- EFSF bonds with a nominal value of € 150 each (half with a maturity of 1 year and half with a maturity of 2 years)
- EFSF bonds for accrued interest (6-month)

[1] GDP warrants which will lead to an additional payment of 1 % of nominal value from 2015 if certain defined GDP growth criteria are met by Greece.

The Hypothekenbank Frankfurt Group took part in the exchange in March 2012 and afterwards sold all the new Greek bonds including the GDP warrants. The exchange and the subsequent sale resulted in a loss of € 72 million.

NOTES TO THE INCOME STATEMENT

(30) NET INTEREST INCOME

in € million	2012	2011
Interest income from		
Real estate finance	2,391	3,022
of which "Held for Trading" (HfT)	5	9
of which "Available for Sale" (AfS)	–	–
Public finance	1,054	1,303
Other lending and money market business	171	268
Fixed-income securities and book-entry securities	1,561	2,021
of which "Loans and Receivables" (LaR)	1,364	1,798
of which "Available for Sale" (AfS)	196	223
of which "Fair value option" (FVO)	1	–
Current income from shares and other non-fixed interest securities	0	0
Current income from participating interests and associated companies	2	2
Profits on the sale of loans and receivables	54	51
Income on the redemption of liabilities	85	44
Total interest income	**5,318**	**6,711**
Interest expenses for		
Securitised liabilities	1,799	2,316
Registered Pfandbriefe	990	1,117
Promissory notes	658	816
Other borrowings and money market business	367	654
Subordinated liabilities	110	134
Profit participation certificates	–35	–10
Hybrid capital	–	–
Current income from swaps (net balance of interest income and interest expenses)	465	617
Losses on the sale of loans and receivables	47	38
Losses on the redemption of liabilities	6	8
Total interest expenses	**4,407**	**5,690**
Total	**911**	**1,021**

Net interest income includes interest income of €5,312 million (2011: €6,702 million) and interest expenses of €3,942 million (2011: €5,073 million) for financial assets and liabilities not measured at fair value through profit or loss. The interest income from real estate finance included €54 million in early redemption penalties, the same as in the previous year.

Netting payments in relation to interest rate swaps with off-market coupons are recognised in net interest income over the term of the swap.

There was an unwinding effect of €64 million (2011: €67 million) for impaired commitments.

(31) LOAN LOSS PROVISIONS

Risk provisions are made up of impairments and provisions for off-balance sheet obligations in the lending business and are shown in the income statement as follows:

1.1.–31.12.	CRE Banking € million 2012	CRE Banking € million 2011	Public Finance € million 2012	Public Finance € million 2011	Retail Banking Core € million 2012	Retail Banking Core € million 2011	Hypothekenbank Frankfurt Group € million 2012	Hypothekenbank Frankfurt Group € million 2011
Allocations to loan loss provisions	842	1,080	7	0	1	0	850	1,080
Releases of provisions for loan losses	289	546	0	29	0	4	289	579
Direct write-downs	86	209	–	–	0	–	86	209
Recoveries on loans previously written down	20	13	–	–	–	–	20	13
Total	**619**	**730**	**7**	**–29**	**1**	**–4**	**627**	**697**

The prior-year figures have been adjusted in accordance with the new allocation within the segments.

Net expenditure from additions to and releases of provisions comprises the following:

in € million	2012	2011
Specific risks		
Claims on banks	–	–26
Claims on customers	646	659
Off-balance sheet items	–37	6
Portfolio risks		
Claims on banks	–1	0
Claims on customers	–42	–125
Off-balance sheet items	–5	–13
Direct write-downs, write-ups, recoveries on loans previously written down	66	196
Total	**627**	**697**

(32) NET COMMISSION INCOME

in € million	2012	2011
Commission income	**118**	**157**
Securities transactions	0	0
Lending and guarantee business	93	112
Services	25	45
Commission expenses	**26**	**30**
Securities transactions	7	5
Lending and guarantee business	10	13
Services	9	12
Net commission income	**92**	**127**
Securities transactions	–7	–5
Lending and guarantee business	83	99
Services	16	33

Commission income includes € 112 million (2011: € 139 million) from transactions involving financial instruments not recognised at fair value through profit and loss.

(33) NET INCOME ON HEDGE ACCOUNTING

in € million	2012	2011
From fair value hedges	19	–31
Total	**19**	**–31**

The net income on hedge accounting reflect the net measurement gains/losses from actual hedges.

The result from fair value hedges of € 19 million (2011: €–31 million) includes €–624 million (2011: €–3,629 million) on derivatives used for hedging purposes and € 643 million (2011: € 3,598 million) on the valuation of hedged items.

(34) NET TRADING INCOME

in € million	2012	2011
CMBS transactions (New York) including associated derivatives	0	11
Result from other derivative financial instruments (not hedge accounting)	–103	235
Result from fair value option	–8	–
Result from own trading	0	0
Other trading result	–1	–2
Total	**–112**	**244**

The financial instruments in the trading portfolio are measured at fair value. Unlisted transactions are based on recognised net present value or option price models. Net trading income is the result of offsetting trading income against the corresponding expenses. The results from fair value measurement are included in the portfolios, i. e. unrealised price gains and losses are included in the reported result. As in the previous year, no transactions were executed that resulted in a day one profit or loss.

The Hypothekenbank Frankfurt Group took part in the debt conversion of Greek bonds in March 2012. It then sold all the new Greek bonds and GDP warrants. The transaction was measured using the fair value option.

(35) NET INVESTMENT INCOME

The net investment income includes measurement and disposal gains or losses (impairments) on securities in the categories loans and receivables and available for sale, equity investments, companies measured at-equity and investments in subsidiaries.

in € million	2012	2011
Net gain/loss from interest-bearing business	**−247**	**−3,577**
Available for sale category		
Gains on disposal (reclassification from revaluation reserve)[1]	15	0
Losses on disposal (reclassification from revaluation reserve)[1]	0	−141
Net measurement gains/loss[1]	−1	−267
Total	**14**	**−408**
Loans and receivables category		
Gains on disposal	7	2
Losses on disposal	−213	−275
Net measurement gains/loss[2]	−55	−2,896
Total	**−261**	**−3,169**
Net gain/loss from equity instruments	**−31**	**−135**
Available for sale category		
Gains on disposal (reclassification from revaluation reserve)[1]	12	19
Losses on disposal (reclassification from revaluation reserve)[1]	0	−2
Net measurement gains/loss[1]	−1	−1
Net gains on measurement and disposal from companies at-equity	−42	−151
Total net investment income	**−278**	**−3,712**

[1] In the current financial year this item contains net transfers of € 14 million (2011: €−303 million) from the revaluation reserve.
[2] This item includes portfolio impairments of € 56 million (2011: € 40 million) on financial assets carried as loans and receivables.

The available for sale portfolio is measured at fair value. However, if there is no liquid market price and no reliable factors relevant to the valuation model, investments in associated companies and corporate investments are shown at amortised cost.

(36) CURRENT INCOME OF COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD

Current income from companies accounted for using the equity method came to € 1 million (2011: €−8 million). Including the net gains and disposal losses from companies accounted for using the equity method of €−42 million (2011: €−151 million) contained in net investment income, the total result from companies accounted for using the equity method was €−41 million (2011: €−159 million).

(37) NET INCOME ON INVESTMENT PROPERTIES

in € million	2012	2011
Income from investment properties		
Rental income	12	10
Income from disposals	2	1
Write-ups	1	4
Other income	–	–
Expenses for investment properties		
Building occupancy and office costs	11	6
of which: properties rented out	11	6
of which: vacant properties	–	–
Expenses for disposals	0	1
Impairment	24	6
Other expenses	0	0
Total	**−20**	**2**

(38) OPERATING EXPENSES

The Group's operating expenses of € 302 million consist of personnel expenses of € 125 million, other administrative expenses of € 166 million, and depreciation on operating and office equipment and real estate and amortisation of other intangible assets amounting to € 11 million. The breakdown of operating expenses is as follows:

Staff expenses

in € million	2012	2011
Wages and salaries	111	123
Expenses for pensions and other employee benefits	14	16
Total	**125**	**139**

Personnel expenses include € 14 million in expenses for social security contributions (2011: € 14 million).

Other administrative expenses

in € million	2012	2011
Expenses for office space	13	16
IT expenses	39	53
Workplace and information expenses	3	4
Compulsory contributions	6	7
Advisory, auditing and representation	18	23
Travel, other expenses required to comply with company law and advertising expenses	7	12
Personnel-related operating expenses	2	3
Other operating expenses	78	89
Total	**166**	**207**

Other operating expenses mainly include expenses from service level agreements with the Commerzbank Group amounting to € 58 million (2011: € 67 million).

The auditors' fee recognised as an expense in Germany amounted to € 2,605 thousand (excluding VAT) for the financial year (2011: € 2,950 thousand) and can be broken down as follows:

in € thousand	2012	2011
Audit of financial statements	2,341	2,381
Provision of other certificates or assessments	212	565
Tax consulting services	2	4
Other services	50	–
Total	**2,605**	**2,950**

The expenses recognised for 2012 include € 64 thousand (2011: € 46 thousand) for services provided during the financial year 2011.

Depreciation on operating and office equipment and real estate and amortisation of other intangible assets

in € million	2012	2011
Operating and office equipment	3	3
Real estate	3	4
Intangible assets	5	7
Total	**11**	**14**

With regard to depreciation, amortisation and impairments on intangible assets, fixed assets and operating and office equipment, Hypothekenbank Frankfurt reviews the previous method of depreciation or amortisation and residual useful life at each balance sheet date. If there are signs of impairment, an impairment test is carried out. No unscheduled write-downs were taken as a result of the subsequent valuation (2011: €–million).

(39) OTHER NET INCOME

in € million	2012	2011
Other income		
Rental income	6	6
Realisation gains on the disposal of fixed assets	0	0
Realisation gains on the disposal of non-current assets held for disposal	4	7
Income from the release of provisions	4	7
Sundry other income	299	193
Total other income	**313**	**213**
Other expenses		
Realisation losses on the disposal of fixed assets	2	1
Allocation to provisions	341	239
Sundry other expenses	12	13
Total other expenses	**355**	**253**
Other net income	**−42**	**−40**

Other income and expenses comprise items that cannot be allocated to other items in the income statement.

(40) IMPAIRMENTS OF GOODWILL

The impairment of €58 million (2011: €– million) related to the goodwill arising from the contribution of the real estate finance business of Deutsche Bank in 2003.

(41) RESTRUCTURING EXPENSES

The realignment of the Group undertaken in response to the European Commission's requirement to wind down Hypothekenbank Frankfurt resulted in restructuring expenses totalling €41 million in 2012 (2011: €– million), mainly relating to staff expenses.

(42) TAXES ON INCOME

The breakdown of income tax expenses was as follows:

in € million	2012	2011
Current taxes on income	**−1**	**−23**
Tax expenses/income for the current year	−19	−26
Tax expenses/income for previous years	18	3
Deferred taxes on income	**−115**	**−3**
Tax expenses/income due to change in temporary differences and loss carryforwards	−51	356
Tax rate differences	–	–
Tax income from previously unrecognised tax loss carryforwards	–	–
Adjustments to the value of deferred tax assets	−64	−359
Effect of changes in accounting methods	–	–
Total	**−116**	**−26**

The current tax expenses of € 19 million for 2012 and the current tax income of € 18 million for previous years stems from the foreign branches of Hypothekenbank Frankfurt AG, Eschborn, and the foreign subsidiaries of the Hypothekenbank Frankfurt Group.

Deferred tax expenses amounting to € 64 million arose from an impairment of deferred tax assets on temporary differences for Hypothekenbank Frankfurt Inlandsbank AG, Hypothekenbank Frankfurt's Milan and Madrid branches, and tax loss carryforwards at Hypothekenbank Frankfurt's New York and London branches. Changes in temporary differences and tax loss carryforwards, primarily at Hypothekenbank Frankfurt Inlandsbank AG and its foreign branches, resulted in deferred tax expenses of € 51 million.

With the establishment of fiscal unity for income tax purposes with effect from 1 January 2007, the taxable income of Hypothekenbank Frankfurt AG, Eschborn, is added to that of the parent company Commerzbank AG Frankfurt am Main, via the intermediate parent company Commerzbank Inlandsbanken Holding GmbH, Frankfurt am Main.

The expected nominal average tax rate for Commerzbank AG, Frankfurt am Main, is 31.2 %. This comprises the German corporation tax rate of 15.0 % plus the solidarity premium of 5.5% and an average trade tax rate of 15.3 %.

The current and deferred taxes for Hypothekenbank Frankfurt International S.A., Luxembourg, and the foreign branches were calculated using the tax rates applicable in the countries concerned.

The following table shows the reconciliation of the expected income tax expense in the relevant financial year to the reported income tax expense.

The expected income tax income is calculated by multiplying the profit before tax by 31.2 %, which was the overall tax rate for Commerzbank Group in 2012.

in € million	2012	2011
Profit/loss before tax	**–457**	**–3,454**
Group income tax rate	31.171%	31.171 %
Calculated income tax expenses in 2012	**142**	**1,077**
Effect of changes in tax rate	–2	–3
Effect of different tax rates on deferred taxes and rate changes	–12	–63
Transfers of income tax	–	–
Tax effects of profit transfers	–240	–905
Effect of taxes from previous years recognised in current year	59	–65
Effect of non-deductible operating expenses and tax-free income	–14	–3
Effect of trade tax allocations and deductions	–	0
Effect of adjustments	–44	–69
Other effects	–5	5
Taxes on income	**–116**	**–26**

This results in a total reconciliation effect of €−240 million, of which €−5 million relates to Hypothekenbank Frankfurt International S.A., Luxembourg. The balance of €−235 million comes from transferring the basis of assessment of Hypothekenbank Frankfurt Inlandsbank AG to Commerzbank AG.

The differences between foreign tax rates and the Group tax rate had an impact of €−12 million.

The adjustments in temporary differences and tax loss carryforwards resulting from changes in tax declarations for previous years resulted in a deferred tax income of €41 million from Hypothekenbank Frankfurt Inlandsbank AG and the Madrid branch. Foreign tax refunds for previous years came to €18 million.

The reconciliation effect of €−44 million includes impairments on temporary differences and tax loss carryforwards.

The table below shows current and deferred taxes arising from items taken directly to equity:

in € million	2012	2011
Current taxes on income	**–**	**–**
Deferred taxes on income	**738**	**909**
Reserve from cash flow hedges	11	14
Revaluation reserve	727	895
Other	–	–
Total	**738**	**909**

(43) NET INCOME

The net income comprises fair value measurements, impairments, write-ups, gains and losses realised on disposals, and amounts recovered on financial instruments written off (see Note 4). Net interest income includes the interest components described in the Notes on net interest income and net trading income for each IAS 39 category.

in € million	2012	2011
Net profit/loss from		
Trading assets and liabilities	−86	213
Application of fair value option	−7	–
Available for sale financial assets	−16	−551
Loans and receivables	−929	−3,873
Other financial liabilities	42	7
Net interest income from		
Trading assets and liabilities	−460	−613
Application of fair value option	1	–
Available for sale financial assets	198	223
Loans and receivables	4,982	6,402
Other financial liabilities	−3,809	−4,991

(44) SEGMENT REPORTING

INCOME STATEMENT BY SEGMENT

		CRE Banking Germany € million		CRE Banking International € million		Public Finance/ Treasury € million	
		2012	2011	2012	2011	2012	2011
Net interest income		351	438	487	566	–85	–120
Loan loss provisions		–118	–381	–501	–349	–7	29
Net interest income after loan loss provisions		**233**	**57**	**–14**	**217**	**–92**	**–91**
Net commission income		23	23	60	98	–3	–4
Net income on hedge accounting		–	–	–	–	19	–31
Net trading income		–1	–5	–88	–44	–23	293
Net investment income		–1	–1	–30	–134	–247	–3,577
Current income of companies accounted for using the equity method		–	–	1	–8	–	–
Net income on investment properties		0	2	–19	0	–1	0
Operating expenses		104	130	106	129	52	58
Other net income		0	–1	1	3	6	–3
Impairments of goodwill		58	–	–	–	–	–
Restructuring expenses		14	–	8	–	2	–
Pre-tax result		**78**	**–55**	**–203**	**3**	**–395**	**–3,471**
Volume							
Segment assets	in € billion	24.4	31.3	27.7	35.3	96.2	107.1
Average RWA	in € billion	12.6	17.6	22.8	28.2	10.3	10.8
Average allocated equity[2]	in € billion	1.1	1.6	2.0	2.5	0.9	1.0
Key ratios							
RoE before tax (in %)[1]		6.8	–3.5	–9.9	0.1	–42.5	–358.2
CIR (in %)[1]		28.0	28.4	25.8	26.9	–15.8	–1.7
Average staff capacity (FTE)		273	299	161	183	72	77

[1] based on unrounded figures

[2] Average allocated equity is calculated so as to ensure that average risk-weighted assets (RWA) are backed by 9 % core capital in line with the Solvency Regulation (SolvV) pursuant to Basel 2.5. The figures for 2011 have been adjusted accordingly.

		Retail Banking Core € million		Cross-divisional € million		Total operating segments € million	
		2012	2011	2012	2011	2012	2011
Net interest income		49	59	109	78	911	1,021
Loan loss provisions		−1	4	–	–	−627	−697
Net interest income after loan loss provisions		**48**	**63**	**109**	**78**	**284**	**324**
Net commission income		2	2	10	8	92	127
Net income on hedge accounting		–	–	–	–	19	−31
Net trading income		–	–	–	–	−112	244
Net investment income		0	–	–	–	−278	−3,712
Current income of companies accounted for using the equity method		–	–	–	–	1	−8
Net income on investment properties		0	–	–	–	−20	2
Operating expenses		20	25	20	18	302	360
Other net income		0	0	−49	−39	−42	−40
Impairments of goodwill		–	–	–	–	58	–
Restructuring expenses		–	–	17	–	41	–
Pre-tax result		**30**	**40**	**33**	**29**	**−457**	**−3,454**
Volume							
Segment assets	in € billion	8.2	9.7	0.2	4.2	156.7	187.6
Average RWA	in € billion	0.7	0.7	0.5	0.3	46.9	57.6
Average allocated equity[2]	in € billion	0.1	0.1	−0.3	−1.5	3.8	3.7
Key ratios							
RoE before tax (in %)[1]		50.0	62.9	–	–	−8.0	−62.4
CIR (in %)[1]		38.1	41.3	–	–	52.9	−15.0
Average staff capacity (FTE)		–	–	499	566	1,005	1,125

[1] based on unrounded figures
[2] Average allocated equity is calculated so as to ensure that average risk-weighted assets (RWA) are backed by 9 % core capital in line with the Solvency Regulation (SolvV) pursuant to Basel 2.5. The figures for 2011 have been adjusted accordingly.

INCOME STATEMENT BY REGION

	Germany € million		Europe (excluding Germany) € million		America € million		Total operating segments € million	
	2012	2011	2012	2011	2012	2011	2012	2011
Net interest income	344	423	482	478	85	120	911	1,021
Loan loss provisions	–124	–348	–498	–480	–5	131	–627	–697
Net interest income after loan loss provisions	**220**	**75**	**–16**	**–2**	**80**	**251**	**284**	**324**
Net commission income	33	30	40	68	19	29	92	127
Net income on hedge accounting	21	–33	–2	2	–	–	19	–31
Net trading income	–1	268	–112	–32	1	8	–112	244
Net investment income	–173	–3,238	–106	–479	1	5	–278	–3,712
Current income of companies accounted for using the equity method	–	0	1	–8	–	–	1	–8
Net income on investment properties	–1	2	–19	0	0	0	–20	2
Operating expenses	190	224	89	106	23	30	302	360
Other net income	–46	–47	6	7	–2	0	–42	–40
Impairments of goodwill	58	–	–	–	–	–	58	–
Restructuring expenses	33	–	8	–	0	–	41	–
Pre-tax result	**–228**	**–3,167**	**–305**	**–550**	**76**	**263**	**–457**	**–3,454**
	€ billion	€ billion	€ billion	€ billion	€ billion	€ billion	€ billion	€ billion
Segment assets	**111.0**	**131.8**	**43.4**	**51.5**	**2.3**	**4.3**	**156.7**	**187.6**
Average staff capacity (FTE)	812	909	167	178	26	38	1,005	1,125

RECONCILIATION STATEMENT

in € million	Total operating segments	Reconciliation	Total Group
Income	571	–	571
Loan loss provisions	–627	–	–627
Operating expenses	302	–	302
Impairments of goodwill	58	–	58
Restructuring expenses	41	–	41
Pre-tax result	**–457**	**–**	**–457**
Assets	**156,748**	**16,273**	**173,021**

Segment reporting by Group unit

The segment reporting contains the results for the operating segments included in the Hypothekenbank Frankfurt consolidated financial statements. The segment information is based on IFRS 8 Operating Segments, which uses the management approach: segment information is based on the internal reporting used by the chief operating decision maker to assess segment performance and make decisions about allocating resources to segments. At Hypothekenbank Frankfurt, the Board of Managing Directors serves as the chief operating decision maker.

Segmentation by operating division is based on customer groups or the responsibilities of the Board of Managing Directors.

Owing to the restructuring and streamlining of Hypothekenbank Frankfurt, the segments are reported in combined form, particularly in real estate finance.

The new segment CRE Banking Germany encompasses all German real estate finance that is not classified as strategic. This segment includes the former commercial real estate finance segments CRE Banking Germany Core (CBG C) and CRE Banking Germany Non-Core (CBG NC) as well as the part of the private real estate financing business (Retail Banking), that was not classified as strategic.

The new segment CRE Banking International covers all commercial real estate finance abroad. This segment includes the former segment CRE Banking International Strategic Markets (CBI S) and the segment Banking International Global Restructuring (CBI GR).

Public finance business and treasury have been combined in the PFT segment together with the money and capital market business. This segment also includes the results of Hypothekenbank Frankfurt International S.A., Luxembourg.

Housing loans to individuals which are granted in order to maintain a strategically important customer relationship are reported under the Retail Banking Core segment.

Regular expenses and income from HF Estate Management GmbH and other property realisation companies are reported under the segments from which they originate, as is the case for income and expenses arising from the valuation of properties.

The following expenses and income are recognised as cross-divisional items:

- Interest on unserviced hybrid capital and profit participation certificates
- Income from write-downs of profit participation certificates
- Provisions for litigation over failure to service profit participation certificates
- Interest on the assumption of losses by Commerzbank Inlandsbanken Holding
- Income and expenses relating to services performed by Hypothekenbank Frankfurt's operational functions for Commerzbank
- Rental income, including the associated services for the use of the building in Eschborn, between Hypothekenbank Frankfurt and Commerzbank
- Expenses for the bank levy

Principles of segment reporting

The aim of segment reporting is to allocate the pre-tax profit from the income statement of Hypothekenbank Frankfurt and the segment assets to the segments in which they originate.

As a first step, net interest income is split using the market interest rate method into two components: interest contribution and maturity transformation contribution. The interest contribution is calculated separately for each individual client transaction and subsequently allocated to the customer segment in which it originates. The maturity transformation contribution is allocated to PFT.

In addition to the interest contribution and interest-type commissions, the net interest income for each segment also includes imputed income from interest on the non-interest-bearing balance sheet positions (equity, provisions, fixed assets). The imputed interest rate corresponds to the risk-free rate on the capital market.

The capital benefit is allocated to the segments in proportion to the risk-weighted assets contained in the segment in line with the Solvency Regulation pursuant to Basel 2.5. In addition, PFT receives an imputed compensation payment from the customer segments for the higher spreads that have to be paid to raise subordinated capital and profit participation certificates.

When payments of early redemption penalties are allocated, the margin loss is allocated to the customer segments and the funding loss to Treasury.

The unwinding is shown under net interest income. The unwinding effect reflects the change in net present value of future cash flows arising from specific loan loss provisions (SLLPs).

The provisions for loan losses reported in the segments comprise new provisions and the release of specific valuation allowances, direct write-downs of claims, recoveries on loans written off and portfolio valuation allowances, as well as unwinding.

Net commission income is allocated directly to the segments.

The net income on hedge accounting is allocated to PFT.

In net trading income, proprietary trading results and the result from derivatives not included in hedge accounting are allocated to PFT. Only the portion of the derivative result attributable to CMBS transactions is shown under CRE Banking International together with changes in valuation and impairments of the CMBS loans. Credit default adjustments (CDAs) and individual value adjustments (IVAs) for ZWM derivatives are allocated to the segments on the basis of the applicable counterparty.

Current income from companies accounted for using the equity method covers Delphi I LLC in the CRE Banking Germany segment, Inmobiliaria Colonial S.A., Barcelona, and FV Holding S.A., Brussels, in the CRE Banking International segment. The subsidiary EH Japan was sold or deconsolidated in August 2012 and the figures are reported in the financial statements of Hypothekenbank Frankfurt in the CRE Banking International segment only up to the date of the sale.

Income and expenses from investment properties are reported in the segment in which they originate.

Operating expenses include staff expenses as well as depreciation and amortisation of fixed assets and other intangible assets (excluding goodwill). Operating expenses are allocated to the segment in which they originate and in addition to direct expenses also include indirect expenses from internal charges for services. Following the integration of the Corporate Center into Commerzbank, services provided by the Corporate Center are charged as other operating expenses in accordance with the current Service Level Agreement (SLA).

The segment assets of the real estate divisions include both loans and securities portfolios backed by real estate.

The PFT segment assets comprise public sector finance and deposits invested with other credit institutions.

Segment profit is measured on the basis of pre-tax profit, asset performance, return on equity before tax and the cost-income ratio.

The return on equity ratio shows the relevant segment result before tax as a percentage of the average equity capital employed in the segment. The average equity capital employed for the operating segments is calculated in such a way as to ensure that average risk-weighted assets (RWA) are backed by 9 % (2011: 7 %) core capital in line with internal Group requirements and the Solvency Regulation (Basel 2.5). The figures for 2011 have been adjusted accordingly. The average equity capital employed for the Hypothekenbank Frankfurt Group is calculated using the mean of the capital available on 1 January and 31 December of the same year, excluding the revaluation reserve and cash flow reserve.

If the approach used to calculate average equity capital employed per segment were applied to Hypothekenbank Frankfurt, the result would be an RoE of −10.8 %.

The cost-income ratio is the ratio of operating expenses to the sum of all other pre-tax result items in the income statement excluding loan loss provisions, restructuring costs and goodwill impairments.

All neutral components of net income that cannot be directly assigned to a segment and are not included in the cross-divisional positions within the segment breakdown are allocated to the segments in proportion to the risk-weighted assets contained in each segment in line with the Solvency Regulation (Basel 2.5).

Total operating segment income and expenses already include consolidation effects and correspond to IFRS consolidated profit, as there is nothing at Hypothekenbank Frankfurt that would necessitate a reconciliation statement.

The reconciliation of the total operating segment assets with the balance sheet assets largely relates to valuation positions arising from derivative financial instruments.

Results and assets are also broken down by geographical market. Hypothekenbank Frankfurt's core regions are Germany, Rest of Europe and America. The bulk of operating income for the Rest of Europe region came from France (€ 49 million) and Russia (€ 45 million). To simplify presentation, the Rest of Europe region also encompasses some activities from Asia.

Due to the limited volume of non-current assets, these have not been recognised in the geographical breakdown.

As Hypothekenbank Frankfurt is not managed according to products or services, income is not recognised or reported to management using those criteria.

NOTES TO THE BALANCE SHEET – ASSETS

(45) CASH RESERVE

in € million	2012	2011
Cash on hand	0	0
Balances with central banks	8	18
Total	**8**	**18**

The balances at the Deutsche Bundesbank also serve to meet the minimum reserve requirements. The average minimum reserve requirement for the period December 2012 to January 2013 amounted to € 11 million (2011: € 24 million).

(46) CLAIMS ON BANKS

in € million	2012	2011
Due on demand	**12,572**	**12,553**
Other claims		
Real estate finance	77	82
Loans to public sector companies	4,773	7,931
Other claims	3,009	2,582
Total	**20,431**	**23,148**
Germany	12,793	14,604
International	7,638	8,544
Total	**20,431**	**23,148**
Minus loan loss provisions	–1	–3
Balance sheet total	**20,430**	**23,145**

Claims on banks are classified as loans and receivables.

(47) CLAIMS ON CUSTOMERS

in € million	2012	2011
Real estate finance	59,442	75,376
Loans to public sector companies	23,369	24,825
Other claims	192	4,200
Total	**83,003**	**104,401**
Germany	46,995	60,685
International	36,008	43,716
Total	**83,003**	**104,401**
Minus loan loss provisions	–2,732	–2,702
Balance sheet total	**80,271**	**101,699**

Claims on customers are classified as loans and receivables.

(48) LOAN LOSS PROVISIONS

Loan loss provisions are recognised in accordance with Group-wide standards and cover all identifiable credit risks. Where losses arise that have not yet been identified, we determine portfolio valuation allowances using parameters derived from the Basel II methodology. The table below shows the development in loan loss provisions:

	Specific allowances		Portfolio allowances		Total	
in € million	2012	2011	2012	2011	2012	2011
As at 1 January	**2,522**	**2,918**	**183**	**308**	**2,705**	**3,226**
Allocations	**822**	**1,031**	**7**	**–**	**829**	**1,031**
Disposals	**723**	**1,327**	**50**	**125**	**773**	**1,452**
of which utilised	547	929	–	–	547	929
of which released	176	398	50	125	226	523
Changes in consolidated entities	**–**	**–48**	**–15**	**–**	**–15**	**–48**
Exchange rate changes/ transfers/unwinding	**–13**	**–52**	**0**	**0**	**–13**	**–52**
As at 31 December	**2,608**	**2,522**	**125**	**183**	**2,733**	**2,705**

Loan loss provisions can be broken down as follows:

	CRE Banking		Public Finance		Retail Banking Core		Hypothekenbank Frankfurt Group	
in € million	2012	2011	2012	2011	2012	2011	2012	2011
As at 1 January	**2,694**	**3,179**	**9**	**41**	**2**	**6**	**2,705**	**3,226**
Allocations	**820**	**1,031**	**7**	**–**	**2**	**0**	**829**	**1,031**
Disposals	**771**	**1,416**	**2**	**32**	**0**	**4**	**773**	**1,452**
of which utilised	545	926	2	3	0	0	547	929
of which released	226	490	–	29	0	4	226	523
Changes in consolidated entities	**–15**	**–48**	**–**	**–**	**–**	**–**	**–15**	**–48**
Exchange rate changes/ transfers/unwinding	**–13**	**–52**	**0**	**0**	**0**	**0**	**–13**	**–52**
As at 31 December	**2,715**	**2,694**	**14**	**9**	**4**	**2**	**2,733**	**2,705**

The prior-year figures have been adjusted within the segments because of the strategic realignment.

Taking into account direct write-downs, recoveries on receivables written off and additions to and releases of provisions, the additions and releases recognised in the income statement resulted in loan loss provisions of € 627 million (2011: € 697 million). The unwinding effect reported in net interest income was € 64 million (2011: € 67 million).

For contingent liabilities, provisions of € 32 million (2011: € 74 million) were set aside, of which € 4 million (2011: € 9 million) relate to portfolio provisions.

(49) POSITIVE FAIR VALUES ATTRIBUTABLE TO DERIVATIVE HEDGING INSTRUMENTS

Derivative financial instruments with positive fair values which are used for hedging purposes and qualify for hedge accounting are reported here. The instruments are measured at fair value.

in € million	2012	2011
Positive fair values from effective fair value hedges	7,192	6,294
Positive fair values from effective cash flow hedges	–	–
Total	**7,192**	**6,294**

(50) TRADING ASSETS

Claims classified as held for trading are reported under trading assets, as are derivatives that are not used for hedging purposes.

All trading assets are recognised at fair value.

in € million	2012	2011
Claims	**90**	**153**
Positive fair values from derivative financial instruments (not hedge accounting)		
Interest rate-related transactions	9,683	8,879
Currency-related transactions		
Cross-currency swaps	783	916
Currency forwards	44	13
Credit derivatives	–	108
Other derivatives	–	–
Total derivatives	**10,510**	**9,916**
Total	**10,600**	**10,069**

(51) FINANCIAL INVESTMENTS

Financial investments comprise bonds, shares and other non-fixed-income securities, investments in associated companies and participating interests (including not-at-equity investments in associated companies and joint ventures) which are not included in the financial statements. At-equity investments are reported separately.

in € million	2012	2011
Bonds and other fixed-income securities	**52,630**	**59,761**
Bonds and notes	52,630	59,761
issued by public sector borrowers	26,767	29,395
issued by other borrowers	25,863	30,366
of which: measured at fair value	3,988	3,293
of which: measured at cost	48,642	56,468
Shares and other non-fixed-income securities	**0**	**1**
of which: measured at fair value	0	1
of which: measured at cost	–	–
Corporate investments	**9**	**9**
of which: measured at fair value	6	6
of which: measured at cost	3	3
Investments in non-consolidated associated companies	**3**	**3**
of which: measured at fair value	–	–
of which: measured at cost	3	3
Total	**52,642**	**59,774**

Financial assets eligible for public listing		**Listed**		**Unlisted**
in € million	2012	2011	2012	2011
Bonds and other fixed-income securities	45,751	51,718	6,879	8,043
Shares and other non-fixed-income securities	–	0	–	–
Corporate investments	–	–	–	–
Investments in non-consolidated associated companies	–	–	–	–
Total	**45,751**	**51,718**	**6,879**	**8,043**

Financial investments include loans and receivables (LaR) of € 48,642 million (2011: € 56,468 million), and available for sale (AfS) assets of € 4,000 million (2011: € 3,306 million).

In 2008 and 2009, securities from the Public Finance portfolio for which no active market existed were reclassified from available for sale (AfS) to loans and receivables (LaR). The fair value determined at the time of reclassification was recognised as the new carrying amount of this portfolio.

The revaluation reserve after deferred taxes for all reclassified securities was €−625 million (2011: €−717 million) and will be released over the remaining term.

Excluding the reclassifications undertaken in 2008 and 2009, the overall position of the revaluation reserve after deferred taxes was €−3,804 million (2011: €−4,169 million) as at 31 December 2012. On the reporting date, the carrying amount was € 47,374 million with fair value at € 42,787 million.

In addition to the € 146 million of portfolio impairments (2011: € 90 million), a total of €−206 million (2011: €−273 million) was taken to profit and loss in 2012 for reclassified positions.

As in 2011, financial assets as at 31 December 2012 included € 6 million in unlisted equity-related securities (some of which are ownership interests in German limited companies) recognised at amortised cost, since no reliable data are available to calculate fair value. There are currently no plans to dispose of these assets.

The following table contains financial information for not-at-equity investments in associates and joint-ventures:

in € million	2012	2011
Non-current assets	9	0
Current assets	1	0
Non-current debt	9	2
Current debt	3	0
Income	2	13
Expenses	2	2

(52) AT-EQUITY INVESTMENTS

Servicing Advisors Deutschland GmbH, Frankfurt am Main, was sold in 2012. As last year, Delphi I LLC, Wilmington, Delaware, USA, Inmobiliaria Colonial, Madrid, Spain, and (as part of a joint venture) FV Holding S.A., Brussels, are shown here.

As at the reporting date, Hypothekenbank Frankfurt held a 33.3 % stake in Delphi I LLC Wilmington, Delaware, USA; the stake in FV Holding S.A., Brussels was 60 %. The stake in Inmobiliaria Colonial, Madrid, Spain, was 18.7 % and is included in the consolidated financial statements because of the significant influence exerted.

The Group has recognised the following financial assets related to at-equity investments:

in € million	2012	2011
Non-current assets	680	705
Current assets	57	75
Non-current debt	553	572
Current debt	70	61
Income	59	50
Expenses	63	204

The at-equity valuation was based on the most recent financial statements for financial year 2012, prepared under national accounting principles, analysed in accordance with IAS / IFRS and adjusted as necessary to conform with Group-wide accounting policies.

in € million	2012	2011
At-equity investments	67	113
Total	**67**	**113**

	Listed		Unlisted	
	2012	2011	2012	2011
At-equity investments	59	106	8	7
Total	**59**	**106**	**8**	**7**

(53) INTANGIBLE ASSETS

in € million	2012	2011
Goodwill	–	58
Internally generated assets (software)	2	6
Other purchased intangible assets	2	3
Total	**4**	**67**

In 2012, the impairment testing of goodwill identified an impairment for the cash generating unit CRE Banking Germany (formerly Corporate Banking Germany CBG Core). Goodwill of € 58 million resulting from the acquisition of the real estate finance division of Deutsche Bank in 2003 was written off in full.

(54) FIXED ASSETS

in € million	2012	2011
Land and buildings	97	101
Operating and office equipment	10	14
Total	**107**	**115**

(55) INVESTMENT PROPERTY

In the year under review, the investment property portfolio acquired three properties for € 49 million through foreclosures (2011: € – million).

At 31 December 2012 these properties had a book value of € 32 million after write-downs of € 17 million during the financial year. In addition, a foreclosed asset was reclassified from non-current assets available for sale according to IFRS 5, since the envisaged timeframe for sale could not be achieved.

Income of € 3 million was also realised in net income on investment properties from the sale of nine properties.

Movements are shown in the statement of changes in fixed assets in Note 57.

This item does not include any properties relating to operating leases. Furthermore, there are no restrictions with regard to resale and no obligations with regard to purchase for properties that would be reported here.

In sensitivity analyses we assume a + 50 bp or – 50 bp change in the yield on income properties. The major income properties would undergo an adjustment of around € – 16.1 million or € + 19.2 million.

(56) NON-CURRENT ASSETS HELD FOR SALE

Of the two properties recognised as non-current assets held for sale in 2011, one was sold as planned in 2012. The sale generated income of € 4 million, which has been reported under other net income. The planned sale of the other property could not be realised, so it has been reclassified to investment property.

In 2012 a portfolio of mortgage loans totalling € 399 million which was about to be sold was reclassified to this item from customer receivables.

(57) STATEMENT OF CHANGES IN FIXED ASSETS AND INVESTMENTS

The movements in non-current financial investments, at-equity investments, investment property, non-current assets held for sale, intangibles and fixed assets over the year were as follows:

	Non-current financial investments		
in € million	Corporate investments	Shares in non-consolidated associated companies	Shares in at-equity investments and joint ventures
Acquisition/production costs			
As at 1 January 2011	15	3	424
Additions	0	2	–
Disposals	0	2	0
Net transfers/changes in consolidated companies	–	0	–
Adjustments due to currency translation	0	–	–
As at 31 December 2011	**15**	**3**	**424**
Depreciation			
As at 1 January 2011	6	0	104
Depreciation in financial year	–	–	–
Unscheduled write-downs in financial year	–	–	151
Write-ups in financial year	–	–	–
Net transfers/changes in consolidated companies	–	–	–
Disposals	0	–	–
As at 31 December 2011	**6**	**0**	**255**
Accumulated changes from measurement at fair value or at-equity	0	–	–56
Book value as at 31 December 2011	**9**	**3**	**113**
Acquisition/production costs			
As at 1 January 2012	15	3	424
Additions	–	0	–
Disposals	0	0	4
Net transfers/changes in consolidated companies	–	0	–
Adjustments due to currency translation	0	–	–
As at 31 December 2012	**15**	**3**	**420**
Depreciation			
As at 1 January 2012	6	0	255
Depreciation in financial year	–	–	–
Unscheduled write-downs in financial year	0	0	43
Write-ups in financial year	–	–	–
Net transfers/changes in consolidated companies	–	–	–
Disposals	0	0	–
As at 31 December 2012	**6**	**0**	**298**
Accumulated changes from measurement at fair value or at-equity	0	–	–55
Book value as at 31 December 2012	**9**	**3**	**67**

in € million	Investment property[1]	Non-current Assets held for sale
Acquisition/production costs		
As at 1 January 2011	252	78
Additions	4	–
Disposals	23	15
Net transfers/changes in consolidated companies	–	–
Adjustments due to currency translation	–	–
As at 31 December 2011	**233**	**63**
Depreciation		
As at 1 January 2011	–	–
Depreciation in financial year	–	–
Unscheduled write-downs in financial year	–	–
Write-ups in financial year	–	–
Net transfers/changes in consolidated companies	–	–
Disposals	–	–
As at 31 December 2011	**–**	**–**
Accumulated changes from measurement at fair value or at-equity	–78	–4
Book value as at 31 December 2011	**155**	**59**
Acquisition/production costs		
As at 1 January 2012	233	63
Additions	54	–
Disposals	123	26
Net transfers/changes in consolidated companies	53	362
Adjustments due to currency translation	–	–
As at 31 December 2012	**217**	**399**
Depreciation		
As at 1 January 2012	–	–
Depreciation in financial year	–	–
Unscheduled write-downs in financial year	–	–
Write-ups in financial year	–	–
Net transfers/changes in consolidated companies	–	–
Disposals	–	–
As at 31 December 2012	**–**	**–**
Accumulated changes from measurement at fair value or at-equity	–101	0
Book value as at 31 December 2012	**116**	**399**

[1] Essentially comprises foreclosed assets acquired as part of collateral realisation

in € million	Goodwill	Other purchased assets	Intangible assets Internally-generated assets
Acquisition/production costs			
As at 1 January 2011	135	188	33
Additions	–	0	–
Disposals	–	142	–
Net transfers/changes in consolidated companies	–	–	–
Adjustments due to currency translation	–	–	–
As at 31 December 2011	**135**	**46**	**33**
Depreciation			
As at 1 January 2011	77	184	22
Depreciation in financial year	–	1	5
Unscheduled write-downs in financial year	–	–	–
Write-ups in financial year	–	–	–
Net transfers/changes in consolidated companies	–	–	–
Disposals	–	142	–
As at 31 December 2011	**77**	**43**	**27**
Accumulated changes from measurement at fair value or at-equity	–	–	–
Book value as at 31 December 2011	**58**	**3**	**6**
Acquisition/production costs			
As at 1 January 2012	135	46	33
Additions	–	0	–
Disposals	–	0	–
Net transfers/changes in consolidated companies	–	–	–
Adjustments due to currency translation	–	–	–
As at 31 December 2012	**135**	**46**	**33**
Depreciation			
As at 1 January 2012	77	43	27
Depreciation in financial year	–	1	4
Unscheduled write-downs in financial year	–58	–	–
Write-ups in financial year	–	–	–
Net transfers/changes in consolidated companies	–	–	–
Disposals	–	0	–
As at 31 December 2012	**135**	**44**	**31**
Accumulated changes from measurement at fair value or at-equity	–	–	–
Book value as at 31 December 2012	**–**	**2**	**2**

in € million	Fixed assets Land and buildings	Operating and office equipment
Acquisition/production costs		
As at 1 January 2011	197	62
Additions	–	1
Disposals	10	5
Net transfers/changes in consolidated companies	23	0
Adjustments due to currency translation	–	0
As at 31 December 2011	**164**	**58**
Depreciation		
As at 1 January 2011	65	45
Depreciation in financial year	4	3
Unscheduled write-downs in financial year	–	–
Write-ups in financial year	–	–
Net transfers/changes in consolidated companies	–	–
Disposals	6	4
As at 31 December 2011	**63**	**44**
Accumulated changes from measurement at fair value or at-equity	–	–
Book value as at 31 December 2011	**101**	**14**
Acquisition/production costs		
As at 1 January 2012	164	58
Additions	–	1
Disposals	–	9
Net transfers/changes in consolidated companies	1	0
Adjustments due to currency translation	–	0
As at 31 December 2012	**163**	**50**
Depreciation		
As at 1 January 2012	63	44
Depreciation in financial year	3	3
Unscheduled write-downs in financial year	–	–
Write-ups in financial year	–	–
Net transfers/changes in consolidated companies	–	–
Disposals	0	7
As at 31 December 2012	**66**	**40**
Accumulated changes from measurement at fair value or at-equity	–	–
Book value as at 31 December 2012	**97**	**10**

(58) TAX ASSETS

Deferred tax assets represent the potential income tax relief arising from temporary differences between the carrying value of assets and liabilities under IFRS and the taxable values under the local tax regulations applicable to Group companies, and the future income tax relief arising from tax loss carryforwards.

Deferred tax assets are recognised only insofar as trends in performance and the business environment indicate that there is likely to be sufficient taxable income in the foreseeable future.

in € million	2012	2011
Current tax assets	**18**	**54**
in Germany	9	11
outside Germany	9	43
– to be realised within 12 months	11	46
– to be realised in more than 12 months	7	8
Deferred tax assets	**747**	**1,048**
Income tax assets affecting income	8	139
Income tax assets not affecting income	739	909
Total	**765**	**1,102**

Most tax loss carryforwards within the Hypothekenbank Frankfurt Group were generated by Hypothekenbank Frankfurt's New York, Madrid and London branches; there were also tax loss carryforwards from Hypothekenbank Frankfurt Inlandsbank AG prior to fiscal unity.

For the following tax loss carryforwards, no deferred tax assets were recognised or existing deferred tax assets written down as at 31 December 2012, due to the limited planning horizon and thus the insufficient probability of their being required. For the same reason, deferred tax assets on temporary differences amounting to €707 million were not recognised.

Tax loss carryforwards:

in € million	2012	2011
Corporation tax/Federal tax	**1,758**	**1,382**
Ability to carry forward – unlimited	281	120
Ability to carry forward – limited	1,477	1,262
of which due to expire in subsequent period	–	–
Trade tax/local taxes	**965**	**854**
Ability to carry forward – unlimited	207	192
Ability to carry forward – limited	758	662
of which due to expire in subsequent period	–	–

Some deferred tax assets on deductible temporary differences for the Hypothekenbank Frankfurt branches in Milan and Lisbon are deemed recoverable in view of the positive earnings forecasts.

Deferred tax assets have been recognised in connection with the following items:

in € million	2012	2011
Fair value attributable to derivative hedging instruments	3,535	2,973
Trading assets and liabilities	3,306	3,084
Claims on banks and customers	15	9
Financial investments	368	893
Provisions	30	24
Liabilities to banks and customers	1,134	872
Securitised liabilities	571	541
Other balance sheet items	154	296
Tax loss carryforwards	–	67
Total	**9,113**	**8,759**
Netting with deferred tax liabilities	8,367	7,711
Total after netting	**746**	**1,048**

(59) OTHER ASSETS

Other assets mainly comprise the following items:

in € million	2012	2011
Collection items	301	242
Deferred items	4	12
Other assets	115	117
Total	**420**	**371**

The main item under other assets is surplus plan assets for pension provisions totalling € 54 million (2011: € 42 million), which may be realised after more than 12 months. This also includes a property valued in accordance with IAS 2 at € 25 million, for which a sales contract has already been concluded. All other items in the other assets category could be realised within 12 months.

NOTES TO THE BALANCE SHEET – LIABILITIES

(60) LIABILITIES TO BANKS

The breakdown of liabilities to banks is as follows:

in € million	2012	2011
Due on demand	1,262	1,383
Term liabilities		
Promissory notes	17,697	24,579
Registered Pfandbriefe	2,342	2,622
Other liabilities	37,989	43,682
Total	**59,290**	**72,266**
Germany	53,636	62,993
International	5,654	9,273
Total	**59,290**	**72,266**

Liabilities to banks are categorised as liabilities measured at amortised cost.

(61) LIABILITIES TO CUSTOMERS

The breakdown of liabilities to customers is as follows:

in € million	2012	2011
Due on demand	311	421
Term liabilities		
Promissory notes	5,034	6,087
Registered Pfandbriefe	22,806	24,126
Other liabilities	112	182
Total	**28,263**	**30,816**
Germany	28,040	30,471
International	223	345
Total	**28,263**	**30,816**

Liabilities to customers are categorised as liabilities measured at amortised cost.

(62) SECURITISED LIABILITIES

in € million	2012	2011
Bonds issued	**49,704**	**64,010**
Mortgage Pfandbriefe	22,095	29,296
Public Sector Pfandbriefe	25,098	31,811
Other bonds	2,511	2,903
Other securitised liabilities	**–**	**–**
Total	**49,704**	**64,010**

Securitised liabilities are categorised as liabilities measured at amortised cost. In 2012 new bonds were issued for a total volume of € 0.1 billion. In the same period, redemptions and repurchases came to € 0.6 billion, while the volume of maturing issues was € 13.7 billion.

(63) NEGATIVE FAIR VALUES ATTRIBUTABLE TO DERIVATIVE HEDGING INSTRUMENTS

Derivative financial instruments with negative fair values which are used for hedging purposes and qualify for hedge accounting are reported here.

in € million	2012	2011
Negative fair values from effective fair value hedges	15,886	15,570
Negative fair values from effective cash flow hedges	–	–
Total	**15,886**	**15,570**

(64) TRADING LIABILITIES

Trading liabilities comprise negative fair values from derivative financial instruments not used as hedges under hedge accounting.

in € million	2012	2011
Negative fair values from derivatives		
Interest rate-related transactions	10,956	10,201
Currency-related transactions		
Cross-currency swaps	1,498	1,530
Currency forwards	21	76
Credit derivatives	–	8
Other derivatives	–	–
Total	**12,475**	**11,815**

(65) PROVISIONS

Provisions can be broken down as follows:

in € million	2012	2011
Provisions for pensions and similar obligations	–	–
Other provisions	752	447
Total	**752**	**447**

Provisions for pensions and similar obligations

Pension obligations are calculated annually by independent actuaries using the projected unit credit method. The table below shows the pension scheme parameters:

	2012	2011
Interest rate	3.80 %	4.80 %
Changes in salaries	2.50 %	2.50 %
Pension increases	1.80 %	1.80 %
Expected return from plan assets	5.35 %	5.45 %

Changes in pension obligations:

in € million	2012	2011
Pension obligations as at 1 January	**328**	**328**
Service cost	3	3
Interest expense	15	16
Pension benefits	18	17
Change in actuarial gains/losses		
Adjustments for past experience	3	–6
Other adjustments	44	4
Curtailments/settlements	–	–
Sundry other adjustments		
Currency fluctuations	–	–
Net transfers	0	0
Plan adjustments	–	–
Pension obligations as at 31 December	**375**	**328**
of which fully or partially financed by plan assets	*370*	*324*
of which not financed by plan assets	*5*	*4*

The pension obligations are allocated to the following regions:

in € million	2012	2011
Germany	370	324
Rest of Europe	5	4
Total	**375**	**328**

Sensitivity to moves in interest rates is calculated at €−23 million on a +50 bp change in the discount rate, and €26 million on a −50 bp change in the discount rate.

Expenses for pensions and other employee benefits comprise the following components:

in € million	2012	2011
Service cost	3	3
Interest expense	15	16
Expected return from plan assets	18	17
Prior service cost	–	–
Curtailments/settlements	–	–
Amortisation of actuarial gains (–)/losses (+)	6	7
Expenses for defined benefit plans	**6**	**9**
Expenses for defined contribution plans	2	2
Other pension expenses (age-related short-time working, early retirement)	3	3
Sundry expenses for pensions and other employee benefits	3	2
Expenses for pensions and other employee benefits	**14**	**16**

Personnel expenses also include €5 million (2011: €5 million) in employer contributions to the statutory pension fund.

The expected income from plan assets is based on long-term yields in the capital market at the balance sheet date for fixed-interest securities and on past market performance for other investments.

The changes in plan assets were as follows:

in € million	2012	2011
Fair value as at 1 January	**337**	**313**
Allocations/releases	–	–
Expected return from plan assets	18	17
Actuarial gains (+)/losses (–)	28	7
Changes in consolidated entities	–	–
Fair value as at 31 December	**383**	**337**
Actual income from plan assets	*46*	*24*

At the balance sheet date, there were no plans to top-up plan assets in 2013.

We anticipate €18 million in pension payments in 2013 (2012: €18 million).

The plan assets can be broken down as follows:

	2012	2011
Cash and cash equivalents	1.8 %	4.2 %
Equities	10.4 %	12.9 %
Fixed-income securities	77.3 %	73.3 %
Investment funds	–	0.0 %
Derivatives	10.3 %	8.9 %
Other	0.2 %	0.7 %

Summary overview of the main components of defined benefit pension plan:

in € million	2012	2011	2010	2009	2008
Pension obligations (entitlements)	375	328	328	310	283
Fair value of plan assets	383	337	313	286	271
Unrecognised actuarial gains (+)/losses (–)	–46	–33	–48	–49	–18
Pension provisions (+)/surplus plan assets (–)	**–54**	**–42**	**–33**	**–25**	**–6**
Adjustment for past experience gains (+)/losses (–) in the reporting year for:					
Pension obligations	3	–6	–1	–1	–1
Plan assets	28	7	11	–1	–11

The surplus plan assets are reported as an asset under other assets.

Other provisions

Statement of changes in other provisions:

in € million	Specific loan loss provisions SLLP	General loan loss provisions GLLP	Provisions for personnel matters	Restruc-turing provisions	Provisions for litigation risks	Sundry other provisions	Total
As at 1 January 2011	**58**	**23**	**10**	**108**	**40**	**25**	**264**
Additions	43	6	18	2	244	7	320
Accrued interest	–	–	1	3	0	0	4
Utilisation	–	–	6	26	32	17	81
Disposals	37	19	0	2	5	1	64
Transfers	0	0	3	0	0	–	3
Changes in consolidated companies	–	–	–	–	–	0	0
Adjustments due to currency translation	1	–1	0	1	0	0	1
As at 31 December 2011	**65**	**9**	**26**	**86**	**247**	**14**	**447**
As at 1 January 2012	**65**	**9**	**26**	**86**	**247**	**14**	**447**
Additions	19	2	18	41	343	6	429
Accrued interest	–	–	1	1	0	0	2
Utilisation	–	–	25	18	2	11	56
Disposals	56	7	2	–	2	1	68
Transfers	0	0	25	–23	0	0	2
Changes in consolidated companies	–	–	0	–4	–	0	–4
Adjustments due to currency translation	0	0	0	0	0	0	0
As at 31 December 2012	**28**	**4**	**43**	**83**	**586**	**8**	**752**
– to be realised within 12 months	17	2	24	25	586	7	661
– to be realised in more than 12 months	11	2	19	58	–	1	91

The majority of provisions for personnel matters are short term in nature, but the item also includes provisions for early retirement and service anniversaries, which are long-term provisions that are used gradually over subsequent periods. It also contains provisions for the long-term cash component of the Commerzbank Incentive Plan, which are utilised at the end of the four-year vesting period.

Most of the restructuring provisions are connected with the European Commission's requirement to wind down Hypothekenbank Frankfurt, and they cover future personnel obligations for early retirement and age-related short-time working arrangements as well as obligations arising from rental agreements.

At the time the provisions are set aside, it is not possible to predict the exact length of any legal proceedings that may occur nor the amount of provisions that may be needed.

The additions to sundry other provisions mainly relate to advisory and audit costs.

(66) TAX LIABILITIES

Provisions for income taxes are potential tax liabilities where no legally binding tax assessment has yet been issued. Deferred tax liabilities are potential income tax charges arising from temporary differences between the carrying value of assets and liabilities under IFRS and the taxable values under the local tax regulations applicable to Group companies:

in € million	2012	2011
Current tax liabilities	**6**	**41**
Tax liabilities to tax authorities	–	–
Provisions for income tax	6	41
– to be realised within 12 months	6	20
– to be realised in more than 12 months	–	21
Deferred tax liabilities	**8**	**18**
Tax liabilities recognised in income statement	8	18
Tax liabilities not recognised in income statement	–	–
Total	**14**	**59**

Deferred tax liabilities have been recognised in connection with the following items:

in € million	2012	2011
Trading assets and liabilities	2,687	2,683
Fair value attributable to derivative hedging instruments	1,823	1,313
Financial investments	2,289	2,037
Claims on banks and customers	1,258	1,134
Liabilities to banks and customers	–	3
Securitised liabilities	–	–
Other balance sheet items	318	559
Total	**8,375**	**7,729**
Netting	8,367	7,711
Total after netting	**8**	**18**

(67) OTHER LIABILITIES

in € million	2012	2011
Deferred items	29	96
Other liabilities	46	122
Total	**75**	**218**

Other liabilities largely comprise of taxes payable totalling € 5 million (2011: € 8 million), trade accounts payable amounting to € 4 million (2011: € 9 million) and loan payables of € 8 million (2011: € 14 million). The items in other liabilities will be realised within 12 months.

(68) SUBORDINATED CAPITAL

Subordinated liabilities

Subordinated liabilities are own funds as defined in Section 10 (5a) of the German Banking Act (KWG). In the event of insolvency proceedings involving the assets of the Bank or the liquidation of the Bank, subordinated liabilities are not repayable until all non-subordinated creditors have been satisfied. The issuer cannot be compelled to make early repayment.

in € million	2012	2011
Bearer bonds	220	478
Promissory notes	1,425	2,075
Total	**1,645**	**2,553**

Subordinated liabilities are categorised as liabilities measured at amortised cost.

As at the balance sheet date, the following individual items constituted more than 10 % of the total subordinated liabilities:

	Nominal amount in € million	Nominal interest in %	Maturity
Promissory note	250	5.00	23.06.2016
Promissory note	220	5.00	28.11.2014

Interest expenses of €110 million (2011: €136 million) were incurred for subordinated liabilities.

Profit participation certificates

in € million	2012	2011
Profit participation certificates	190	483
Total	**190**	**483**

List of main profit participation certificate issues:

Year of issue	Nominal amount in € million	Interest rate	Maturity date	Repayment
2000[1]	200	Euribor twelve-month deposits plus 150 basis points on 2nd working day prior to interest period	31.12.2012	01.07.2013
2003[1]	1	6.62 %	31.12.2012	01.07.2013
2003[1]	40	6.65 % – 6.70 %	31.12.2013	01.07.2014
2006	200	Euribor twelve-month deposits plus 110 basis points on 2nd working day prior to interest period	31.12.2016	01.07.2017
2007	200	Euribor twelve-month deposits plus 85 basis points on 2nd working day prior to interest period	31.12.2017	01.07.2018

[1] When the Hypothekenbank Frankfurt merger became effective, holders of participation certificates in the former Rheinhyp and the former Hypothekenbank in Essen AG were granted participation rights of equal value with the same payment commitment to the holders, which are subordinate to all liabilities due to other creditors but rank equally with existing profit participation certificates.

In the year under review, holders of profit participation certificates participated in the loss. Write-downs on profit participation certificates came to €5 million, in accordance with the German Commercial Code (2011: €373 million). In the case of profit participation certificates where budgeting indicates a write-up in subsequent years, the anticipated write-up has been factored into the valuation in the financial statements. In the year under review we do not expect any write-ups before the profit participation certificates mature. Write-downs on profit participation certificates came to €283 million (2011: €186 million).

The cancellation of the interest expenses for previous years for which no further interest payments are expected led to an interest expense of €–35 million in the year under review (2011: €–10 million).

The profit participation certificates grant a share in the profits which ranks ahead of the annual dividend distribution to the shareholders; the certificates are subordinate to liabilities to other creditors unless these too are subordinated. Subject to the provisions on participation in a loss, repayment takes place at the nominal amount.

Profit participation certificates are categorised as liabilities measured at amortised cost.

(69) HYBRID CAPITAL

in € million	2012	2011
Hybrid capital	900	900
Total	**900**	**900**

Hypothekenbank Frankfurt AG issued hybrid capital with a nominal amount of € 600 million in 2003 at an interest rate of 6.445 % via Eurohypo Capital Funding LLC I, Delaware, US and Eurohypo Capital Funding Trust I, Delaware, US. There is a call option dated 23 May 2013.

In 2005, a further € 300 million of hybrid capital was issued via Eurohypo Capital Funding LLC II, Delaware, US, and Eurohypo Capital Funding Trust II, Delaware, US, at an interest rate of 6.75 %. There is an annual call option, the first being on 8 March 2011.

No interest expenses (2011: € – million) were recorded for hybrid capital during the year under review.

Hybrid capital is categorised as liabilities measured at amortised cost.

(70) EQUITY STRUCTURE

Composition of equity

in € million	2012	2011
Subscribed capital	914	914
Capital reserve	3,992	3,992
Retained earnings	579	978
Revaluation reserve	−1,634	−2,019
Cash flow hedge reserve	−25	−32
Currency translation reserve	0	10
Consolidated result	–	–
Minority interests	1	1
Total	**3,827**	**3,844**

Subscribed capital

The subscribed capital of Hypothekenbank Frankfurt AG as at 31 December 2012 was € 913,688,919.00, divided into 351,418,815 bearer shares with no par value. The shares are fully paid up.

	No. in thousand
Number of outstanding shares as at 31 December 2011	**351,419**
Number of shares issued as at 31 December 2012	**351,419**
minus: own shares as at reporting date	–
Number of outstanding shares as at 31 December 2012	**351,419**

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

Fair value of financial investments eligible for public listing	2012		2011	
	€ million	No. in thousands	€ million	No. in thousands
Issued shares	**914**	**351,419**	**914**	**351,419**
Outstanding shares (subscribed capital)	**914**	**351,419**	**914**	**351,419**
plus: shares not yet issued from authorised capital	–	–	–	–
Total	**914**	**351,419**	**914**	**351,419**

Commerzbank Inlandsbanken Holding GmbH, Frankfurt am Main, directly and indirectly via AFÖG GmbH & Co. KG, Frankfurt am Main, holds 100 % of the share capital of the bank. Commerzbank Inlandsbanken Holding is a wholly owned subsidiary of Commerzbank AG, Frankfurt am Main. The financial statements of the Hypothekenbank Frankfurt AG sub-group are consolidated in the financial statements of Commerzbank Group, which are drawn up under International Financial Reporting Standards (IFRS). The Commerzbank consolidated financial statements are published in the electronic Bundesanzeiger.

On 29 August 2007 the Annual General Meeting of Hypothekenbank Frankfurt AG approved the control and profit transfer agreement between Commerzbank Inlandsbanken Holding GmbH and Hypothekenbank Frankfurt AG. This took effect upon registration in the Commercial Register on 4 September 2007. For the term of this agreement, Hypothekenbank Frankfurt AG is obliged to transfer its profits to its shareholder; in turn, the latter is obliged to cover losses made by Hypothekenbank Frankfurt AG.

Capital reserve

The capital reserve shows the premium from the issue of shares including subscription rights in excess of the nominal or arithmetical value.

Retained earnings

The retained earnings comprise statutory reserves and other revenue reserves.

The statutory reserves amounted to €4 million as at 31 December 2012 (2011: €4 million) and are subject to a restriction on distribution. Other revenue reserves of €575 million (2011: €974 million) include reinvested consolidated profit including accumulated amounts from consolidation effects recognised through profit or loss and the effects of first-time adoption of IFRS at the conversion date of 1 January 2003.

As at 31 December 2012 the Group had not issued any convertible bonds or bonds with warrants. There is therefore no requirement to split financial instruments into equity and debt components.

Revaluation reserve

The revaluation reserve as at 31 December 2012 comprises the unrealised gains and losses on the revaluation of available-for-sale financial instruments amounting to €−2,361 million (2011: €−2,914 million).

Deferred taxes arising on the revaluations of €727 million (2011: €895 million) are included in this figure.

Cash flow hedge reserve

Changes in fair value of the effective portion of hedges amounting to €−36 million were recognised for cash flow hedges (2011: €−46 million).

This included deferred taxes totalling €11 million in respect of hedges (2011: €14 million).

Currency translation reserve

The reserve for currency translation comprises the translation gains and losses arising on capital consolidation.

(71) FOREIGN CURRENCY POSITIONS

As at 31 December 2012, the Group reported the following assets and liabilities (excluding fair values from derivatives) in foreign currencies:

in € million	USD	CHF	GBP	JPY	Other	2012 Total	2011 Total
Cash reserve	–	–	2	–	–	2	2
Trading assets	90	–	–	–	–	90	153
Claims on banks	1,068	365	1,109	25	6	2,573	7,004
Claims on customers	2,750	2,278	8,801	–	171	14,000	17,737
Financial investments	11,779	191	1,633	1,164	388	15,155	17,360
Non-current assets held for sale	399	–	–	–	–	399	–
Other assets	5	–	1	–	–	6	117
Total assets in foreign currencies	**16,091**	**2,834**	**11,546**	**1,189**	**565**	**32,225**	**42,373**
Liabilities to banks	5,450	1,073	2,297	834	45	9,699	16,529
Liabilities to customers	30	6	7	2	6	51	96
Securitised liabilities	4,283	2,518	14	225	558	7,598	9,813
Other liabilities	18	1	28	1	1	49	113
Total liabilities in foreign currencies	**9,781**	**3,598**	**2,346**	**1,062**	**610**	**17,397**	**26,551**

The open balance sheet positions are matched by forward currency transactions or currency swaps with similar maturities.

NOTES TO FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(72) DERIVATIVE TRANSACTIONS

The tables below show the Hypothekenbank Frankfurt Group's transactions in derivatives as at the balance sheet date.

A derivative is a financial instrument whose value depends on the value of an underlying asset. For example, the underlying asset may be an interest rate, a commodity price, an exchange rate or the price of a bond or equity. The financial investment does not require any initial net investment, or an initial net investment that is smaller than would be required for other types of instrument that would be expected to have a similar response to changes in market factors. It is settled at a future date.

Most of the derivative transactions involve OTC derivatives, where the nominal amount, maturity and price are negotiated each time between the bank and its counterparties. However, the bank also enters into derivatives transactions on regulated exchanges. These involve standardised contracts with standardised nominal amounts and delivery dates.

The amount traded by the bank is the nominal amount. The positive and negative fair values shown in the tables represent the cost to the bank or the counterparty of replacing the original contract with economically equivalent transactions. A positive fair value therefore indicates the bank's maximum potential counterparty default risk in relation to derivatives transactions as at the reporting date.

In order to minimise both the economic and regulatory credit risk from these instruments, Hypothekenbank Frankfurt concludes bilateral master netting agreements with its business partners (such as the 1992 ISDA Master Agreement Multicurrency Cross Border and the German Master Agreement for Financial Derivatives Transactions). These bilateral netting agreements allow us to offset the positive and negative fair values of the derivative contracts covered and reduce regulatory risk add-ons for future risks of these products. The netting process reduces the credit risk to a single net claim on the contract partner (close-out netting).

Both for regulatory reporting and internal measurement and monitoring of our credit commitment, we only use such risk-reduction techniques where we believe they are enforceable in the relevant jurisdiction in the event of the insolvency of the business partner. We obtain legal opinions from various international law firms in order to verify enforceability.

Similar to the master agreements are the collateral agreements (e.g. collateralisation annex for financial derivative contracts, Credit Support Annex), which we conclude with our business associates to secure the net claim or liability remaining after netting (receiving or furnishing of security). As a rule, this collateral management reduces credit risk by means of prompt – mostly daily or weekly – measurement and adjustment of the customer exposure.

The following table shows the nominal amounts and fair values of derivatives transactions broken down by contracts based on interest rates, currencies and other price risks, and also the maturity structure of these transactions. The fair values stated are the sum of positive and negative amounts per contract with no reduction for collateral or any netting agreements which may be in place, as these are not product-based. Where options have been sold, there is by definition no positive fair value. The nominal amount is the gross volume of all purchases and sales. The maturity breakdown given is based on remaining maturities, taking the term of the contract rather than the underlying asset. The table below also shows the fair value of derivatives based on the net method of presentation as set out in Note 1.

BREAKDOWN BY TERM

	Nominal amount/residual term						Fair value	
in € million	Due on demand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total 2011	Positive 2011	Negative 2011
Foreign currency-based forward transactions								
OTC products								
Foreign exchange spot and forward contracts	–	5,967	8	16	–	5,991	14	76
Interest rate and currency swaps	–	1,201	1,297	3,279	9,378	15,155	920	1,664
Total	**–**	**7,168**	**1,305**	**3,295**	**9,378**	**21,146**	**934**	**1,740**
Interest rate-based forward transactions								
OTC products								
Forward rate agreements	–	12,200	15,400	–	–	27,600	–	2
Interest rate swaps	–	13,729	38,072	159,759	113,615	325,175	15,133	25,517
Call options on interest rate futures	–	–	–	398	240	638	3	–
Put options on interest rate futures	–	25	177	1,157	240	1,599	–	33
Other interest rate contracts	–	943	3,396	5,835	2,069	12,243	32	85
Products traded on a stock exchange								
Options on Interest rate futures	–	–	–	–	–	–	–	–
Total	**–**	**26,897**	**57,045**	**167,149**	**116,164**	**367,255**	**15,168**	**25,637**
Other forward transactions								
OTC products								
Credit derivatives	**–**	**–**	**–**	**792**	**160**	**952**	**108**	**8**
Total pending forward transactions								
OTC products	–	34,065	58,350	171,236	125,702	389,353	16,210	27,385
Products traded on a stock exchange	–	–	–	–	–	–	–	–
Total	**–**	**34,065**	**58,350**	**171,236**	**125,702**	**389,353**	**16,210**	**27,385**

BREAKDOWN BY TERM

in € million	Due on demand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total 2012	Positive 2012	Negative 2012
	Nominal amount/residual term						Fair value	
Foreign currency-based forward transactions								
OTC products								
Foreign exchange spot and forward contracts	–	7,813	266	5	–	8,084	44	21
Interest rate and currency swaps	–	886	458	4,381	9,204	14,929	784	1,638
Total	**–**	**8,699**	**724**	**4,386**	**9,204**	**23,013**	**828**	**1,659**
Interest rate-based forward transactions								
OTC products								
Forward rate agreements	–	7,000	9,000	–	–	16,000	–	–
Interest rate swaps	–	14,817	33,254	134,231	94,899	277,201	16,855	26,607
Call options on interest rate futures	–	–	–	442	–	442	2	–
Put options on interest rate futures	–	60	10	457	–	527	–	2
Other interest rate contracts	–	24	1,292	4,537	1,093	6,946	17	93
Products traded on a stock exchange								
Options on Interest rate futures	–	–	–	–	–	–	–	–
Total	**–**	**21,901**	**43,556**	**139,667**	**95,992**	**301,116**	**16,874**	**26,702**
Other forward transactions								
OTC products								
Credit derivatives	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total pending forward transactions								
OTC products	–	30,600	44,280	144,053	105,196	324,129	17,702	28,361
Products traded on a stock exchange	–	–	–	–	–	–	–	–
Total	**–**	**30,600**	**44,280**	**144,053**	**105,196**	**324,129**	**17,702**	**28,361**

The table below shows the positive and negative fair values of the derivative transactions of Hypothekenbank Frankfurt Group broken down by counterparty. The majority of the derivatives business of Hypothekenbank Frankfurt Group is carried out with counterparties of impeccable credit standing. The overwhelming majority of fair value is concentrated in counterparties located in OECD states.

in € million	Nominal 2012	Fair value Positive 2012	Fair value Negative 2012	Nominal 2011	Fair value Positive 2011	Fair value Negative 2011
OECD banks	297,060	15,615	27,910	353,170	13,973	27,326
Other companies, private individuals	27,069	2,087	451	36,183	2,237	59
Total	**324,129**	**17,702**	**28,361**	**389,353**	**16,210**	**27,385**

(73) USE OF FINANCIAL DERIVATIVES

The table below shows how financial derivatives are used. Derivatives are used for hedging. Our accounting policies describe the following criteria.

in € million	Positive 2012	Fair value Negative 2012	Positive 2011	Fair value Negative 2011
Hedging derivatives that cannot be used for hedge accounting	10,510	12,475	9,916	11,815
Derivatives used for hedge accounting				
For fair value hedge accounting	7,192	15,886	6,294	15,570
For cash flow hedge accounting	–	–	–	–
Total	**17,702**	**28,361**	**16,210**	**27,385**

(74) CASH FLOW HEDGES

The reserve is gradually being released as the underlying transactions mature. As at 31 December 2012 the remaining reserve amounted to €−25 million (2011: €−32 million) after deferred taxes of € 11 million (2011: € 14 million).

The table below shows in which reporting periods the hedged cash flows are anticipated to occur and when these are expected to impact on profit or loss:

in € million	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years
2011				
Cash flow from assets	50	144	514	168
Cash flow from liabilities	−26	−54	−115	−24
Net cash flow	**24**	**90**	**399**	**144**
2012				
Cash flow from assets	7	24	73	39
Cash flow from liabilities	−2	−7	−22	−2
Net cash flow	**5**	**17**	**51**	**37**

(75) MARKET RISK

Market price risk is the risk of sustaining economic losses caused by changes in market prices (interest rates, commodities, credit spreads, exchange rates and share prices) or other parameters that affect pricing (volatility and correlations). We also monitor market liquidity risk, which takes the period of time into consideration to close or hedge risk positions to the extent desired. Management and monitoring of these risks are handled at Group level. All significant market price risks are limited and monitored.

In both cases, the measure used to quantify all market price risks is value at risk (VaR). VaR quantifies risk as a negative deviation from the current value of all financial transactions carried out by the bank for a given probability and within a defined time horizon. VaR is calculated daily on the basis of the HistSim approach. A uniform confidence level of 97.5 % is applied throughout the Group for internal management purposes. The holding period is set at one day.

We have provided further information on the nature and scale of market price risks in the management report, in particular in the risk report.

(76) INTEREST RATE RISK

Interest rate risk describes the risk of loss arising when the benchmark yield curve changes. The swap curve of the relevant currency is used as the benchmark yield curve.

Interest rate risk is calculated every day using net present value methodology and applying delta (a measure of sensitivity to movements in interest rates). In order to ascertain these indicators, the net present values of the assets and liabilities on the balance sheet and of all derivatives are calculated. The interest rates on the underlying benchmark yield curve are then raised by one basis point in certain maturity ranges. The delta for a specific maturity band is the cash equivalent loss – or gain – incurred if the benchmark yield curve rises.

(77) CREDIT SPREAD RISK

In addition to interest rate risks, credit spread risks are also calculated for all securities holdings both within and outside our cover pool. As with the systematic interest rate risks, these quantify the cash equivalent gain or loss resulting from a widening of issuer-specific credit spreads by one basis point.

(78) CURRENCY RISK

Currency risk is the risk of incurring losses due to exchange rate movements. The risk is determined by means of net exposure summaries (nominal). Volume restrictions limit the absolute level of open foreign currency positions.

(79) RISK REPORTING

We have provided further information on the nature and scale of risks arising from financial instruments according to IFRS 7.31 – 42 in the management report, in particular in the risk report.

(80) RISK-WEIGHTED ASSETS AND CAPITAL RATIOS

The German Banking Act and the Solvency Regulation require German banks to maintain minimum capital ratios. They stipulate that banks have to back their risk weighted assets with at least 8 % in own funds (the own funds ratio).

Own funds comprise liable capital that is made up of core and supplementary capital, plus Tier III capital. Core capital mainly consists of subscribed capital plus reserves, hidden reserves and minority interests, less deduction items such as goodwill, equity investments and intangible assets. Hybrid capital is counted as core capital under other capital, with certain limits on eligibility. Supplementary capital comprises outstanding profit-sharing certificates and subordinated non-current liabilities.

Hypothekenbank Frankfurt seeks to achieve the following objectives in managing its capital:

- To comply with the statutory minimum capital requirements at Group level and in all Group companies of the regulatory Group
- To provide sufficient reserves to guarantee the bank's freedom of action at all times
- To allocate core capital to business segments and divisions

The core capital is allocated via a regular process which takes account of the bank's strategic direction as well as issues relating to risk-bearing capacity.

All measures relating to the bank's capital are proposed by the bank's central asset-liability committee and approved by the Board of Managing Directors, subject to the authorisation granted by the Annual General Meeting.

In the past year Hypothekenbank Frankfurt met the statutory minimum capital requirements at all times.

The table below contains a breakdown of regulatory capital as detailed in the report to the supervisory authority in accordance with the Solvency Regulation. The Hypothekenbank Frankfurt Group produces this report on the basis of the financial statements prepared in accordance with the German Commercial Code (HGB).

in € million	2012	2011
Tier I capital		
Subscribed capital	1,141	1,093
Reserves, minority interests, treasury shares	4,952	4,937
Hybrid capital	900	900
Other	–112	–8
Total	**6,881**	**6,922**
Supplementary capital		
Hybrid capital	–	–
Profit participation rights	–	–
Reserves in securities (eligible 45 %)	–	–
Subordinated liabilities	1,243	1,752
Other	–122	183
Total	**1,121**	**1,935**
Tier III capital	**–**	**–**
Eligible own funds	**8,002**	**8,857**

The capital requirements and capital ratios prescribed under supervisory provisions were as follows:

in € million	2012	2011
Requirement for own funds, credit risk	3,114	3,966
Requirement for own funds, market price risk	15	19
Requirement for own funds, operational risk	110	79
Requirement for own funds, total	**3,239**	**4,064**
Eligible own funds	8,002	8,857
Core capital ratio	17.0	13.6
Own funds ratio	19.8	17.4

(81) FAIR VALUE OF FINANCIAL INSTRUMENTS

Determining fair value

This section sets out how we determine the fair values for financial instruments that do not have to be reported at fair value in the balance sheet but for which a fair value is required under IFRS 7. For financial instruments reported at fair value on the balance sheet, the methods for measuring them are presented in the accounting policies (Notes 2 to 29) and later on under the sections headed "Measurement of financial instruments" and "Fair value hierarchy".

The nominal value of financial instruments falling due on demand is deemed to be their fair value. These instruments include the cash reserve as well as overdrafts and sight deposits in the claims on banks and customers or liabilities to banks and customers categories.

No immediate fair values are available for loans and deposits as there are no organised markets trading in such instruments. Recognised theoretical measurement methods are used to determine the fair value of these instruments with the aid of current market parameters. In the case of loans, a discounted cash flow model is applied: the parameters are based on a risk-free yield curve, credit spreads and a fixed premium to cover liquidity spreads, administrative and regulatory capital costs. With liabilities, a risk-free yield curve is again used, whereby particular account is taken of Commerzbank Aktiengesellschaft's own credit spread plus a premium for administrative costs. The model also uses market credit spreads for mortgage Pfandbriefe, public-sector Pfandbriefe and loans taken out by the bank.

The fair value for securitised liabilities, subordinated liabilities and hybrid capital is determined using quoted market prices, where available. The calculation takes various factors into account including current market rates of interest and the Group's credit rating. If no prices are available, fair values are determined using theoretical measurement models (discounted cash flows, option price models), which also refer to yield curves, volatilities, own credit spreads, etc. In cases where the bank has issued structured notes that are reported at fair value, the fair value of the credit risk is also taken into account.

The tables below show the fair values attributable to balance sheet items compared with their carrying value:

in € million	Fair value 2012	Carrying amount 2012	Fair value 2011	Carrying amount 2011
Assets				
Cash reserve	8	8	18	18
Claims on banks	20,411	20,430	23,011	23,145
Due on demand	12,571	12,571	12,551	12,551
Real estate finance	75	77	74	82
Loans to public sector companies	4,735	4,773	7,798	7,930
Other claims	3,030	3,009	2,588	2,582
Claims on customers	80,664	80,271	99,376	101,699
Real estate finance	57,434	56,724	70,597	72,680
Loans to public sector companies	23,038	23,355	24,579	24,819
Other claims	192	192	4,200	4,200
Positive fair values attributable to derivative hedging instruments	7,192	7,192	6,294	6,294
Trading assets	10,600	10,600	10,069	10,069
Financial investments	48,149	52,642	54,842	59,774
Non-current assets held for sale	408	399	59	59
Liabilities				
Liabilities to banks	59,663	59,290	71,644	72,266
Due on demand	1,262	1,262	1,383	1,383
Promissory notes	18,055	17,697	24,115	24,579
Registered Pfandbriefe	2,362	2,342	2,619	2,622
Other liabilities	37,984	37,989	43,527	43,682
Liabilities to customers	28,215	28,263	30,373	30,816
Due on demand	311	311	421	421
Promissory notes	5,371	5,034	5,986	6,087
Registered Pfandbriefe	22,421	22,806	23,784	24,126
Other liabilities	112	112	182	182
Securitised liabilities	49,878	49,704	63,619	64,010
Mortgage Pfandbriefe	22,640	22,095	29,463	29,296
Public Sector Pfandbriefe	24,715	25,098	31,307	31,811
Other bonds	2,523	2,511	2,849	2,903
Negative fair values attributable to derivative hedging instruments	15,886	15,886	15,570	15,570
Trading liabilities	12,475	12,475	11,815	11,815
Subordinated capital	1,807	1,835	2,973	3,036
Hybrid capital	522	900	436	900

The net difference between the book value and fair value of all items was €−4,203 million as at 31 December 2012 (2011: €−5,406 million).

Valuation of financial instruments

In accordance with IAS 39, all financial instruments must be measured at fair value the first time that they are reported. For financial assets that are not reported at fair value through profit or loss, certain transaction costs also have to be included. Thereafter, financial instruments that are measured at fair value through profit and loss or as available for sale are always measured at fair value. For this purpose, financial instruments that have to be measured at fair value through profit or loss include derivatives, instruments held for trading purposes and instruments that are designated as measured at fair value.

The fair value of a financial instrument is the amount for which it could be exchanged in an arm's length transaction between knowledgeable, willing parties. The most suitable yardstick for determining fair value is the listed price for an identical instrument on an active market (valuation hierarchy level I).

If no listed prices are available, instruments are measured on the basis of the listed prices for similar instruments on active markets. To quote the price at which an asset or liability can be exchanged or settled, assets are measured at their bid price and liabilities at their ask price. If no listed prices are available for identical or similar financial instruments, fair value is determined using a suitable measurement model, where as much input data as possible comes from verifiable market sources (valuation hierarchy level II).

While most measurement methods rely on market sources that can be verified, certain financial instruments will be measured using measurement models that rely on other inputs, for which there are not sufficient verifiable market data available. By their very nature, these measurements are heavily dependent on management estimates. These unobservable inputs may include data that are extrapolated, interpolated or determined in the form of approximations from correlated or historical data. However, market data or data provided by third parties is used wherever possible, thereby keeping internal inputs to a minimum (valuation hierarchy level III).

The realisable fair values that are achieved at a later date may differ from the estimated fair values.

Measurement models must comply with recognised business methods for measuring financial instruments and take all factors into account that market participants would consider in establishing whether a price was reasonable. All fair values are subject to Hypothekenbank Frankfurt's internal controls and procedures, which set out the standards for independent review and validation. These controls are administered by the Independent Price Verification Group (IPV) as part of the finance function. The models, the input data and the resulting fair values are regularly checked by senior management and the risk function.

Fair value hierarchy

In accordance with IFRS 7, financial instruments reported at their fair value fall under a three-level fair value measurement hierarchy as follows:

- Level I: Financial instruments for which fair value is determined on the basis of prices listed on active markets for identical financial instruments.
- Level II: Financial instruments where no identical instruments are listed on an active market and for which the fair value is determined using measurement methods.
- Level III: Financial instruments that are measured using measurement methods for which insufficient observable market input data is available and where the input data has a material impact on the fair value calculations.

In some cases, management is responsible for determining the classification level for a given financial instrument, particularly where the valuation is based on both observable market parameters and unobservable factors. Changes in market liquidity that affect price transparency may also result in an instrument being reclassified.

The financial instruments reported at their fair value in the balance sheet are grouped by category and measurement basis in the tables below. A distinction is made here according to whether the measurement is based on market prices (Level I), or whether the measurement models are based on observable market data (Level II) or on parameters that cannot be observed on the markets (Level III).

				2012				2011
in € million	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Positive fair values attributable to derivative hedging instruments	–	7,192	–	7,192	–	6,294	–	6,294
Trading assets	–	10,510	90	10,600	–	9,977	92	10,069
of which: positive fair values from derivatives	–	10,510	–	10,510	–	9,916	–	9,916
Financial investments available for sale	3,988	–	6	3,994	3,294	–	6	3,300
Total	**3,988**	**17,702**	**96**	**21,786**	**3,294**	**16,271**	**98**	**19,663**

				2012				2011
in € million	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Negative fair values attributable to derivative hedging instruments	–	15,886	–	15,886	–	15,570	–	15,570
Trading liabilities	–	12,475	–	12,475	–	11,815	–	11,815
Total	**–**	**28,361**	**–**	**28,361**	**–**	**27,385**	**–**	**27,385**

In the previous there were no reclassifications between Level I and Level II.

The financial instruments attributable to Level III changed as follows during the previous year:

in € million	Trading assets	Financial investments available for sale	Total
Fair value as at 1 January 2011	245	6	251
Changes in consolidated entities	–	–	–
Gains/losses recognised in income statement during the period	23	0	23
Gains/losses recognised in equity	–	–	–
Purchases	64	–	64
Sales	239	–	239
Issues	–	–	–
Redemptions	1	0	1
Reclassification	–	–	–
Fair value as at 31 December 2011	**92**	**6**	**98**

in € million	Trading assets	Financial investments available for sale	Total
Fair value as at 1 January 2012	92	6	98
Changes in consolidated entities	–	–	–
Gains/losses recognised in income statement during the period	–1	0	–1
Gains/losses recognised in equity	–	–	–
Purchases	–	–	–
Sales	–	–	–
Issues	–	–	–
Redemptions	1	–	1
Reclassification	–	–	–
Fair value as at 31 December 2012	**90**	**6**	**96**

Sensitivity analysis

Where the value of financial instruments is based on unobservable input parameters, the precise value of those parameters may be derived from a range of reasonable alternatives at the reporting date which are subject to management's discretion. In preparing the consolidated financial statements, appropriate levels for these unobservable input parameters are chosen to be consistent with prevailing market conditions and in line with the Group's approach to measurement control.

These figures illustrate the potential impact of the relative uncertainty contained in the fair values given for financial instruments where the valuations are based on unobservable input parameters. It should be noted that the parameters are at the extremes of the range of reasonable alternatives. In practice, it is unlikely that all unobservable parameters will lie at the limits of the range of reasonable alternatives at the same time. As a result, the estimates provided are likely to be higher than the actual uncertainty associated with the fair value of the instrument. The purpose of these figures is not to estimate or predict future movements in fair value. The unobservable market parameters were adjusted by an independent valuation expert by 1%. The sensitivity analysis shows positive effects to the amount of €7 million and negative effects to the amount of €7 million in the income statement.

Day one P&L

As in the previous year, no transactions were executed that resulted in a day one profit or loss in the reporting period.

(82) ASSETS PLEDGED AS COLLATERAL

The assets shown below were assigned as collateral for the following liabilities:

in € million	2012	2011
Liabilities to banks	29,091	29,308
Securitised liabilities	–	–
Total	**29,091**	**29,308**

The following financial assets were assigned as collateral for the financial liabilities indicated above:

in € million	2012	2011
Claims on banks	732	61
Claims on customers	–	–
Financial assets	28,916	32,677
Total	**29,648**	**32,738**

In addition, repurchased own secured bonds of €6,526 million (2011: €3,997 million) were assigned as collateral for the liabilities indicated above.

The collateral was provided for funds raised under repo transactions. The transactions were carried out under the standard market terms for securities lending and repo transactions.

(83) MAXIMUM DEFAULT RISK

The maximum default risk exposure in accordance with IFRS 7 – excluding collateral or other credit enhancements – is equal to the book amount of the relevant assets in each class, or the nominal value in the case of irrevocable lending commitments and contingent liabilities. The table below shows the book amounts or nominal values of financial instruments with a potential default risk:

in € million	2012	2011
Bonds and other fixed-income securities under financial investments	52,630	59,761
Claims on banks	20,430	23,145
Claims on customers	80,271	101,699
Positive fair values attributable to derivative financial instruments under		
Trading assets	10,510	9,916
Hedging instruments as defined by IAS 39	7,192	6,294
Other trading assets	90	153
Irrevocable credit commitments	1,146	2,889
Contingent liabilities	264	502

The maximum default risk exposures listed above do not form the basis for managing credit risk internally, as the management of credit risk also takes account of collateral, probabilities of default and other economic factors. To this extent these amounts are therefore not representative of the bank's assessment of its actual credit risk.

(84) MATURITIES OF ASSETS AND LIABILITIES

We have classified all current and non-current balance sheet items (excluding positive and negative fair values for derivatives). Note 72 contains a breakdown of derivatives.

An item is deemed to be current if the maturity date or date on which an item is due to be realised or met is less than one year from the reporting date.

Financial instruments under trading assets and trading liabilities without contractual maturities, the cash reserve, assets and liabilities held for sale and income taxes are classified as current. At-equity investments, intangible assets, fixed assets, investment assets and deferred taxes on income are automatically considered non-current items. In the case of other assets and liabilities, we have estimated the classification for key items. Details of the classification of the main types of provisioning can be found in Note 65.

in € million	Current	Non-current
Cash reserve	8	–
Claims on banks	14,787	5,643
Claims on customers	22,625	60,378
Financial assets	2,735	49,907
Trading assets	0	90
At-equity investments	–	67
Intangible assets	–	4
Fixed assets	–	107
Investment property	–	116
Non-current assets held for sale	399	–
Current tax assets	18	–
Deferred tax assets	–	747
Other assets	366	54
Total	**40,939**	**117,113**
Liabilities to banks	28,599	30,691
Liabilities to customers	2,748	25,515
Securitised liabilities	15,281	34,423
Provisions	661	91
Current tax liabilities	6	–
Deferred tax liabilities	–	8
Other liabilities	46	29
Subordinated capital	653	1,182
Hybrid capital	–	900
Total	**47,994**	**92,839**

The maturity breakdown contains details of the residual term for financial instruments with contractual terms. The residual term is the period between the reporting date and date on which the financial instrument reaches contractual maturity. For financial instruments that fall due in instalments, the residual term for each individual tranche is shown.

2011	Residual term				
in € million	**Due on demand**	**Up to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**
Claims on banks	12,553	445	1,038	6,031	3,081
Claims on customers	390	16,291	12,596	43,866	31,257
Bonds, other fixed-income securities (financial investments) and promissory notes held for trading	–	1,209	2,537	19,058	36,970
Total 2011	**12,943**	**17,945**	**16,171**	**68,955**	**71,308**
Liabilities to banks	1,383	26,951	10,814	26,623	6,495
Liabilities to customers	421	1,466	1,326	6,562	21,041
Securitised liabilities	–	6,063	8,407	39,444	10,096
Subordinated capital	–	51	906	1,372	706
Hybrid capital	–	–	–	–	900
Total 2011	**1,804**	**34,531**	**21,453**	**74,001**	**39,238**

2012	Residual term				
in € million	**Due on demand**	**Up to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**
Claims on banks	12,572	619	1,596	3,517	2,127
Claims on customers	2,972	7,769	11,884	34,857	25,521
Bonds, other fixed-income securities (financial investments) and promissory notes held for trading	–	1,153	1,583	17,585	32,411
Total 2012	**15,544**	**9,541**	**15,063**	**55,959**	**60,059**
Liabilities to banks	1,262	20,520	6,817	26,091	4,600
Liabilities to customers	311	1,005	1,432	7,048	18,467
Securitised liabilities	–	7,427	7,853	26,097	8,327
Subordinated capital	–	348	305	755	427
Hybrid capital	–	–	–	–	900
Total 2012	**1,573**	**29,300**	**16,407**	**59,991**	**32,721**

OTHER INFORMATION

(85) REPURCHASE AGREEMENTS (REPO AND REVERSE REPO TRANSACTIONS) AND CASH COLLATERAL

Hypothekenbank Frankfurt Group enters into repo transactions by selling securities with an obligation to buy them back and buying securities with an obligation to sell them back. The consideration received under repurchase agreements where we are the borrower (and therefore obliged to buy securities back) is recognised as a liability to banks or customers. The securities delivered to the lender are recognised under the relevant balance sheet item. As the lender, the Hypothekenbank Frankfurt Group recognises a claim against the borrower to the value of the collateral received. The securities received as collateral are held in custody.

Cash collateral provided by us (cash collateral out) is recognised as a claim, whilst collateral received (cash collateral in) appears as a liability.

Repurchase agreements and cash collateral on the balance sheet date were as follows:

in € million	2012	2011
Repo transactions as borrower		
(Repo agreements)		
Liabilities to banks	29,091	29,308
Cash collateral in		
Liabilities to banks	392	470
Total	**29,483**	**29,778**
Repo transactions as lender		
(Reverse repo agreements)		
Claims on banks	691	63
Cash collateral out		
Claims on banks	11,438	11,669
Total	**12,129**	**11,723**

(86) 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 recognise lent securities in our balance sheet under our trading portfolio or under financial assets, whereas borrowed securities do not appear in the balance sheet. The expenses and income from securities lending transactions, insofar as they relate to the past financial year, were recognised under interest paid or received in the income statement and reflect the respective maturities.

in € million	2012	2011
Lent securities	–	–
Borrowed securities	615	3,318
Total	**615**	**3,318**

(87) SUBORDINATED ASSETS

In the event of the bankruptcy or liquidation of the issuer, subordinated assets rank after the claims of all other creditors.

in € million	2012	2011
Claims on banks	50	50
Claims on customers	0	0
Total	**50**	**50**

(88) OFF-BALANCE SHEET OBLIGATIONS

in € million	2012	2011
Liabilities under guarantees and warranties	264	502
of which: credit guarantees	166	294
of which: other guarantees	98	208
of which: letters of credit	–	–
Other obligations		
Irrevocable credit commitments	1,146	2,889
of which: book credits	417	934
of which: mortgage loans/public sector finance	725	1,930
Other commitments	4	25
Total	**1,410**	**3,391**

For reasons of practicality we have not disclosed the information required by IAS 37.86 and IAS 37.89.

Maturity breakdown of contingent liabilities and irrevocable credit commitments:

in € million	2012	2011
due on demand	275	544
up to 3 months	29	125
3 months to 1 year	230	757
1 year to 5 years	804	1,747
Over 5 years	72	218
Total	**1,410**	**3,391**

(89) TRUST TRANSACTIONS

The following trust transactions were recorded during the period under review.

in Mio €	2012	2011
Trust assets		
Claims on customers	27	49
Trust liabilities		
of which liabilities to banks	7	10
of which liabilities to customers	20	39
Total	**27**	**49**

(90) EMPLOYEES (AVERAGE)

			2012			2011
Average for the year	Female	Male	Total	Female	Male	Total
Full-time	355	566	921	403	637	1,040
Part-time	141	17	158	140	21	161
Trainees	–	–	–	–	–	–
Apprentices	3	3	6	4	5	9
Total	**499**	**586**	**1,085**	**547**	**663**	**1,210**

(91) RELATED PARTIES TRANSACTIONS

In the course of its normal business, the Hypothekenbank Frankfurt Group does business with related parties.

These include the parent company, Commerzbank Inlandsbanken Holding GmbH and Commerzbank AG, all Commerzbank subsidiaries and affiliated companies, companies that are controlled but not consolidated for materiality reasons, companies valued at equity, corporate investments and external providers of occupational pensions for Hypothekenbank Frankfurt AG employees.

The key management personnel consist exclusively of members of the Board of Managing Directors and the Supervisory Board of Hypothekenbank Frankfurt AG and Commerzbank AG, their dependants and companies controlled by people in this group.

Because SoFFin (the German Financial Market Stabilisation Fund) holds a stake in Commerzbank AG that gives it a material influence, the Hypothekenbank Frankfurt Group is obliged to report all transactions with entities owned by the German government. As in the previous year, the bank has applied the exemption described in IAS 24.25. As in 2011, there were no significant transactions with government-owned entities requiring disclosure.

Assets, liabilities and off-balance-sheet items in connection with related parties are shown in the table below.

in € million	1.1.2012	Additions	Disposals	Changes in consolidated entities	31.12.2012
Claims on banks	6,069	7,189	6,772	–	6,486
Parent company	6,069	7,189	6,772	–	6,486
Claims on customers	5,218	406	4,505	–	1,119
Parent company	4,409	406	4,245	–	570
Holdings in companies accounted for using the equity method and shareholdings in related companies	809	–	260	–	549
Other related parties	–	–	–	–	–
Key management personnel	–	–	–	–	–
Financial investments	207	18	14	–	211
Parent company	207	18	14	–	211
Positive fair values attributable to derivative hedging instruments	3,519	758	187	–	4,090
Parent company	3,519	758	187	–	4,090
Trading assets	4,441	1,090	224	–	5,307
Parent company	4,441	1,090	224	–	5,307
Total claims	**19,454**	**9,461**	**11,702**	**–**	**17,213**

in € million	1.1.2012	Additions	Disposals	Changes in consolidated entities	31.12.2012
Liabilities to banks	54,623	3,524	15,272	–	42,875
Parent company	54,623	3,524	15,272	–	42,875
Liabilities to customers	601	–	96	–	505
Holdings in companies accounted for using the equity method and shareholdings in related companies	1	–	–	–	1
Other related parties	600	–	96	–	504
Securitised liabilities	3,002	682	430	–	3,254
Parent company	3,002	682	430	–	3,254
Negative fair values attributable to derivative hedging instruments	6,635	641	176	–	7,100
Parent company	6,635	641	176	–	7,100
Trading liabilities	5,420	823	368	–	5,875
Parent company	5,420	823	368	–	5,875
Subordinated capital	1,083	–	285	–	798
Parent company	461	–	283	–	178
Other related parties	622	–	2	–	620
Hybrid capital	442	188	–	–	630
Parent company	442	188	–	–	630
Total liabilities	**71,806**	**5,858**	**16,627**	**–**	**61,037**
Off-balance sheet items					
Liabilities under guarantees and warranties	178	–	25	–	153
Parent company	178	–	25	–	153

Income in € million	2012	2011
Parent company		
Interest	406	358
Commission	5	18
Liabilities to customers	18	13
Holdings in companies accounted for using the equity method and shareholdings in related companies		
Interest	23	38
Commission	0	–
Liabilities to customers	–	–
Other related parties		
Interest	0	–
Commission	–	–
Liabilities to customers	–	–
Key management personnel		
Interest	–	–
Commission	–	–
Liabilities to customers	–	–
Total		
Interest	429	396
Commission	5	18
Liabilities to customers	18	13

Expenses in € million	2012	2011
Parent company		
Interest	688	1,195
Commission	2	1
Liabilities to customers	95	119
Depreciation	–	–
Holdings in companies accounted for using the equity method and shareholdings in related companies		
Interest	–	–
Commission	8	11
Liabilities to customers	–	–
Depreciation	43	151
Other related parties		
Interest	51	109
Commission	–	–
Liabilities to customers	–	–
Depreciation	–	–
Key management personnel		
Interest	–	0
Commission	–	–
Operating expenses	1	2
Liabilities to customers	–	–
Depreciation	–	–
Total		
Interest	739	1,304
Commission	10	12
Operating expenses	1	2
Liabilities to customers	95	119
Depreciation	43	151

The operating expenses reported under key management personnel consist of remuneration for members of the Board of Managing Directors and salaries paid to Hypothekenbank Frankfurt Group employee representatives on the Supervisory Board which are recognised as staff expenses. The item also includes remuneration paid to members of the Supervisory Board.

a) Remuneration of key management personnel

BOARD OF MANAGING DIRECTORS

Remuneration paid to the Board of Managing Directors amounted to € 1,198,000 (2011: € 2,076,000). As in 2011, no payments were made under the staff remuneration plan (LFI / LTP) to the Board of Managing Directors. Total remuneration included € 333,000 (2011: € 271,000) in variable remuneration. In 2011, € 360,000 was paid out for long-term remuneration commitments. The variable remuneration for 2012 has to be approved by the relevant management bodies. This amount also includes other payments of € 66,000 (2011: € 77,000), including the usual benefits in kind (primarily the use of company cars, insurance and taxes and social security contributions payable). The remuneration for one member of the Board of Managing Directors is covered by Commerzbank and is therefore not included in the above figures as the function was duplicated.

IAS 24 categorises basic salary, variable remuneration, remuneration for serving on the boards of companies included in the Hypothekenbank Frankfurt consolidated financial statements and other emoluments of the individual members of the Board of Managing Directors as short-term employee benefits.

Staff expenses by IAS 24 category were as follows:

Short term employee benefits € 986,000 (2011: € 1,658,000), other long-term employee benefits € 200,000 (2011: € 0), expenses for post-employment benefits (service expense and payments to defined contribution plans) € 246,000 (2011: € 208,000). No payments were made on termination of employment during the year under review (2011: € 400,000). There were no expenses for share-based remuneration as defined in IAS 24 in 2011 or 2012.

As in 2011, members of the Board of Managing Directors were granted a total of € 34,000 for their mandates at companies included in the consolidated financial statements by those companies.

The bank has established a retirement benefit plan for present and former members of the Board of Managing Directors or their surviving dependants. To safeguard the total assets of this plan, they have been transferred to Commerzbank Pensions-Trust e. V. under a contractual trust arrangement.

As at 31 December 2012, pension liabilities (defined benefit obligations) for serving members of the Board of Managing Directors amounted to € 904,000 (2011: € 527,000) and € 66,882,000 for former members of the Board of Managing Directors or surviving dependants (2011: € 65,071,000).

After deducting the transferred plan assets and allowing for actuarial gains or losses, the defined benefit assets for pension obligations as at 31 December 2012 amounted to € 126,000 (2011: € 55,000) for serving members of the Board of Directors and € 11,030,000 (2011: € 9,874,000) for former members of the Board of Directors and surviving dependants.

Serving members of the Board of Managing Directors had or have participated in the share-based long-term performance plans (LTP) outlined in Note 25. No payments were made from the LTP in 2012.

SUPERVISORY BOARD

The following payments were made to the Supervisory Board:

in € thousand	2012	2011
Fixed remuneration	44	75
VAT	8	14
Total	**52**	**89**

b) Loans to key management personnel

As at the balance sheet date, the aggregate amount of loans to key management personnel was as follows:

in € thousand	1.1.2012	Additions	Disposals	Changes in consolidated entities	31.12.2012
Board of Managing Directors	–	–	–	–	–
Supervisory Board	70	–	3	–	67
Total	**70**	**–**	**3**	**–**	**67**

As at year-end, there were no loans made to serving members of the Board of Managing Directors.

Loans to members of the Supervisory Board totalling € 67,000 were advanced with final due dates in 2033 and at interest rates of between 4.68% and 5.14%. The loans are granted subject to normal market terms and conditions and charges on property.

The companies of the Hypothekenbank Frankfurt Group did not have any contingent liabilities relating to members of the Board of Managing Directors and the Supervisory Board in the year under review.

(92) SHARE-BASED REMUNERATION PLANS

In 2012, services provided by employees generated expenses linked to share-based remuneration. For further details and information about the terms and conditions of the share-based remuneration plans, please refer to Note 25. Share-based payment plans settled in cash generated a charge of € 0.2 million (2011: € 0.3 million) (of which € 0.2 million for share awards and € 0.0 million for the Commerzbank Incentive Plan (CIP)). Share-based remuneration settled with Commerzbank shares under the CIP accounted for € 0.5 million (2011: € 0.1 million).

Provisions for the plans settled in cash or with Commerzbank shares amounted to € 1.6 million (2011: € 0.3 million) (of which € 1.0 million for share awards, € 0.6 million for CIP).

Share awards

Matching personnel provisions were set aside for share awards from 2011 on 31 December 2012. The total provisions designated for share-based remuneration plans were only determined in March 2012, once the individual variable remuneration had been calculated. In 2012, € 0.5 million of provisions for share awards were rebooked (2011: € 1.7 million). The table below shows the changes in share award plan rights over the past year:

Number of rights awarded	2012 in units	2011 in units
Outstanding at beginning of year	293,413	–
Granted during year	327,939	294,713
Exercised during year	68,887	–
Expired/forfeited during year	10,990	1,300
Outstanding at year-end	**541,475**	**293,413**

Commerzbank Incentive Plan

As indicated in Note 25, the number of share award rights granted since 1 January 2012 under the Commerzbank Incentive Plan (CIP) will be calculated in the following financial year.

Long-term performance plan (LTP)

In view of the eligibility criteria for the LTP set out in Note 25, we anticipate that the plans will not have any further effect until the last plan expires in 2013. We have therefore not calculated the fair value of the outstanding rights. The remaining provisions set aside for the LTP plans have been released. The table below shows the changes in the number of LTP rights:

Number of rights awarded	2012 in units	2011 in units
Outstanding at beginning of year	37,300	41,900
Granted during year	–	–
Exercised during year	–	–
Expired/forfeited during year	23,250	4,600
Outstanding at year-end	**14,050**	**37,300**

(93) SECURITISATION OF LOANS

Securitisation is one element of our equity and risk management. The aim is to reduce the bank's risk-weighted assets, free up the capital base and create scope for new, higher-margin business, thus generating a higher return on equity. In securitising financial assets, we sell credit risks to the capital market in the form of loan portfolios. The risks assigned are securitised by the special purpose vehicles acquiring the loans and sold to third parties.

(94) OTHER COMMITMENTS

Hypothekenbank Frankfurt AG is a lessee under operating leases. As at 31 December 2012, a variety of non-terminable operating leases were in place for properties and other fixed assets (vehicles, photocopiers) which are used to carry out the bank's operating activities. The main leases include extension options and exit clauses which are in line with market conditions for business properties and which link adjustments to the lease payments to the price index. The minimum obligations under non-terminable leases for properties and other fixed assets will result in expenses of €20 million in 2013, €40 million in financial years 2014 to 2017 and €1 million from 2018 onwards.

(95) DATE OF RELEASE FOR PUBLICATION

These consolidated financial statements were approved by the Board of Managing Directors for submission to the Supervisory Board on 28 February 2013. The Supervisory Board is responsible for examining and approving the consolidated financial statements.

(96) LETTER OF COMFORT

We will ensure that the following companies will meet their contractual obligations, except in the event of political risk:

- Grundbesitzgesellschaft Berlin Rungestraße 22–24 mbH, Essen
- Hypothekenbank Frankfurt International S.A., Luxembourg

(97) HOLDINGS IN AFFILIATED AND OTHER COMPANIES

The following list contains details of shareholdings pursuant to Section 313 (2) of the German Commercial Code (HGB) and Section 285 (11) and (11a) HGB. Explanations regarding the footnotes can be found at the end of this note.

FULLY CONSOLIDATED SUBSIDIARIES

Name/registered office	Shareholding (%)	Share of votes (%)	Equity in € thousand	Profit in € thousand
AGV Allgemeine Grundstücksverwaltungs- und Verwertungsgesellschaft mbH, Eschborn	100.0	100.0	47	0 [1) 2) 5)]
IVV Immobilien-Verwaltungs- und Verwertungsgesellschaft mbH, Eschborn	100.0	100.0	26	0 [1) 2) 5)]
EHY Real Estate Fund I LLC, Wilmington, Delaware, USA	100.0	100.0	−2,945	132 [5)]
EHNY MoLu IV LLC, Dover, Delaware, USA	100.0	100.0	1,271	−1,095 [5)]
Eurohypo Capital Funding LLC I, Wilmington, Delaware, USA	100.0	100.0	1	0 [5)]
Eurohypo Capital Funding LLC II, Wilmington, Delaware, USA	100.0	100.0	3	0 [5)]
Eurohypo Capital Funding Trust I, Wilmington, Delaware, USA	100.0	100.0	1	0 [5)]
Eurohypo Capital Funding Trust II, Wilmington, Delaware, USA	100.0	100.0	1	0 [5)]
Frankfurter Gesellschaft für Vermögensanlagen mbH, Eschborn	100.0	100.0	5,952	0 [1) 5)]
FHB Immobilienprojekte GmbH, Eschborn	100.0	100.0	26	0 [1) 2) 5)]
HF Estate Management GmbH, Eschborn	100.0	100.0	3,280	0 [1) 5)]
Hypothekenbank Frankfurt International S.A., Luxembourg	100.0	100.0	166,016	−30,047 [*) 5)]
Nordboden Immobilien- und Handelsgesellschaft mbH, Eschborn	100.0	100.0	315	0 [1) 2) 5)]
SB Bauträger GmbH & Co. Urbis Hochhaus KG, Frankfurt a. M.	100.0	100.0	201	0 [2) 5)]
WESTBODEN-Bau- und Verwaltungsgesellschaft mbH, Eschborn	100.0	100.0	55	0 [1) 2) 5)]
Westend Grundstücksgesellschaft mbH, Eschborn	100.0	100.0	260	0 [1) 2) 5)]

FULLY CONSOLIDATED SUBSIDIARIES

Name/registered office	Shareholding (%)	Share of votes (%)	Equity in € thousand	Profit in € thousand
G-G-B Gebäude- und Grundbesitz GmbH, Eschborn	100.0	100.0	256	0[1,5]
Real Estate Top Tegel I GmbH, Eschborn	94.0	94.0	421	0[1,2,5]
Real Estate Top Tegel II GmbH, Eschborn	94.0	94.0	60	0[1,2,5]
Real Estate Top Tegel III GmbH, Eschborn	94.0	94.0	60	0[1,2,5]
Real Estate Top Tegel IV GmbH, Eschborn	94.0	94.0	60	0[1,2,5]
Real Estate Top Tegel VI GmbH, Eschborn	94.0	94.0	129	0[1,2,5]
TARA Immobilienprojekte GmbH, Eschborn	100.0	100.0	25	0[1,5]
gr Grundstücks GmbH Objekt Corvus, Frankfurt a. M.	100.0	100.0	43	–5[2,5]
gr Grundstücks GmbH Objekt Corvus & Co. Sossenheim KG, Frankfurt a. M.	100.0	100.0	97	–97[5]
KENSTONE GmbH, Eschborn	100.0	100.0	89	16[1,2,5]
Number X Real Estate GmbH, Eschborn	100.0	100.0	8,773	–8,364[5]
Property Invest GmbH, Eschborn	100.0	100.0	36,220	–11,349[5]
Property Invest Italy S.r.l., Milan, Italy	100.0	100.0	47,169	–9,797[5]
Property Invest Ferdinando di Savoia Italy S.r.l., Milan, Italy	100.0	100.0	13,601	–1,143[5]
Property Invest Via Roma S.r.l., Milan, Italy	100.0	100.0	1,372	–156[5]
Wohnbau-Beteiligungsgesellschaft mbH, Eschborn	90.0	90.0	291	–3[5]
Brussels Urban Invest S.A., Brussels, Belgium	100.0	100.0	7,650	–8,380[5]

NON-CONSOLIDATED SUBSIDIARIES

Name/registered office	Shareholding (%)	Share of votes (%)	Equity in € thousand	Profit in € thousand
BACUL Beteiligungsgesellschaft mbH, Eschborn	100.0	100.0	21	–1[5]
BELUS Immobilien- und Beteiligungsgesellschaft mbH, Eschborn	100.0	100.0	108	0[1,2,5]
Delphi I EUROHYPO LLC, Wilmington, Delaware, USA	100.0	100.0	21	–1[5]
EHNY Montelucia Manager LLC, Dover, Delaware, USA	100.0	100.0	0	0[3]
Eurohypo Nominees 1 Ltd., London, UK	100.0	100.0	0	0[5]
Eurohypo Investment Banking Limited, London, UK	100.0	100.0	137	–56[5]
Grundbesitzgesellschaft Berlin mbH Rungestraße 22–24, Eschborn	94.0	94.0	229	0[5]
TARA Immobiliengesellschaft mbH, Eschborn	100.0	100.0	25	0[1,5]
TARA Immobilien-Besitz-GmbH, Eschborn	100.0	100.0	25	0[1,5]
TARA Immobilien-Verwaltungs-GmbH, Eschborn	100.0	100.0	19	–1[5]
TARA Property Management GmbH, Eschborn	100.0	100.0	19	–1[5]
SB Bauträger Gesellschaft mbH, Eschborn	100.0	100.0	13	0[1,2,5]
Messestadt Riem »Office am See I« GmbH i.L., Eschborn	100.0	100.0	324	0[1,2,5]
Messestadt Riem »Office am See III« GmbH i.L., Eschborn	100.0	100.0	19	0[1,2,5]
Number X Real Estate Hungary kft, Budapest, Hungary	100.0	100.0	92	–14[5]
Property Invest Spain S.L., Barcelona, Spain	100.0	100.0	9	–2[5]

ASSOCIATED COMPANIES AND JOINT VENTURES VALUED USING THE EQUITY METHOD

Name/registered office	Shareholding (%)	Share of votes (%)	Equity in € thousand	Profit in € thousand
Delphi I LLC, Wilmington, Delaware, USA	33.3	33.3	−400,161	−28,933 2) 5)
FV Holding S.A., Brussels, Belgium	60.0	50.0	10,892	2,190 5)
Inmobiliaria Colonial S.A., Barcelona, Spain	18.7	18.7	2,331,023	109,782 *) 4)

ASSOCIATED COMPANIES AND JOINT VENTURES VALUED NOT USING THE EQUITY METHOD

Name/registered office	Shareholding (%)	Share of votes (%)
Ampton B.V., Amsterdam, Netherlands	50.0	50.0
BONUS Vermietungsgesellschaft mbH, Düsseldorf	30.0	30.0
MARIUS Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Hannover KG, Düsseldorf	21.0	40.0
Minerva Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Radolfzell KG, Düsseldorf	21.0	21.0
MAECENA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Dortmund KG, Düsseldorf	5.0	33.3
MANICA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Neustraubing KG, Düsseldorf	5.0	50.0
Nossia Grundstücks-Verwaltungsgesellschaft mbH & Co. KG, Grünwald	2.5	25.0

FULLY CONSOLIDATED SPECIAL PURPOSE VEHICLES PURSUANT TO SIC 12

Name/registered office	Shareholding (%)	Equity in € thousand
Semper Finance 2006-1 Ltd., St. Helier, UK	0.0	−9
Semper Finance 2007-1 GmbH, Frankfurt a. M.	0.0	−2,421
Dock 100 GmbH &Co. KG, Berlin	0.0	−31,095

NON-CONSOLIDATED SPECIAL PURPOSE VEHICLES

Name/registered office	Shareholding (%)	Equity in € thousand
Opera Germany (No. 2) plc, Dublin, Ireland	0.0	76
Opera Germany (No. 3) Ltd., Dublin, Ireland	0.0	−359
Dock 100 Logistik GmbH, Berlin	0.0	−73
EHNY Montelucia Holdings Trust, Dover, Delaware, USA	30.8	63,143

PARTICIPATING INTERESTS

Name/registered office	Shareholding (%)	Share of votes (%)
BATOR Vermietungsgesellschaft mbH, Düsseldorf	5.0	5.0
BATOR Vermietungsgesellschaft mbH Objekt Nürnberg, Düsseldorf	7.9	7.9
Bürgschaftsgemeinschaft Hamburg GmbH, Hamburg	0.3	0.3
Börse Düsseldorf AG, Düsseldorf	0.7	0.7
Dr. Gubelt Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Dortmund KG, Düsseldorf	0.0	0.0
Dr. Gubelt Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Duisburg KG, Düsseldorf	0.0	0.0
Dr. Gubelt Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Stuttgart KG, Düsseldorf	0.6	0.6
GAG Gemeinnützige Aktiengesellschaft für Wohnungs-, Gewerbe- und Städtebau, Ludwigshafen am Rhein	0.6	0.6
GEWOBA Aktiengesellschaft Wohnen und Bauen, Bremen	2.9	2.9
Interessengemeinschaft Frankfurter Kreditinstitute GmbH, Frankfurt a. M.	4.2	4.2
Liquiditäts-Konsortialbank GmbH, Frankfurt a. M.	0.0	0.0
MAECENA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Bremen KG, Düsseldorf	10.0	10.0
MIDAS Grundstücks- Vermietungsgesellschaft mbH & Co. Objekt Langenhagen KG, Düsseldorf	5.0	5.0
NESTOR Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Landau KG, Düsseldorf	5.0	5.0
Ski Leasing No. 1, London, UK	0.5	5.0
Ski Leasing No. 2, London, UK	0.5	5.0
Joparny S.L., Madrid, Spain	0.5	5.0
SOREX Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Hamburg KG, Düsseldorf	1.2	1.1
TABA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt München KG, Düsseldorf	5.0	1.0
True Sale International GmbH, Frankfurt a. M.	7.7	7.7
TSI Services GmbH, Frankfurt a. M.	7.7	7.7
VBW Bauen und Wohnen GmbH, Bochum	3.9	3.9
ZEPAS Beteiligungs GmbH & Co. Vermietungs-KG, Munich, Pullach	10.0	5.6
Apollo Real Estate Parallel Fund V-B, L.P., New York, USA	1.4	1.4
Goldman Sachs Real Estate Partners L.P., New York, USA	1.8	1.8
Kingswood Unit Trust, St. Helier, UK	0.3	0.3

[*] Large company under Section 340 a para. 4 fig. 2, German Commercial Code (HGB).
[1] Profit transfer agreement.
[2] Including shares held indirectly pursuant to Section 16 (4) of the German Stock Corporation Act (AktG).
[3] Figures from the 2010 financial statements.
[4] Figures from the 2011 financial statements.
[5] Figures from the 2012 financial statements.

MANAGEMENT BODIES

SUPERVISORY BOARD

Ulrich Sieber
Chairman
SINCE 5 JULY 2012
Member
SINCE 1 JULY 2012

Dr Stefan Schmittmann
Deputy Chairman
SINCE 30 MARCH 2012

Michael Bonacker
SINCE 10 AUGUST 2012

Stephan Engels
SINCE 10 AUGUST 2012

Ingo Felka[1]

Eva-Maria Jäger[1]

Jochen Klösges
Chairman
UNTIL 5 JULY 2012
Member
UNTIL 9 AUGUST 2012

Dr Markus Krebber
FROM 30 MARCH UNTIL 9 AUGUST 2012

Klaus Müller-Gebel
Deputy Chairman
RESIGNED ON 30 MARCH 2012

Michael Reuther
UNTIL 30 JUNE 2012

BOARD OF MANAGING DIRECTORS

Thomas Köntgen
Chairman

Dr Thomas Bley

Sascha Klaus
SINCE 1 JULY 2012

Ralf Woitschig

Dr Katrin Stark
Fully authorised representative
SINCE 1 JULY 2012

[1] Employee representative

SUPERVISORY BOARD COMMITTEES

STANDING COMMITTEE

Ulrich Sieber
Chairman
SINCE 5 JULY 2012

Jochen Klösges
Chairman
UNTIL 9 AUGUST 2012

Stephan Engels
SINCE 10 AUGUST 2012

Dr Markus Krebber
FROM 30 MARCH 2012
UNTIL 9 AUGUST 2012

Klaus Müller-Gebel
UNTIL 30 MARCH 2012

Dr Stefan Schmittmann

AUDIT COMMITTEE

Stephan Engels
Chairman
SINCE 10 AUGUST 2012

Dr Markus Krebber
Chairman
FROM 30 MARCH 2012
UNTIL 9 AUGUST 2012

Klaus-Müller-Gebel
Chairman
UNTIL 30 MARCH 2012

Michael Bonacker
SINCE 10 AUGUST 2012

Eva-Maria Jäger

Jochen Klösges
FROM 5 JULY 2012
UNTIL 9 AUGUST 2012

Michael Reuther
UNTIL 30 JUNE 2012

RISK COMMITTEE

Dr Stefan Schmittmann
Chairman

Michael Bonacker
SINCE 10 AUGUST 2012

Jochen Klösges
UNTIL 9 AUGUST 2012

Michael Reuther
UNTIL 30 JUNE 2012

Ulrich Sieber
SINCE 5 JULY 2012

TRUSTEES

TRUSTEES

Jost Keiner
Counsellor at the Hessen
Government Audit Office
in Darmstadt
Frankfurt am Main

DEPUTY TRUSTEES

Bernd Dürr
Accountant,
Tax Consultant
Frankfurt am Main

Gunthard Hansen
Senior Counsellor at the Tax
Authorities in Hamburg (retired)
Hamburg

Hartmut Graf
Accountant,
Tax Consultant
Lübeck

Dr Hans-Joachim Schmidt
Deputy Director at the
Hessian Construction
management
Hofheim-Wallau
UNTIL 30 APRIL 2012

Wolfgang Barchewitz[1]
Lawyer
Cologne

Heinrich Drügh[1]
Lawyer
Lohmar

[1] with special responsibilities at Zurich Group Investment Europe (Deutschland) GmbH

SUPERVISORY BOARD MANDATES

MANDATES PURSUANT TO SECTION 340 A PARAGRAPH 4 NO. 1 OF THE GERMAN COMMERCIAL CODE (HGB) IN SUPERVISORY BODIES TO BE ESTABLISHED UNDER LAW OF LARGE CORPORATIONS (SECTION 267 PARAGRAPH 3 HGB)

Name, Profession	Mandates in other Supervisory Boards (of German companies) to be established under law	Membership of comparable German and international supervisory bodies of commercial companies
Ulrich Sieber Friedrichsdorf Chairman SINCE 5 JULY 2012 Member SINCE 1 JULY 2012 Member of the Board of Managing Directors Commerzbank AG	–	BVV Pensionsfonds des Bankgewerbes AG, Berlin (Deputy Chairman of the Supervisory Board) BVV Versicherungsverein des Bankgewerbes a.G., Berlin (Deputy Chairman of the Supervisory Board) BVV Versorgungskasse des Bankgewerbes e.V., Berlin (Deputy Chairman of the Supervisory Board) Commerzbank Auslandsbanken Holding AG, Frankfurt am Main (Chairman of the Supervisory Board) BRE Bank S.A., Warsaw (Deputy Chairman of the Supervisory Board)
Dr Stefan Schmittmann Grünwald Deputy Chairman SINCE 30 MARCH 2012 Member of the Board of Managing Directors Commerzbank AG	Commerz Real AG, Eschborn (Deputy Chairman) Commerzbank Auslandsbanken Holding AG, Frankfurt am Main Schaltbau Holding AG, Munich	Verlagsgruppe Weltbild GmbH, Augsburg (Member of the Supervisory Board)
Michael Bonacker Kronberg SINCE 10 AUGUST 2012 Divisional Board Member Commerzbank AG	Commerz Real AG, Eschborn Commerz Real Investmentgesellschaft mbH, Wiesbaden (Deputy Chairman)	KGAL GmbH & Co. KG, Grünwald (Deputy Chairman of the Administrative Board) Bank Forum, Kiev (Member of the Supervisory Board) until 25 October 2012 Commerzbank Auslandsbanken Holding Nova GmbH, Frankfurt am Main (Deputy Chairman of the Supervisory Board) until 31 October 2012
Stephan Engels Königstein/Taunus SINCE 10 AUGUST 2012 Member of the Board of Managing Directors Commerzbank AG	–	Commerzbank Auslandsbanken Holding AG, Frankfurt am Main (Deputy Chairman of the Supervisory Board) Commerzbank Auslandsbanken Holding Nova GmbH, Frankfurt am Main (Chairman of the Supervisory Board) until 31 October 2012 BRE Bank S.A., Warsaw (Member of the Supervisory Board)
Ingo Felka Maintal Bank Employee	–	–
Eva-Maria Jäger Schmitten im Taunus Bank Employee	–	–
Jochen Klösges Frankfurt am Main Chairman UNTIL 5 JULY 2012 Member UNTIL 9 AUGUST 2012 Member of the Board of Managing Directors Commerzbank AG	Commerz Real AG, Eschborn (Chairman) until 13 August 2012 Commerz Real Investmentgesellschaft mbH, Wiesbaden, (Chairman) until 15 August 2012 Deutsche Schiffsbank AG, Hamburg/Bremen (Chairman) until 22 May 2012	Commerzbank Inlandsbanken Holding GmbH, Frankfurt am Main (Deputy Chairman) until 1 November 2012
Dr Markus Krebber Frankfurt am Main FROM 30 MARCH UNTIL 9 AUGUST 2012	Commerz Real AG, Eschborn until 13 August 2012	Commerzbank Auslandsbanken Holding Nova GmbH, Frankfurt am Main (Chairman of the Supervisory Board) until 24 August 2012 Commerzbank Inlandsbanken Holding GmbH, Frankfurt am Main (Chairman of the Supervisory Board) until 24 August 2012
Klaus Müller-Gebel Bad Soden Deputy Chairman RESIGNED ON 30 MARCH 2012 Lawyer	Deutsche Schiffsbank AG, Hamburg/Bremen (Deputy Chairman) until 22 May 2012	–
Michael Reuther Bad Nauheim UNTIL 30 JUNE 2012 Member of the Board of Managing Directors Commerzbank AG	–	RWE Power AG, Ludwigshafen am Rhein (Member of the Supervisory Board)

BOARD OF MANAGING DIRECTORS MANDATES

MANDATES PURSUANT TO SECTION 340 A PARAGRAPH 4 NO. 1 OF THE GERMAN COMMERCIAL CODE (HGB) IN SUPERVISORY BODIES TO BE ESTABLISHED UNDER LAW OF LARGE CORPORATIONS (SECTION 267 PARAGRAPH 3 HGB)

Name, Profession	Mandates in other Supervisory Boards (of German companies) to be established under law	Membership of comparable German and international supervisory bodies of commercial companies
Thomas Köntgen Chairman of the Board of Managing Directors	–	HF Estate Management GmbH, Eschborn* (Deputy Chairman of the Supervisory Board)
Dr Thomas Bley	Commerz Real Investmentgesellschaft mbH, Wiesbaden until 19 June 2012 Deutsche Schiffsbank AG, Hamburg/Bremen until 22 May 2012	HF Estate Management GmbH, Eschborn* (Member of the Supervisory Board) Hypothekenbank Frankfurt International S.A., Senningerberg, Luxembourg* (Deputy Chairman of the Administrative Board) Commerz Japan Real Estate Finance Corporation, Tokyo (Member of the Administrative Board) Servicing Advisors Deutschland GmbH, Frankfurt am Main (Member of the Advisory Board) until 18 September 2012
Ralf Woitschig	–	Erste Europäische Pfandbrief- und Kommunalkreditbank Aktiengesellschaft in Luxembourg, Luxembourg (Chairman of the Administrative Board) Hypothekenbank Frankfurt International S.A., Senningerberg, Luxembourg* (Chairman of the Administrative Board)
Sascha Klaus SINCE 1 JULY 2012	–	Carbon Trade & Finance SICAR S.A., Luxembourg (Member of the Supervisory Board) Bank Forum JSC, Kiev (Chairman of the Supervisory Board) until 29 October 2012 BRE Bank S.A., Warsaw (Member of the Supervisory Board) until 25 July 2012

* Internal Group Mandate

STAFF MANDATES

MANDATES PURSUANT TO SECTION 340 A PARAGRAPH 4 NO. 1 OF THE GERMAN COMMERCIAL CODE (HGB) IN SUPERVISORY BODIES TO BE ESTABLISHED UNDER LAW OF LARGE CORPORATIONS (SECTION 267 PARAGRAPH 3 HGB)

Name, Profession	Mandates in other Supervisory Boards (of German companies) to be established under law	Membership of comparable German and international supervisory bodies of commercial companies
Stéphane R. Adolf	–	Commerz Japan Real Estate Finance Corporation, Tokyo (Member of the Administrative Board)
Reinolf Dibus	–	Hypothekenbank Frankfurt International S.A., Senningerberg, Luxembourg (Executive member of the Administrative Board)*
Hendrik Gienow	–	Commerz Japan Real Estate Finance Corporation, Tokyo (Chairman of the Administrative Board)
Rupert Hackl	Rathgeber AG, Munich (Deputy Chairman) BBI Bürgerliches Brauhaus Immobilien AG, Neuhaus an der Donau Hammer AG, Munich Herzog von Arenberg'sche Vermögens-verwaltung GmbH, Grasbrunn	Alba BAUPROJEKT MANAGEMENT GmbH, Oberhaching (Member of the Administrative Board) until 30 March 2012
Christoph Kettel	–	KENSTONE GmbH, Eschborn* (Chairman of the Advisory Board)
Robert Lange	FES Frankfurter Entsorgungs- und Service GmbH, Frankfurt am Main	–
Dr Peter Otto	–	VBW Bauen und Wohnen GmbH, Bochum
Rainer Schunke	Friendsfactory AG, Munich	–
Martin Seimetz	–	HF Estate Management GmbH, Eschborn, (Member of the Supervisory Board)* until 1 September 2012
Walter Siemann	–	Hypothekenbank Frankfurt International S.A., Senningerberg, Luxembourg (Executive member of the Administrative Board)*
Philipp Treuner	–	Hypothekenbank Frankfurt International S.A., Senningerberg, Luxembourg (Member of the Administrative Board)*
Theo Weyandt	–	MOMENI Projektentwicklung GmbH, Hamburg

* Internal Group Mandate

RESPONSIBILITY STATEMENT BY THE BOARD OF MANAGING DIRECTORS

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

Eschborn, 27 February 2013

Hypothekenbank Frankfurt AG
The Board of Managing Directors

Thomas Köntgen | Dr. Thomas Bley | Sascha Klaus | Ralf Woitschig

AUDITOR'S REPORT[1)]

We have audited the consolidated financial statements prepared by the Hypothekenbank Frankfurt AG, Eschborn, (formerly Eurohypo Aktiengesellschaft, Eschborn) comprising the statement of financial position, the statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2012. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315 a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315 a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, 28 February 2013

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

sign. Clemens Koch	sign. ppa. Carsten Butzke
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

[1)] Translation of the auditor's report issued in German language on the consolidated financial statements prepared in German language by the management of Hypothekenbank Frankfurt AG.

§ 28 PFANDBRIEF ACT

161 OVERVIEW – PFANDBRIEF ACT SECTION 28 (1)

162 MORTGAGE PFANDBRIEFE – PFANDBRIEF ACT SECTION 28 (2)

170 PUBLIC SECTOR PFANDBRIEFE – PFANDBRIEF ACT SECTION 28 (3)

OVERVIEW – PFANDBRIEF ACT SECTION 28 (1)

PFANDBRIEF ACT SECTION 28 (1) NO. 1

in € million	Nominal value 31.12.2012	Nominal value 31.12.2011	Net present value 31.12.2012	Net present value 31.12.2011	Net present value of risks dynamic procedure 31.12.2012	Net present value of risks dynamic procedure 31.12.2011
Mortgage Pfandbriefe						
Outstanding	32,397	38,919	36,011	42,202	36,783	43,588
Cover pool	38,102	48,851	41,042	52,611	41,133	52,848
– Cover assets	35,647	45,508	38,467	48,809	38,538	48,826
– Further cover assets according to Section 19 No. 1 Pfandbrief Act	2,455	3,343	2,575	3,802	2,595	4,022
Surplus cover	5,705	9,932	5,031	10,409	4,350	9,260
Public Sector Pfandbriefe						
Outstanding	28,813	35,923	32,784	39,531	31,232	36,583
Cover pool	30,645	38,411	36,952	44,830	34,762	40,967
– cover assets according to Section 20 No. 1 Pfandbrief Act	29,117	35,867	35,018	41,833	32,990	38,293
– cover assets according to Section 20 No. 2 Pfandbrief Act	1,528	2,544	1,934	2,997	1,772	2,674
Surplus cover	1,832	2,488	4,168	5,299	3,530	4,384

PFANDBRIEF ACT SECTION 28 (1) NO. 2

in € million	Mortgage Pfandbriefe 31.12.2012	Mortgage Pfandbriefe 31.12.2011	Public Sector Pfandbriefe 31.12.2012	Public Sector Pfandbriefe 31.12.2011
Maturity structure of outstanding Pfandbriefe:				
Term ≤ 1 year	4,592	8,181	8,602	5,965
Term > 1 year ≤ 2 years	5,061	4,639	3,640	8,638
Term > 2 years ≤ 3 years	7,118	5,058	865	3,681
Term > 3 years ≤ 4 years	5,248	7,101	3,318	861
Term > 4 years ≤ 5 years	2,825	4,717	1,311	3,431
Term > 5 years ≤ 10 years	5,887	7,215	3,919	5,160
Term > 10 years	1,666	2,008	7,158	8,187
Total result	**32,397**	**38,919**	**28,813**	**35,923**

in € million	Cover pool Mortgage Pfandbriefe 31.12.2012	Cover pool Mortgage Pfandbriefe 31.12.2011	Cover pool Public Sector Pfandbriefe 31.12.2012	Cover pool Public Sector Pfandbriefe 31.12.2011
Fixed rate terms for cover pools:				
Term ≤ 1 year	11,242	12,415	11,435	14,154
Term > 1 year ≤ 2 years	6,082	7,860	2,309	3,800
Term > 2 years ≤ 3 years	5,808	6,643	1,712	2,167
Term > 3 years ≤ 4 years	3,870	6,412	1,358	1,821
Term > 4 years ≤ 5 years	3,648	3,521	1,024	1,432
Term > 5 years ≤ 10 years	6,446	9,746	5,423	5,372
Term > 10 years	1,006	2,254	7,384	9,665
Total result	**38,102**	**48,851**	**30,645**	**38,411**

PFANDBRIEF ACT SECTION 28 (1) NO. 3

As at December 31, 2012, there are no derivatives in the cover pool.

PFANDBRIEF ACT SECTION 28 (1) NO. 4

in € million	31.12.2012	31.12.2011
Mortgage Pfandbriefe		
Further cover assets		
– according to section 19 (1) No. 2 Pfandbrief Act	1,555	3,343
– according to section 19 (1) No. 3 Pfandbrief Act	2,455	3,343
Public Sector Pfandbriefe		
Further cover assets		
– according to section 20 (2) No. 2 Pfandbrief Act	1,528	2,544

MORTGAGE PFANDBRIEFE – PFANDBRIEF ACT SECTION 28 (2)

PFANDBRIEF ACT SECTION 28 (2) NO.1

CLAIMS USED AS COVER FOR MORTGAGE PFANDBRIEFE BY VOLUME

in € million	31.12.2012	31.12.2011
Cover mortgages		
Up to and including € 300,000	9,960	12,644
Over € 300,000 up to and including € 5 million	4,646	6,172
Over € 5 million	21,041	26,692
Total	**35,647**	**45,508**

CLAIMS USED AS COVER FOR MORTGAGE PFANDBRIEFE BY REGION IN WHICH MORTGAGED REAL ESTATE IS BASED AND TYPE OF USE

GERMANY		Cover assets 31.12.2012		Cover assets 31.12.2011
in € million	Commercial	Residential	Commercial	Residential
Flats	–	2,248	–	2,921
Single family homes	–	6,439	–	8,219
Multi-dwellings	–	4,767	–	6,222
Office buildings	3,685	–	5,234	–
Retail buildings	4,046	–	5,046	–
Industrial buildings	808	–	1,062	–
Other commercially used real estate	939	–	1,346	–
Unfinished new buildings not yet generating income	438	45	468	49
Building sites	16	1	16	2
Country total	**9,932**	**13,500**	**13,172**	**17,413**

AUSTRIA		Cover assets 31.12.2012		Cover assets 31.12.2011
in € million	Commercial	Residential	Commercial	Residential
Flats	–	–	–	–
Single family homes	–	–	–	–
Multi-dwellings	–	–	–	–
Office buildings	121	–	160	–
Retail buildings	48	–	49	–
Industrial buildings	–	–	–	–
Other commercially used real estate	43	–	43	–
Unfinished new buildings not yet generating income	–	–	–	–
Building sites	–	–	–	–
Country total	**212**	**–**	**252**	**–**

BELGIUM		Cover assets 31.12.2012		Cover assets 31.12.2011
in € million	Commercial	Residential	Commercial	Residential
Flats	–	–	–	–
Single family homes	–	–	–	–
Multi-dwellings	–	0	–	0
Office buildings	16	–	34	–
Retail buildings	18	–	45	–
Industrial buildings	–	–	–	–
Other commercially used real estate	4	–	5	–
Unfinished new buildings not yet generating income	–	–	–	–
Building sites	–	–	–	–
Country total	**38**	**0**	**84**	**0**

CYPRUS	Cover assets 31.12.2012		Cover assets 31.12.2011	
in € million	Commercial	Residential	Commercial	Residential
Flats	–	–	–	–
Single family homes	–	–	–	–
Multi-dwellings	–	–	–	–
Office buildings	–	–	–	–
Retail buildings	65	–	65	–
Industrial buildings	–	–	–	–
Other commercially used real estate	–	–	–	–
Unfinished new buildings not yet generating income	–	–	–	–
Building sites	–	–	–	–
Country total	**65**	**–**	**65**	**–**

CZECH REPUBLIC	Cover assets 31.12.2012		Cover assets 31.12.2011	
in € million	Commercial	Residential	Commercial	Residential
Flats	–	–	–	–
Single family homes	–	–	–	–
Multi-dwellings	–	–	–	–
Office buildings	78	–	109	–
Retail buildings	47	–	58	–
Industrial buildings	–	–	–	–
Other commercially used real estate	10	–	10	–
Unfinished new buildings not yet generating income	–	–	–	–
Building sites	–	–	–	–
Country total	**135**	**–**	**177**	**–**

DENMARK	Cover assets 31.12.2012		Cover assets 31.12.2011	
in € million	Commercial	Residential	Commercial	Residential
Flats	–	–	–	–
Single family homes	–	–	–	–
Multi-dwellings	–	–	–	–
Office buildings	2	–	2	–
Retail buildings	-	–	-	–
Industrial buildings	19	–	20	–
Other commercially used real estate	–	–	–	–
Unfinished new buildings not yet generating income	–	–	–	–
Building sites	–	–	–	–
Country total	**21**	**–**	**22**	**–**

FINLAND	Cover assets 31.12.2012		Cover assets 31.12.2011	
in € million	Commercial	Residential	Commercial	Residential
Flats	–	–	–	–
Single family homes	–	–	–	–
Multi-dwellings	–	–	–	–
Office buildings	48	–	68	–
Retail buildings	34	–	35	–
Industrial buildings	3	–	10	–
Other commercially used real estate	–	–	–	–
Unfinished new buildings not yet generating income	–	–	–	–
Building sites	–	–	–	–
Country total	**85**	**–**	**113**	**–**

FRANCE	Cover assets 31.12.2012		Cover assets 31.12.2011	
in € million	Commercial	Residential	Commercial	Residential
Flats	–	4	–	4
Single family homes	–	0	–	0
Multi-dwellings	–	–	–	0
Office buildings	1,218	–	1,158	–
Retail buildings	328	–	291	–
Industrial buildings	131	–	230	–
Other commercially used real estate	43	–	43	–
Unfinished new buildings not yet generating income	122	–	206	–
Building sites	–	–	–	–
Country total	**1,842**	**4**	**1,928**	**4**

GREECE	Cover assets 31.12.2012		Cover assets 31.12.2011	
in € million	Commercial	Residential	Commercial	Residential
Flats	–	–	–	–
Single family homes	–	–	–	–
Multi-dwellings	–	–	–	–
Office buildings	–	–	–	–
Retail buildings	45	–	53	–
Industrial buildings	–	–	–	–
Other commercially used real estate	–	–	–	–
Unfinished new buildings not yet generating income	–	–	–	–
Building sites	–	–	–	–
Country total	**45**	**–**	**53**	**–**

HUNGARY	Cover assets 31.12.2012		Cover assets 31.12.2011	
in € million	Commercial	Residential	Commercial	Residential
Flats	–	–	–	–
Single family homes	–	–	–	–
Multi-dwellings	–	–	–	–
Office buildings	69	–	141	–
Retail buildings	85	–	91	–
Industrial buildings	2	–	2	–
Other commercially used real estate	33	–	33	–
Unfinished new buildings not yet generating income	–	–	56	–
Building sites	–	–	–	–
Country total	**189**	**–**	**323**	**–**

ICELAND	Cover assets 31.12.2012		Cover assets 31.12.2011	
in € million	Commercial	Residential	Commercial	Residential
Flats	–	–	–	–
Single family homes	–	–	–	–
Multi-dwellings	–	–	–	–
Office buildings	11	–	11	–
Retail buildings	25	–	26	–
Industrial buildings	–	–	–	–
Other commercially used real estate	–	–	–	–
Unfinished new buildings not yet generating income	–	–	–	–
Building sites	–	–	–	–
Country total	**36**	**–**	**37**	**–**

IRELAND	Cover assets 31.12.2012		Cover assets 31.12.2011	
in € million	Commercial	Residential	Commercial	Residential
Flats	–	–	–	–
Single family homes	–	–	–	–
Multi-dwellings	–	–	–	–
Office buildings	–	–	–	–
Retail buildings	46	–	46	–
Industrial buildings	–	–	–	–
Other commercially used real estate	–	–	–	–
Unfinished new buildings not yet generating income	–	–	–	–
Building sites	–	–	–	–
Country total	**46**	**–**	**46**	**–**

ITALY	Cover assets 31.12.2012		Cover assets 31.12.2011	
in € million	Commercial	Residential	Commercial	Residential
Flats	–	–	–	–
Single family homes	–	–	–	–
Multi-dwellings	–	–	–	–
Office buildings	207	–	247	–
Retail buildings	533	–	577	–
Industrial buildings	6	–	31	–
Other commercially used real estate	27	–	80	–
Unfinished new buildings not yet generating income	–	58	11	84
Building sites	–	–	–	–
Country total	**773**	**58**	**946**	**84**

LITHUANIA	Cover assets 31.12.2012		Cover assets 31.12.2011	
in € million	Commercial	Residential	Commercial	Residential
Flats	–	–	–	–
Single family homes	–	–	–	–
Multi-dwellings	–	–	–	–
Office buildings	–	–	–	–
Retail buildings	–	–	42	–
Industrial buildings	–	–	–	–
Other commercially used real estate	–	–	–	–
Unfinished new buildings not yet generating income	–	–	–	–
Building sites	–	–	–	–
Country total	**–**	**–**	**42**	**–**

LUXEMBOURG	Cover assets 31.12.2012		Cover assets 31.12.2011	
in € million	Commercial	Residential	Commercial	Residential
Flats	–	–	–	–
Single family homes	–	–	–	–
Multi-dwellings	–	–	–	–
Office buildings	150	–	223	–
Retail buildings	–	–	–	–
Industrial buildings	–	–	–	–
Other commercially used real estate	–	–	–	–
Unfinished new buildings not yet generating income	–	–	–	–
Building sites	–	–	–	–
Country total	**150**	**–**	**223**	**–**

NETHERLANDES	Cover assets 31.12.2012		Cover assets 31.12.2011	
in € million	Commercial	Residential	Commercial	Residential
Flats	–	–	–	–
Single family homes	–	–	–	–
Multi-dwellings	–	–	–	–
Office buildings	230	–	345	–
Retail buildings	8	–	8	–
Industrial buildings	129	–	209	–
Other commercially used real estate	67	–	96	–
Unfinished new buildings not yet generating income	–	–	–	–
Building sites	–	–	–	–
Country total	**434**	**–**	**658**	**–**

POLAND	Cover assets 31.12.2012		Cover assets 31.12.2011	
in € million	Commercial	Residential	Commercial	Residential
Flats	–	–	–	–
Single family homes	–	–	–	–
Multi-dwellings	–	–	–	–
Office buildings	95	–	113	–
Retail buildings	679	–	825	–
Industrial buildings	–	–	56	–
Other commercially used real estate	–	–	–	–
Unfinished new buildings not yet generating income	–	–	38	–
Building sites	–	–	–	–
Country total	**774**	**–**	**1,032**	**–**

PORTUGAL	Cover assets 31.12.2012		Cover assets 31.12.2011	
in € million	Commercial	Residential	Commercial	Residential
Flats	–	0	–	0
Single family homes	–	–	–	–
Multi-dwellings	–	–	–	–
Office buildings	295	–	405	–
Retail buildings	966	–	1,171	–
Industrial buildings	17	–	18	–
Other commercially used real estate	31	–	32	–
Unfinished new buildings not yet generating income	31	–	32	–
Building sites	–	–	3	–
Country total	**1,340**	**0**	**1,661**	**0**

ROMANIA	Cover assets 31.12.2012		Cover assets 31.12.2011	
in € million	Commercial	Residential	Commercial	Residential
Flats	–	–	–	–
Single family homes	–	–	–	–
Multi-dwellings	–	–	–	–
Office buildings	19	–	26	–
Retail buildings	–	–	62	–
Industrial buildings	6	–	6	–
Other commercially used real estate	–	–	–	–
Unfinished new buildings not yet generating income	–	–	–	–
Building sites	–	–	–	–
Country total	**25**	**–**	**94**	**–**

SLOVAKIA	Cover assets 31.12.2012		Cover assets 31.12.2011	
in € million	Commercial	Residential	Commercial	Residential
Flats	–	–	–	–
Single family homes	–	–	–	–
Multi-dwellings	–	–	–	–
Office buildings	19	–	18	–
Retail buildings	8	–	11	–
Industrial buildings	10	–	11	–
Other commercially used real estate	–	–	–	–
Unfinished new buildings not yet generating income	–	–	–	–
Building sites	–	–	–	–
Country total	**37**	**–**	**40**	**–**

SPAIN	Cover assets 31.12.2012		Cover assets 31.12.2011	
in € million	Commercial	Residential	Commercial	Residential
Flats	–	–	–	–
Single family homes	–	–	–	–
Multi-dwellings	–	–	–	–
Office buildings	810	–	985	–
Retail buildings	1,154	–	1,132	–
Industrial buildings	–	–	171	–
Other commercially used real estate	414	–	317	–
Unfinished new buildings not yet generating income	–	–	9	–
Building sites	14	–	14	–
Country total	**2,392**	**–**	**2,628**	**–**

SWEDEN	Cover assets 31.12.2012		Cover assets 31.12.2011	
in € million	Commercial	Residential	Commercial	Residential
Flats	–	–	–	–
Single family homes	–	–	–	–
Multi-dwellings	–	–	–	–
Office buildings	–	–	1	–
Retail buildings	19	–	18	–
Industrial buildings	–	–	21	–
Other commercially used real estate	–	–	–	–
Unfinished new buildings not yet generating income	–	–	–	–
Building sites	–	–	–	–
Country total	**19**	**–**	**40**	**–**

SWITZERLAND	Cover assets 31.12.2012		Cover assets 31.12.2011	
in € million	Commercial	Residential	Commercial	Residential
Flats	–	–	–	–
Single family homes	–	5	–	–
Multi-dwellings	–	–	–	–
Office buildings	135	–	166	–
Retail buildings	–	–	33	–
Industrial buildings	2	–	4	–
Other commercially used real estate	15	–	15	–
Unfinished new buildings not yet generating income	–	–	–	–
Building sites	–	–	–	–
Country total	**152**	**5**	**218**	**–**

UK	Cover assets 31.12.2012		Cover assets 31.12.2011	
in € million	Commercial	Residential	Commercial	Residential
Flats	–	–	–	–
Single family homes	–	–	–	–
Multi-dwellings	–	–	–	–
Office buildings	2,022	–	2,005	–
Retail buildings	473	–	663	–
Industrial buildings	591	–	881	–
Other commercially used real estate	–	–	6	–
Unfinished new buildings not yet generating income	2	–	64	–
Building sites	–	–	–	–
Country total	**3,088**	**–**	**3,619**	**–**

USA	Cover assets 31.12.2012		Cover assets 31.12.2011	
in € million	Commercial	Residential	Commercial	Residential
Flats	–	–	–	–
Single family homes	–	–	–	–
Multi-dwellings	–	–	–	–
Office buildings	172	–	265	–
Retail buildings	36	–	177	–
Industrial buildings	–	–	10	–
Other commercially used real estate	42	–	46	–
Unfinished new buildings not yet generating income	–	–	36	–
Building sites	–	–	–	–
Country total	**250**	**–**	**534**	**–**

TOTALS	Cover assets 31.12.2012		Cover assets 31.12.2011	
in € million	Commercial	Residential	Commercial	Residential
	22,080	**13,567**	**28,007**	**17,501**

PFANDBRIEF ACT SECTION 28 (2) NO. 2

ARREARS ON MORTGAGE CLAIMS

in € million	2012	2011
Total amount of payments in arrears by at least 90 days		
Germany	29	129
Austria	–	–
Belgium	0	–
Cyprus	–	–
Czech Republic	–	–
Denmark	–	–
Finland	–	–
France	–	0
Greece	0	0
Hungary	–	–
Iceland	–	–
Ireland	–	–
Italy	0	–
Lithuania	–	–
Luxembourg	–	–
Netherlands	3	12
Poland	–	–
Portugal	0	–
Romania	–	–
Slovakia	–	–
Spain	15	15
Sweden	0	–
Switzerland	–	–
UK	–	–
USA	–	–
Total	**47**	**156**

PFANDBRIEF ACT SECTION 28 (2) NO. 3

ENFORCEMENT MEASURES

Pending as at 31 December 2012	No. of cases	of which attributable to commercial real estate properties	of which attributable to residential purposes properties
Forced auctions	61	2	59
Forced administration	12[1]	1	11
Forced auctions in 2012	39	4	35

[1] For 7 of the total 12 cases of forced administration, forced auction was also pending.

No property was taken over to avoid losses. During the financial year two properties were sold. These properties were mainly used commercially.

INTEREST ARREARS FROM MORTGAGE BUSINESS WHERE THE RECEIVABLE WAS USED TO COVER MORTGAGE PFANDBRIEFE

Total interest arrears from mortgage debtors not already written off in earlier years was € 2 million.

in € million	2012	2011
Interest arrears attributable to		
commercial real estate	1	3
residential real estate	1	2
Total	**2**	**5**

PUBLIC SECTOR PFANDBRIEFE – PFANDBRIEF ACT SECTION 28 (3)

§ 28 ABS. 3 NR. 1 PFANDBRIEFGESETZ

CLAIMS USED AS COVER FOR PUBLIC SECTOR PFANDBRIEFE

in € million	Cover assets 31.12.2012	Cover assets 31.12.2011
Cover assets according to Section 20 (2) Pfandbrief Act	**1,528**	**2,544**

GERMANY

in € million	Cover assets 31.12.2012	Cover assets 31.12.2011
Central government	1,939	2,093
Regional bodies	15,528	19,529
Local bodies	1,798	1,993
Other	549	589
Country total	**19,814**	**24,204**

AUSTRIA

in € million	Cover assets 31.12.2012	Cover assets 31.12.2011
Central government	766	769
Regional bodies	1,915	1,569
Local bodies	15	19
Other	–	–
Country total	**2,696**	**2,357**

BELGIUM

in € million	Cover assets 31.12.2012	Cover assets 31.12.2011
Central government	–	77
Regional bodies	105	105
Local bodies	–	–
Other	–	–
Country total	**105**	**182**

CANADA

in € million	Cover assets 31.12.2012	Cover assets 31.12.2011
Central government	–	–
Regional bodies	143	127
Local bodies	–	42
Other	20	57
Country total	**163**	**226**

CZECH REPUBLIC

in € million	Cover assets 31.12.2012	Cover assets 31.12.2011
Central government	60	58
Regional bodies	–	40
Local bodies	–	–
Other	–	–
Country total	**60**	**98**

DENMARK

in € million	Cover assets 31.12.2012	Cover assets 31.12.2011
Central government	–	–
Regional bodies	7	8
Local bodies	–	–
Other	–	–
Country total	**7**	**8**

ESTONIA in € million	Cover assets 31.12.2012	Cover assets 31.12.2011
Central government	–	–
Regional bodies	–	–
Local bodies	12	14
Other	–	–
Country total	**12**	**14**

FINLAND in € million	Cover assets 31.12.2012	Cover assets 31.12.2011
Central government	–	–
Regional bodies	–	–
Local bodies	109	114
Other	–	–
Country total	**109**	**114**

FRANCE in € million	Cover assets 31.12.2012	Cover assets 31.12.2011
Central government	500	500
Regional bodies	8	8
Local bodies	28	29
Other	–	
Country total	**536**	**537**

HUNGARY in € million	Cover assets 31.12.2012	Cover assets 31.12.2011
Central government	285	390
Regional bodies	50	50
Local bodies	–	–
Other	–	–
Country total	**335**	**440**

ICELAND in € million	Cover assets 31.12.2012	Cover assets 31.12.2011
Central government	230	182
Regional bodies	–	–
Local bodies	40	40
Other	–	50
Country total	**270**	**272**

ITALY in € million	Cover assets 31.12.2012	Cover assets 31.12.2011
Central government	138	417
Regional bodies	369	945
Local bodies	67	189
Other	–	–
Country total	**574**	**1,551**

JAPAN in € million	Cover assets 31.12.2012	Cover assets 31.12.2011
Central government	9	10
Regional bodies	46	42
Local bodies	29	34
Other	–	–
Country total	**84**	**86**

LATVIA in € million	Cover assets 31.12.2012	Cover assets 31.12.2011
Central government	118	–
Regional bodies	–	–
Local bodies	–	–
Other	–	–
Country total	**118**	**–**

LITHUANIA in € million	Cover assets 31.12.2012	Cover assets 31.12.2011
Central government	75	5
Regional bodies	–	–
Local bodies	–	–
Other	–	–
Country total	**75**	**5**

LUXEMBOURG in € million	Cover assets 31.12.2012	Cover assets 31.12.2011
Central government	–	–
Regional bodies	–	–
Local bodies	20	120
Other	–	–
Country total	**20**	**120**

NETHERLANDS in € million	Cover assets 31.12.2012	Cover assets 31.12.2011
Central government	–	–
Regional bodies	–	–
Local bodies	7	21
Other	–	–
Country total	**7**	**21**

POLAND in € million	Cover assets 31.12.2012	Cover assets 31.12.2011
Central government	511	563
Regional bodies	–	–
Local bodies	–	–
Other	–	–
Country total	**511**	**563**

PORTUGAL in € million	Cover assets 31.12.2012	Cover assets 31.12.2011
Central government	131	406
Regional bodies	120	120
Local bodies	–	–
Other	–	–
Country total	**251**	**526**

SLOVAKIA in € million	Cover assets 31.12.2012	Cover assets 31.12.2011
Central government	270	123
Regional bodies	50	50
Local bodies	–	–
Other	–	–
Country total	**320**	**173**

SLOVENIA in € million	Cover assets 31.12.2012	Cover assets 31.12.2011
Central government	58	79
Regional bodies	–	–
Local bodies	–	–
Other	–	–
Country total	**58**	**79**

SPAIN in € million	Cover assets 31.12.2012	Cover assets 31.12.2011
Central government	–	–
Regional bodies	200	1,023
Local bodies	–	91
Other	–	–
Country total	**200**	**1,114**

SUPRANATIONAL in € million	Cover assets 31.12.2012	Cover assets 31.12.2011
Central government	–	65
Regional bodies	198	235
Local bodies	–	–
Other	56	–
Country total	**254**	**300**

SWEDEN in € million	Cover assets 31.12.2012	Cover assets 31.12.2011
Central government	–	–
Regional bodies	–	–
Local bodies	23	22
Other	–	–
Country total	**23**	**22**

SWITZERLAND in € million	Cover assets 31.12.2012	Cover assets 31.12.2011
Central government	–	–
Regional bodies	834	885
Local bodies	158	157
Other	–	–
Country total	**992**	**1,042**

UK in € million	Cover assets 31.12.2012	Cover assets 31.12.2011
Central government	653	662
Regional bodies	–	–
Local bodies	8	8
Other	44	–
Country total	**705**	**670**

USA in € million	Cover assets 31.12.2012	Cover assets 31.12.2011
Central government	–	–
Regional bodies	45	213
Local bodies	758	907
Other	15	23
Country total	**818**	**1,143**

PFANDBRIEF ACT SECTION 28 (3) NO. 2

TOTAL AMOUNT OUTSTANDING BY A MINIMUM OF 90 DAYS

There are no payments outstanding on claims used as cover for Public Sector Pfandbriefe.

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GLOSSARY

Asset Backed Security (ABS)
Securities issued as part of a securitisation where the interest and repayments are covered by an underlying pool of receivables.

Available for Sale (AfS)
A category defined by IAS 39 which is applied to financial instruments which are classified or designated as available for sale.

Backtesting
A procedure for monitoring the quality of value-at-risk models. For this purpose, the potential losses projected by the VaR model are examined over a long period to ascertain whether in retrospect they were not exceeded far more frequently than the applied confidence level would have suggested.

Basis point
A basis point is one hundredth of a percentage point (0.01 %).

Benchmark bonds
A large-volume issue which, because of its terms and liquidity, is representative of the bond market and serves as a reference point for other issuers. Mortgage banks that regularly issue high volume Pfandbriefe (Jumbo-Pfandbriefe) usually aim to position these Pfandbriefe, which feature high liquidity and credit ratings, as benchmark bonds.

Bonds
Collective term for fixed-interest debt instruments.

Cash flow hedge
Cash flow hedges are used to insure against the risk of a change in future cash flows, such as interest payments from a floating rate on-balance-sheet transaction involving a swap. They are measured at fair value.

Commercial mortgage backed securities (CMBS)
Bonds which are used to securitise credits arising from a commercial property portfolio (see also mortgage backed securities).

Confidence level
The confidence level defines the probability of a potential loss arising during the time specified by the value at risk.

Core capital (Tier 1 capital)
A measure of a bank's financial strength from a regulatory viewpoint. Tier 1 capital is defined as fully paid share capital and disclosed reserves plus, at group level, any differences arising from the consolidation of capital, less deduction items such as intangible assets.

Corporate Governance
In general terms Corporate Governance refers to the totality of all national and international standards and values of good and responsible management applying to both company staff and management.

Covered Bonds
Covered bonds is the umbrella term for debt instruments that are backed by collateral. In Germany, covered bonds are predominantly issued in the form of a Pfandbrief. The collateralisation of these instruments (by mortgages or loans to the public sector) is governed by various laws including the Pfandbrief Act (Pfandbriefgesetz).

Cover pool
The cover pool of a mortgage bank is the total mortgage lending and public sector finance which is eligible as cover for Pfandbriefe or Public Sector Pfandbriefe pursuant to the requirements of the German Pfandbrief law. The cover funds are managed separately from other assets. Compliance with the provisions of the German Pfandbrief law on cover is monitored by trustees and regular checks by BaFin.

Credit Default Swap (CDS)
Financial instrument which transfers the credit risk of an underlying asset (e.g. a security or a loan). The buyer of protection pays the seller of protection a premium and in return receives a compensation payment if a specified credit event occurs.

Credit spreads
Additional yield received by investors for investing in a risky bond. The credit spread compensates investors for the risk involved in the investment and is stated in basis points. The lower the rating of a bond, the higher its credit spread.

Deferred taxes
Deferred taxes are future tax burdens or tax reductions resulting from temporary differences and from unused tax losses and tax credits. Such temporary differences include differences in the value of an asset or liability recognised for financial reporting or IFRS accounting purposes and the values recognised for tax purposes (liability method), which balance each other out in later financial years and result in actual tax effects. Deductible temporary differences and unused tax losses and tax credits lead to deferred tax assets, while taxable temporary differences lead to deferred tax liabilities. Deferred tax assets/tax liabilities must be reported separately from the actual tax assets/tax liabilities.

Derivatives
Financial instruments whose value is determined by actual or expected movements in the prices of other financial instruments. They may be used both to hedge against losses and to speculate on price movements in the underlying asset. Derivatives offer a wide range of possibilities for managing and controlling risk.

European Banking Authority (EBA)
The EBA is part of the European financial regulatory system based in London and was created on 1 January 2011 as a successor to the Committee of European Banking Supervisors.

Expected loss (EL)
In statistics, the expected loss is calculated from a distribution function. Since the Basel Capital Accord came into force, expected loss has played a key role in measuring credit risk. EL is the expected value of the future losses from credit defaults calculated as the product of EaD, PD and LGD; it is frequently also referred to as 'standard risk costs'.

Exposure at Default (EaD)
EaD is a risk parameter used by banks and is a measure of an institution's exposure to a borrower when a default takes place (see also Basel II). It includes all outstandings and anticipated future drawdowns by the borrower in the observation period (usually one year).

Fair value
Amount at which financial instruments are bought or sold at fair terms. Valuation is based on either market prices (stock exchange prices) or, where these are missing, internal valuation models.

Fair value hedge
Describes a fixed-interest balance sheet item (e.g. receivables or securities), where a swap is used to hedge against market risks. Valuation is based on the fair value.

German Federal Financial Supervisory Authority (BaFin)
The body that supervises and controls all aspects of the financial services industry in Germany.

Goodwill
In an acquisition the difference between the purchase price and the value of the net assets acquired after disclosure of hidden reserves and unrealised losses.

Hedge accounting
Presentation of opposing performance of a hedging transaction (e.g. an interest rate swap) and the underlying transaction (e.g. a loan). The aim of hedge accounting is to minimise the impact of the valuation affecting income and recording of the valuation results of derivatives transactions on the Income Statement.

Hedging
A strategy in which hedging transactions are agreed with the aim of protecting against the risk of unfavourable price trends (interest rates, share prices).

Hybrid capital
Offerings in the form of assets of silent shareholders or preference shares, which are issued under intervention of a group SPV and recognised under banking regulations as core capital.

Internal capital adequacy assessment process (ICAAP)
Process that aims to ensure a bank has sufficient internal capital to cover all material risks.

International Financial Reporting Standards (IFRS)/International Accounting Standards (IAS)
Accounting regulations issued by the International Accounting Standards Board. The objective of financial statements prepared according to IFRS/IAS is to provide investors with information to help them reach a decision with regard to the company's net assets, financial position and results of operations, including changes over time. By contrast, financial statements according to HGB (German Commercial Code) are primarily geared to investor protection.

Issue of securities
Securities can either be issued directly by an issuing entity itself or by commissioning banks to do so. In the latter case the bank either carries out the sale of the securities on behalf of the issuer on a commission basis or buys the securities at a fixed price and offers them to the public at a higher price (market placement).

Jumbo-Pfandbriefe
Fixed-coupon, bullet repayment Pfandbriefe with annual retrospective payment of interest and an issue volume of at least €1 billion, issued by a consortium of banks.

Letter of comfort
Usually, the commitment of a parent company towards third parties (e.g. banks) to ensure orderly business conduct on the part of its subsidiary and the latter's ability to meet its liabilities.

Loan to value (LTV)
The loan-to-value ratio expresses the loan amount as a percentage of the market or fair value of a loan security.

Mark-to-model
A measurement method used for a specific financial product or portfolio based on internal assumptions or financial models. The mark-to-model approach is used for products for which no liquid market exists or for which a market price cannot regularly be calculated.

Maturity transformation
The professional management of different maturities and the associated varying interest rate implications for assets and liabilities on the balance sheet. Current and anticipated future market interest rates are taken into account for this purpose.

Minimum requirements for risk management ("MaRisk")
Regulations issued by the German banking regulators on the implementation of the requirements of Section 25a of the German Banking Act in risk management. The minimum requirements for risk management were published by the Federal Financial Supervisory Authority on 20 December 2005.

Mortgage backed securities (MBS)
MBS are a special form of asset backed securities. In this process, a bank sells or securitises parts of its credit risks from property lending by issuing bonds. The main purpose of this kind of transaction is to ease the burden of the risk assets, which have to be backed by equity.

Mortgage Pfandbriefe
Bonds issued by mortgage banks. They enable the bank to finance mortgage loans.

Portfolio
Refers to a collection of assets or classes of a particular type, e.g. real estate, loans, securities, etc.

Rating
Standardised assessment of the credit standing of companies and governments and securities issued by them. The outcome of the rating process serves as the basis for determining probability of default, which in turn feeds in to the calculation of the capital backing required for lending risk. Ratings are issued by companies themselves or international agencies such as Standard & Poor's and Moody's.

Repo business (Repurchase agreement)
Repurchase agreements for securities transactions (true repo transactions, whose object continues to accrue to the borrower).

Risk-weighted assets (RWA)
The bank must allocate regulatory risk weightings to all assets and off-balance sheet items and add up the risk-weighted values of the asset positions. A risk weighting of 100% means that the full value of the asset has been taken into account in calculating the risk weighting. The regulatory minimum requirement for the equity ratio is 8% of this value. According to the applicable regulations, the individual risk weightings depend on the general risk weighting of the debtor (i.e. states, banks or commercial companies).

SolvV (Basel II)
The Solvency Regulation (Solvabilitätsverordnung), which governs the capital adequacy of financial institutions, financial institution groups and financial holding groups, was issued by the German Federal Ministry of Finance as part of banking regulatory law on 14 December 2006. It specifies the requirements of the German Banking Act in relation to minimum capital requirements. The Basel II regulations were incorporated in common EU directives, which form the basis for the Solvency Regulation.

Spread
The spread refers to the difference between the buying (bid/ask) and selling (offer) price.

Standard risk costs for credit risks
Ex ante calculated risk premiums for the lending business. These indicate the loss anticipated, on the basis of historical experience, within one year as a result of defaulting loans (s. expected loss).

Stress test
Stress tests are intended to model the effects of extreme market fluctuations in terms of losses. These effects cannot be adequately taken into account using VaR models. VaR risk indicators are based on "normal" market fluctuations and not on the very rare, extreme situations which are difficult to record statistically. Stress tests therefore are a meaningful supplement to the VaR analyses; they are also promoted by the supervisory authorities.

Swaps
A financial instrument in which currency and/or interest exposures are swapped between two counterparties (e.g. by swapping future liabilities in US dollars for Euro liabilities or by swapping variable for fixed interest payments).

Syndication
This refers to the issue of securities or lending (syndicated loans) by a consortium of banks.

Underwriting guarantee
When securities are issued a financial institution may provide a guarantee in the underwriting agreement to purchase a certain proportion of the issue.

Unwinding
Unwinding is the change in the present value of loan loss provisions calculated by discounting estimated future cash flows (of recoverable amounts) at the balance sheet date.

VaR
Measurement method to record interest rate and credit spread risks. Using the VaR method, risk is defined as a negative deviation from the current value of all of the Bank's financial transactions. To be meaningful, it must also state the holding period and the confidence interval (see confidence level). The VaR figure designates the maximum loss that will not be exceeded within the holding period with a probability equal to the confidence interval.

Volatility
Indicator of price fluctuations of securities or currencies. Volatility is often calculated on the basis of the price history. The higher the volatility, the greater the risk, for example, in holding an asset.

FINANCIAL CALENDAR 2013

Publication of the 2012 Annual Report	22 March 2013
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