> Notes

Basis of accounting principles

The consolidated financial statements of comdirect as of 31 December 2012 were prepared in accordance with Section 315a (1) of the German Commercial Code (HGB) and Regulation (EC) 1606/2002 (IAS Regulation) of the European Parliament and of the Council of 19 July 2002 as well as further regulations on the adoption of certain international accounting standards in accordance with the International Financial Reporting Standards (IFRS), which were approved and published by the International Accounting Standards Board (IASB). Furthermore, the additional standards to be applied under Section 315a (1) of the German Commercial Code (HGB) were observed.

The sub-group financial statements of comdirect bank AG, Pascalkehre 15, D-25451 Quickborn, Germany are included in the consolidated financial statements of our ultimate parent company, Commerzbank AG, Frankfurt/ Main. The consolidated financial statements of Commerzbank AG as of 31 December 2011 were published in the online Federal Gazette on 19 April 2012.

In addition to the consolidated balance sheet, the consolidated income statement and the consolidated statement of comprehensive income, the consolidated financial statements include the statement of changes in equity, the cash flow statement and the notes. The group management report, including the risk report in accordance with Section 315 of the German Commercial Code (HGB), forms part of our present annual report.

The consolidated financial statements were approved for publication by the Board of Managing Directors on 20 February 2013.

Accounting and measurement methods

1 Basic principles

The consolidated financial statements are based on the going concern principle.

All the units included in the consolidation prepared their financial statements as of 31 December 2012.

Income and expenses are recognised on a pro-rata basis; they are shown for the period to which they may be assigned in economic terms.

An asset is recognised in the balance sheet if it is probable that there will be future economic benefits for the company and if the cost of acquisition or manufacture or another value can be reliably measured. A liability is recognised in the balance sheet if it is probable that fulfilment of a current obligation will result in a direct outflow of resources with economic benefits and the amount to be paid can be reliably measured.

In principle, assets and liabilities are shown at (amortised) cost of acquisition or manufacture (assets) and the issue amount or amount to be paid (liabilities) respectively.

Financial instruments are accounted for and measured using IAS 39 and the different classification and measurement principles specified by this regulation. Derivative hedging instruments are subject to the provisions of hedge accounting.

Where estimates and assessments are necessary in accounting for assets and liabilities, these are based on past experience and other factors such as forecasts and, from today's viewpoint, the probable expectations and forecasts of future events. Uncertainties pertaining to estimates relate in particular to determining the provisions for possible loan losses, the fair value of financial instruments and pension obligations.

2 IAS/IFRS and SIC/IFRIC rules applied for the first time and to be applied in the future

In the consolidated financial statements of comdirect, all the standards and interpretations to be compulsorily applied in the EU in financial year 2012 were taken into account.

The revision to IFRS 7 "Financial instruments: Disclosures – Transfers of financial assets" to be applied for the first time in financial year 2012 did not have any material impact on the consolidated financial statements.

Additional IAS/IFRS to be applied in the future:

Standard	Title	Date of application
IAS 1 (amended)	Presentation of financial statements – presentation of items of other comprehensive income	1 January 2013
IAS 12 (amended)	Income taxes – Deferred tax: Recovery of underlying assets	1 January 2013
IAS 19 (amended)	Employee benefits	1 January 2013
IFRS 7 (amended)	Disclosures – Offsetting financial assets and financial liabilities	1 January 2013
IFRS 10	Consolidated financial statements	1 January 2014
IFRS 11	Joint arrangements	1 January 2014*
IFRS 12	Disclosure of interests in other entities	1 January 2014
IFRS 10/IFRS 11/IFRS 12 (amended)	Amendments to the transitional provisions of IFRS 10, IFRS 11 and IFRS 12	1 January 2014
IFRS 10/IFRS 11/IFRS 12 (amended)	Investment entities	1 January 2014*
IFRS 13	Fair value measurement	1 January 2013
IAS 27 (new version)	Separate financial statements	1 January 2014
IAS 32 (amended)	Offsetting financial assets and financial liabilities	1 January 2014*
IFRS 9	Financial instruments: Classification and measurement	1 January 2015*
IFRS 7/IFRS 9 (amended)	Mandatory application date and transitions disclosures	1 January 2015*
–	Improvements in International Financial Reporting Standards 2009–2011	1 January 2013*

* The date of application is contingent on the timely endorsement of the standards by the European Commission.

As permitted we opted out of early application of standards and interpretations for which required implementation was from financial year 2013 or later.

The provisions of the new IFRS 9 "Financial instruments" are aimed at abolishing and replacing IAS 39. IFRS 9 could result in future changes in the categorisation and measurement of financial investments and other financial instruments for the comdirect group.

The requirements of IFRS 9 were further revised in 2012 and further amendments are still pending. Endorsement by the EU has therefore not yet taken place. The initial adoption of IFRS 9 has been postponed until the financial years beginning on or after 1 January 2015.

The effects of applying IFRS 9 to the consolidated financial statements of comdirect are not yet reliably quantifiable.

IFRS 10 "Consolidated financial statements" replaces the requirements of IAS 27 for consolidated financial statements and changes the definition of "control". IFRS 13 "Fair value measurement" describes how fair value is to be measured and establishes disclosure requirements. The amendment of IAS 32 clarifies the offsetting of financial assets and financial liabilities.

The application of IAS 19 (amended) will result in particular in different treatment given to actuarial gains and losses from pension liabilities. In future, these are to be recognised immediately and in full in other comprehensive income for the period. There will be no recycling via the income statement. In combination with IAS 1 this leads to separate reporting of these effects in addition to changes in the fair value of assets recognised directly in equity.

❸ Consolidated companies

Apart from the parent company, comdirect bank AG, Quickborn, the consolidated companies consist of ebase GmbH, Aschheim, and five special funds, special purpose entities (SPE) in accordance with IAS 27 in conjunction with SIC-12.

One subsidiary of minor importance for the earnings situation, financial situation and assets of the group was not consolidated but accounted for as a holding under financial investments. The company is in liquidation.

In each case, comdirect bank AG holds 100% of the shares in the consolidated group units.

❹ Principles of consolidation

In the consolidation of the capital accounts, the historical cost of the holding in the subsidiary is set off against the proportion of the subsidiary's equity as part of group equity as of the date of acquisition.

Intra-group claims and liabilities as well as expenses and income are eliminated as part of the debt, income and expense consolidation. Intra-group book gains or losses registered during the financial year are deducted, unless they are of minor importance. Holdings in subsidiaries that are not included in the consolidation due to their minor importance are shown at historical cost under the financial investment portfolio.

❺ Hedge Accounting

The rules under IAS 39 on hedge accounting apply to derivatives demonstrably used to hedge risks arising from non-trading transactions. At comdirect bank AG, fair value hedges were used exclusively to hedge the market price risk of individual securities using interest rate swaps. The application of the hedge accounting rules is contingent on the comprehensive documentation of the hedging relationship and evidence of the effectiveness of the hedge.

The fair values determined are reported in the balance sheet as "positive fair values from derivative hedging instruments" or "negative fair values from derivative hedging instruments". The changes in fair value of the hedges and hedged items resulting from the hedged risk are recognised in the income statement under "result from hedge accounting". In an effective hedge, the changes in value of an hedged item and the hedge recorded in the income statement will largely offset one another.

❻ Cash reserve

The reserve is reported at nominal value.

❼ Claims

All claims on banks and customers originated by the comdirect group are measured at amortised cost. The valuation allowances made within the claims on banks and customers are explained in note (39).

❽ Currency translation

Monetary assets and liabilities carried in the balance sheet which are held in foreign currency are translated at the spot rate on the balance sheet date (reporting date rate).

Income and expenses are translated at exchange rates as of the time of transaction.

As in principle no open positions in currency are entered into, currency translation does not contribute to earnings.

9 Provisions for possible loan losses

We provide for the particular credit risks in lending by forming single and portfolio loan loss provisions, with loans comprising exposure of more than €1m seen as significant.

Specific loan loss provisions are formed to cover the existing credit-standing risks relating to these exposures. Loan loss provisions have to be formed for a loan if it is probable on the basis of observable criteria that not all the interest payments and capital repayments can be made as agreed. The level of the loan loss provision corresponds to the difference between the book value of the loan less the present value of the expected future cash flow.

In addition, we cover credit risks by means of portfolio loan loss provisions. The level of the portfolio loan loss provisions is determined using parameters derived from Basel II (probability of default, loss given default). The loan loss provisions are deducted from the relevant asset items on the balance sheet, provided they relate to claims on the balance sheet. The provisions for possible loan losses for offbalance sheet business (loan commitments) are shown as provisions for lending risks.

Uncertainties pertaining to estimates arise with regard to the use of Basel II parameters. The parameters are derived from empirical values for corresponding receivables and can therefore be subject to fluctuations due to changes in framework conditions, such as developments in the macroeconomy or labour market data. Thus, revised estimates for probabilities of default per exposure, in particular, could lead to an increase or decrease in provisions for both utlisied and unutilised loan commitments. Revised conversion factors regarding open lines of credit would only lead to an increase or decrease in provisions for loan losses.

Unrecoverable amounts are written down utilising any existing loan loss provisions. Income on written-down receivables is recognised in the income statement under provisions for possible loan losses.

10 Positive fair values from derivative hedging instruments

Derivative financial instruments used for hedging purposes, which qualify for hedge accounting and show a positive fair value are reported under this item. The instruments are measured at fair value in accordance with the net present value method. The measurement results determined for fair value hedges under hedge accounting are recognised in the income statement under "result from hedge accounting".

11 Trading assets

Derivative financial instruments that are not used as hedging instruments as part of hedge accounting and show a positive fair value are reported as trading assets. The instruments are measured at fair value. The changes in fair value as well as interest income and expenses are recorded in the income statement under the trading result.

12 Financial investments

Purchases and sales of financial assets are shown in the balance sheet in accordance with the trade date accounting method.

As of the balance sheet date, all bonds, other fixed-income securities, equities and other variable-yield securities (investment fund units) not held for trading purposes were assigned to the "available-for-sale" category. These are reported under financial investments together with holdings in non-consolidated subsidiaries.

These financial instruments are accounted for and measured at fair value. In principle, prices and quotations traded in active markets are used for this. If there is no active market, instruments from the same issuer or comparable issuer in the same industry with comparable residual maturities are used. The spreads determined from these papers are used with the aid of the discounted cash flow method as the basis for the measurement taking appropriate yield curves into account.

The measurement results are posted in the revaluation reserve with an income-neutral effect and taking deferred taxes into account. Realised gains and losses only affect the income statement when securities are sold or subject to impairment.

Debt instruments are subject to an impairment test using quantitative or qualitative trigger events. Qualitative indications of impairment include, for example, arrears or default on interest and capital payments on the part of a counterparty. Significant price drops and rating changes are considered to be quantitative trigger events. Should these trigger events apply, impairments are carried out if payment defaults are to be expected. Equity instruments are also subject to an impairment test using quantitative or qualitative trigger events. An impairment is carried out for these instruments if there is a qualitative trigger event, such as considerable financial difficulties on the part of the issuer, or if a quantitative event applies. Quantitative trigger events exist if the fair value falls significantly or longer-term below the historical cost.

With regard to debt instruments, reversals of impairment losses are posted in the revaluation reserve with an income-neutral effect in subsequent periods if the trigger event still applies. Where the trigger event no longer applies, reversals of impairment losses are recognised in the income statement; impairments recognised in the income statement in previous periods are charged off against the revaluation reserve with an impact on income. For equity instruments, reversals of impairment losses are consistently posted in the revaluation reserve with an income-neutral effect.

Where there is an effective hedging relationship between securities and a derivative financial instrument, the proportion of the change in the fair value attributable to the hedged risk is reported in the income statement under “result from hedge accounting”.

All the interest income generated by securities of the “available-for-sale” category is shown in the income statement under “interest income”.

⓭ Intangible assets

Under “intangible assets”, we include internally generated software, purchased software and acquired customer relationships (customer base).

Internally generated software is recognised if all provisions of IAS 38 are met. Recognition is made at production cost. Recognition of sundry intangible assets is made at historical cost.

In principle, internally generated software and purchased individual software is amortised using the straight-line method and according to schedule against earnings over a period of five years; standard software over three years. Acquired customer relationships are amortised using the straight-line method and according to schedule over a period of 10 years.

Both the useful life and the amortisation method are reviewed for significant changes each year at the end of the reporting period. In addition they are checked annually for signs of impairment within the meaning of IAS 36 which would necessitate impairments that are recognised in the income statement.

An unscheduled write-down is recognised if the recoverable amount of the asset is lower than in the book value as of the reporting date. The recoverable amount is calculated as the higher amount of the value in use and fair value less cost to sell.

14 Fixed assets
The item “fixed assets” shows office furniture and equipment.

All the fixed assets are capitalised at historical cost. Office furniture and equipment are depreciated using the straight-line method and according to schedule to reflect their probable useful economic lives.

In determining the useful life, their likely physical wear and tear, their technical obsolescence as well as legal and contractual restrictions are taken into account.

All fixed assets are depreciated over a period of 3 to 20 years.

Gains and losses arising from the sale of fixed assets are shown in the income statement under “other operating result”.

Both the useful life and the depreciation method are reviewed for significant changes each year at the end of the reporting period. In addition, they are checked annually for signs of impairment within the meaning of IAS 36 which would necessitate impairments that are recognised in the income statement.

15 Leases
In accounting for leases, a distinction is made between operating leases and finance leases. A lease is classified as a finance lease if it substantially transfers all of the risks and rewards pertaining to ownership to the lessee. The accounting for the leased items is then carried out by the lessee. In contrast, where the risks and rewards pertaining to ownership are not substantially transferred to the lessee, the lease constitutes an operating lease. In such cases, the accounting for the leased item is carried out by the lessor.

Essentially, the companies of the comdirect group appear as lessees in operating leases (bank building and offices, office furniture and equipment).

16 Liabilities
Financial liabilities, with the exception of those that result from derivatives, are shown at amortised historical cost.

Where there is a material difference between the nominal value and fair value at the time of recognition, the amount is carried at fair value. The difference between this and the nominal value is recognised via the respective fixed-interest period in accordance with the effective interest rate method.

17 Negative fair values from derivative hedging instruments
Derivative financial instruments used for hedging purposes and which qualify for hedge accounting and show a negative fair value are reported under this item. The instruments are measured at fair value in accordance with the net present value method. The measurement results determined for fair value hedges under hedge accounting are recognised in the income statement under “result from hedge accounting”.

18 Trading liabilities
Derivative financial instruments that are not used as hedging instruments as part of hedge accounting and show a negative fair value are reported as trading liabilities. The instruments are measured at fair value. The changes in fair value as well as interest income and expenses are recorded in the income statement under the trading result.

19 Provisions

Basic principles

A provision must be recognised if on the balance sheet date, as the result of a past event, a present legal or constructive obligation has arisen, an outflow of resources to meet this obligation is probable and it is possible to make a reliable estimate of the amount of this obligation. Accordingly we make provisions for liabilities of uncertain amount to third parties and anticipated losses arising from onerous contracts in the amount of the claims expected.

The provision represents the best possible estimate of the expense required to meet the current obligation as at the reporting date. The estimate takes account of risks and uncertainties, but this may mean that a provision is not utilised in the amount shown in subsequent periods. Provisions are recognised at their net present value if the effect of discounting is material.

The provisions include items which result from restructuring of the business divisions and serve to cover settlement claims of employees or obligations arising from the termination of other contractual relationships. Here, uncertainties pertaining to estimates can, among other things, refer to the assumptions made regarding the date of the end of contracts and the underlying average amounts of the contractual sums or claims.

The different types of provisions are allocated via various items in the income statement. Provisions for risks from the lending business are charged to the provision for possible loan losses and the provisions for restructuring to restructuring expenses. Other provisions are in principle charged to administrative expenses.

Income from the reversal of provisions is recognised in “other operating result”. This excludes provisions for credit risk (provisions for possible loan losses) and provisions for variable compensation (personnel expenses).

Provisions for pensions and similar obligations

The company pension for the employees of the comdirect group is based on various pension schemes.

On the one hand, employees acquire a vested right to benefits on the basis of an indirect benefit obligation for which a defined premium is paid to Versicherungsverein des Bankgewerbes a.G. (BVV), Berlin. The level of the pension benefit is determined by the premiums paid and the resultant accumulated investment income (defined contribution plan).

The accounting regulations pursuant to IAS 19 for a defined contribution plan are applied to this indirect pension plan, i.e. the regular premium payments to BVV are recorded as an expense in the financial year and no provision is formed.

On the other hand, the employees acquire vested rights to benefits on the basis of a direct benefit obligation, whereby the level of benefit is fixed and depends on factors such as age, remuneration and length of service (defined benefit plan).

The accounting regulations pursuant to IAS 19 for a defined benefit plan are applied to this direct pension plan and provisions are formed accordingly.

The obligations similar to those for a pension include deferred compensation. These refer to an offer to the employees whereby they give up a portion of their gross salary for a pension commitment by the employer to the same value. Provisions are also formed for individual part-time working arrangements for older employees.

For defined benefit plans, the pension obligations and similar commitments are calculated annually by an independent actuary in accordance with the projected unit credit method. In addition to biometric assumptions and the current actuarial interest rate, this calculation is based on the expected future rates of increase for salaries and pensions.

The trustee required for a bilateral trust was established by Commerzbank AG in the form of the Commerzbank Pension-Trust e.V.

In this regard, the companies in the comdirect group insure old-age pension obligations by means of a contractual trust agreement.

Claims arising from deferred compensation agreements have also been covered with the help of pension plan reinsurance, funded by the employer from the contributions made by the employees.

The assets transferred to cover pension claims (plan assets) are to be set off against the pension provisions, as the corresponding requirements of IAS 19 are met.

The pension expenses relating to the defined benefit old-age pension obligations to be recognised in the income statement comprise the service cost and the interest cost. The net income expected from the trust assets reduces the pension expenses. Further information on the pension obligations granted is provided in note (49) and note (69).

If the parameters taken into account in the calculation of the pension obligations and plan assets deviate from the original expectations, this generates an actuarial gain or loss. In accordance with IAS 19.92 et seq., these are to be recognised in the income statement as of the reporting period at the start of which they exceed a corridor of 10% of the maximum of the pension obligations or the fair value of plan assets. In the comdirect group, these actuarial gains or losses are recorded faster than over the average remaining period of service of the beneficiaries.

20 Income taxes

Current income tax assets and liabilities are calculated in accordance with tax provisions by applying the current valid tax rates at which a refund from or a payment to the relevant tax authorities is expected. Deferred tax assets and liabilities are formed for differences arising between the IFRS book values of assets or liabilities and their tax value, provided that future tax reducing or tax burdening effects are expected to result from this (temporary differences) and no prohibition on recognition is in place. The valuation of deferred taxes is based on income tax rates already enacted as at 31 December 2012 and applicable in the event of realisation of the temporary differences. Deferred income tax assets from tax-reducing temporary differences are shown in the balance sheet only to the extent that it is probable that the same taxable entity will generate tax results in the foreseeable future with respect to the same fiscal authority. Income tax assets and liabilities are formed and carried such that – depending on the treatment of the underlying item – they are recognised either under "taxes on income" in the income statement or they are set off against the relevant equity items with no effect on the income statement.

Current and deferred income tax assets and liabilities are netted against one another where they exist towards the same tax authority and the right of set-off can actually be enforced vis à vis the tax authority.

21 Conditional and authorised capital

The Board of Managing Directors of comdirect bank AG is authorised until 5 May 2014, with the consent of the Supervisory Board, to increase the share capital of the company by up to a maximum amount of €70.0m (authorised capital 2009) by issuing new shares against cash or non-cash contributions on one or more occasion. The shareholders are in principle to be granted a subscription right. The statutory subscription right can also be granted through the new shares being underwritten by a bank or a bank consortium with the obligation of offering them for subscription to the shareholders of comdirect bank AG. The Board of Managing Directors may exclude shareholder subscription rights in some cases with Supervisory Board approval.

Through the resolution adopted on 9 May 2008 and its entry into the commercial register on 3 July 2008, a conditional capital of €30.0m was created (conditional capital 2008). The conditional capital 2008 increase will only be effected to the extent that holders and/or creditors of convertible bonds or convertible profit-sharing certificates or of warrants from bonds with warrants or profit-sharing certificates with warrants may exercise their option or conversion rights or fulfil their conversion obligations. The Board of Managing Directors is authorised to issue, with the approval of the Supervisory Board, bearer bonds with convertible bonds or bonds with warrants or profitsharing certificates as mentioned above on one or more occasions, up to a maximum amount of €300.0m with or without a fixed maturity. This authorisation is limited until 8 May 2013.

22 Earnings

In principle, earnings are accounted for at fair value of the consideration. Interest income, with the exception of that from derivatives in the "held-for-trading" category, is recognised using the effective interest rate method. Commission income is recognised in principle if the underlying service was provided. For charges relating to specific periods (e.g. custody charges, account charges), the fees are deferred on the reporting date.

23 Appropriation of profits

The basis for the appropriation of profits is the national legislation, especially the German Commercial Code (HGB) and the Stock Corporation Act (AktG).

For financial year 2012, comdirect bank AG reported a distributable profit according to the German Commercial Code (HGB) of €62,137,158.60.

The Board of Managing Directors and the Supervisory Board of comdirect bank AG will propose to the annual general meeting a dividend payment in the amount of the distributable profit, which is commensurate to €0.44 per no-par value bearer share.

24 Earnings per share

Undiluted earnings per share are calculated in accordance with IAS 33 and based on the net profit for the year. The figure calculated is shown below the income statement. As in the previous year, diluted earnings correspond to undiluted earnings.

25 Share-based compensation

Variable compensation of the Board of Managing Directors

In light of statutory and supervisory changes, in particular the German Remuneration Regulation for Institutions (Instituts-Vergütungsverordnung) adopted in October 2010, as well as corporate strategy considerations within the Commerzbank Group, the compensation system for the Board of Managing Directors was revised in financial year 2011 and adjusted with retroactive effect from 1 January 2011.

Compensation plan 2011

Where members of the Board of Managing Directors participate in the new compensation system implemented in the previous financial year, the following information applies.

The total volume for the variable compensation of the beneficiary depends on the achievement of corporate targets of comdirect and Commerzbank Group and also of individual goals in the financial year to be assessed, combined with the target amount for the variable compensation component for all members of the Board of Managing Directors. The goals are agreed annually between the Board of Managing Directors and the Supervisory Board, are in line with the bank's strategic objectives, and particularly take into account risks entered into and cost of capital. Achievement of the objectives can amount to a minimum of 0% and a maximum of 200%.

The individual variable compensation component is split into two parts – a long-term incentive (LTI), which is paid out at the earliest three and a half years after the end of the financial year, and a short-term incentive (STI), paid out within ten months of the end of the financial year.

Half of both the LTI and STI component is settled as a cash payout and the remaining half in the form of shares in Commerzbank AG after a specified deferral period.

IFRS 2 governs share-based compensation transactions between group companies. As comdirect bank AG is required to provide the compensation, the share-based components of the LTI and STI are treated as compensation components with cash settlement. Those components of the LTI and STI for which cash payments are planned are recognised on the balance sheet in accordance with IAS 19.

At the end of the financial year, a mathematical compensation volume is calculated on the basis of the attainment of company targets for all of the components indicated above. The individual variable compensation for members of the Board of Managing Directors is determined on the basis of a performance evaluation in the financial year following the reporting year.

The euro amount for both share-based components is specified when setting the individual variable compensation. The number of shares to be granted is determined by dividing the euro amount specified in this regard by a reference price. This reference price is calculated as the average price of Commerzbank shares on all trading days in a reference period comprising the month of December in the reporting year and the months of January and February in the following year.

A provision is recognised for the full amount of the compensation volume calculated for the share-based STI component. After the number of shares to be issued has been specified, the equivalent value can change due to fluctuations in the share price up until issue in the fourth quarter of the following year.

The entitlement to the share-based LTI component is linked to suspensive conditions. These include a three-year waiting period from the end of the financial year for which the compensation is to be determined. The corresponding expense for recognition of a provision for the share-based LTI component is posted in each case pro rata over a vesting period of four years, as the payout of the equivalent value of this component is linked in principle to the beneficiary remaining with the company during the waiting period.

The outstanding entitlements are carried in the accounts during the waiting period on a fair value basis. This is based on the share price for Commerzbank AG and is recalculated on each reporting date up to and including the payout date. In addition to the pro rata recognition of the provision over the vesting period of four years, every change in the obligation resulting from share price fluctuations up until the issue of the shares is thus to be taken into account through profit or loss.

Commerzbank share awards

Where members of the Board of Managing Directors receive part of their variable compensation in the form of Commerzbank share awards, the following information applies.

Commerzbank share awards represent a cash-settled share-based compensation transaction. The euro amount for the share-based components is determined as part of establishing the individual variable compensation for the beneficiary based on a performance measurement in the financial year following the reporting year.

The number of Commerzbank share awards allocated is determined by dividing the euro amount specified in this regard by the average XETRA closing price of Commerzbank shares on all trading days in the month of December of the reporting year and the months of January and February in the following year.

In principle, the payout takes place three years after the date of allocation and is linked to certain suspensive conditions.

The average XETRA closing price for Commerzbank shares in the months of January and February of the payout year and the month of December in the preceding year is also used to determine the amount of the payout. The amount to be paid is then calculated by multiplying the average price with the number of Commerzbank share awards granted.

As the payout of the equivalent value of the Commerzbank share awards at the end of the waiting period is not contingent on the beneficiary remaining in the company, the full amount of the fair value of the award is recognised as personnel expenses in the financial year for which this compensation is determined. At the same time, a provision is recognised in this amount. The fair value is recalculated on each reporting date and up to and including the payout date and fluctuates in parallel with the movement in the share price for Commerzbank Aktiengesellschaft. Every change in the fair value of the obligation is taken into account as a charge to expense.

If Commerzbank Aktiengesellschaft makes dividend payments during the waiting period, on the payout date, a cash payout in the amount of the dividend paid is disbursed per share award in addition to the payout value of the share awards, for which provisions are to be recognised if applicable.

Performance share plan

A long-term incentive programme (LTIP) for the employees of the comdirect group was introduced in 2005 as a component with a long-term incentive effect and risk elements.

As the beneficiaries of this LTIP, the members of the Board of Managing Directors and selected managers and executives received a conditional allocation of virtual, non-fungible shares (performance shares) in yearly tranches. The shares encompass the conditional right to a cash payment at the end of the three-year waiting period. The level of the cash payment depends on achieving performance targets which are set at the beginning of the planning period and the current share price at the end of the waiting period.

The performance targets set at the beginning of the planning period are based on total shareholder return (TSR), an indicator which takes both share price performance and the dividends paid during the waiting period into account.

The number of performance shares falling due for payment depends equally on the TSR outperformance targets as compared with the Prime Financial Services Performance Index and the absolute rise in TSR of the comdirect share.

However, for both performance targets there are set hurdles that must be overcome before the performance shares become valuable and due for payment depending on achievement of the targets. With regard to TSR outperformance (subset A), the share price of comdirect bank AG during the three-year waiting period must be at least as good as the reference index. If the comdirect share price including dividends paid has increased in absolute terms over the same period (subset B) by at least 25% compared with the price on issue, this subset also becomes valuable. The total payout from the performance share plan is capped. Should the performance targets set at the beginning of the planning period not be met, the performance shares lapse at the end of the waiting period.

Both subsets comply with the requirements of the German Corporate Governance Code.

The value of the performance shares as of the reporting date is determined by an external expert. The model used is based on the arbitrage-free valuation according to Black/Scholes. A numerical solution option is necessary because of the complexity of the option programme and the procedure used is the three-dimensional binomial model.

The long-term incentive programme was discontinued as part of the revision of the compensation system. Performance shares were issued for the last time in 2010 and may be paid out in 2013 under the restrictions described.

26 Related party disclosures

Relations with affiliated companies

The parent company of comdirect bank AG is Commerz Bankenholding Nova GmbH, Frankfurt/Main. The ultimate parent company is Commerzbank AG.

comdirect bank AG uses services provided by Commerzbank AG through a general agreement effective as of 1 January 1999, as well as through service level agreements on this basis.

On 6 August 2007, a master agreement was concluded with Commerzbank AG which superseded the existing general agreement. The individual contracts concluded under the general agreement remain in place until expiry of their respective term. New individual contracts will be concluded based on the master agreement.

On the basis of the general agreement and the master agreement, the following services were provided during financial year 2012:

- Trading and processing services
- Payments and cash dispenser service
- Printing services
- IT services
- Internal audit
- Use of “Intelligence Commerzbank” (ICOM) securities trading system
- Risk management
- Handling of financial instruments in own trading and credit services
- Compliance
- Cooperation for the “Contract for Differences” product
- Placement of building finance loans
- Project services, e.g. final withholding tax, expanding tax master data
- Other services

In total, the expenses for the above services amounted to to €24.9m (2011: €25.9m) in the financial year.

In the reporting year, the earnings generated from these agreements totalled €4.0m (2011: €0.4m).

Outside of the general agreement, there are also the following significant business relations with Commerzbank AG:

In connection with the general agreement on liquidity transfer concluded in August 2010, there is also an assignment agreement between comdirect bank AG and Commerzbank AG for a customer loan portfolio consisting of retail loans. Claims are assigned from Commerzbank AG to comdirect bank AG as security for all existing, future and conditional claims by comdirect bank AG against Commerzbank AG and/or its group companies arising from the general agreement or other loans. Commerzbank AG was paid a fee of €1.3m (2011: €1.2m) due to this assignment agreement.

As part of money market and capital market transactions, comdirect bank AG makes investments with Commerzbank AG and its affiliated companies.

As at the balance sheet date, the nominal value of call money and fixed-term deposits as well as promissory notes totalled €7,670m (2011: €6,413m). During the year under review, comdirect group generated total interest income of €147.7m (2011: €129.7m) from these transactions with Commerzbank AG and €0.4m (2011: €0.7m) with its affiliated companies. There is a separate general agreement between comdirect bank AG and Commerzbank AG for these money and capital market transactions.

As at the balance sheet date, bonds and notes in the portfolio from affiliated companies amounted to €2,258m (2011: €2,663m). The interest income on this item amounted to €77.1m (2011: €87.5m) for the financial year as a whole.

Bonds in the portfolio from the affiliated companies were purchased during the reporting year with a nominal volume of €608.3m (2011: €133.3m). As in the previous year, no bonds were sold to affiliated companies.

A general agreement on security loans was concluded with Commerzbank AG on 16 May 2000, on the basis of which comdirect bank AG can lend securities to Commerzbank AG. In the reporting year, income of €2.9m (2011: €3.7m) was generated on the average portfolio of lent securities amounting to €2.0bn (2011: 2.3bn).

Through its connection to Commerzbank AG, comdirect bank AG offers its customers new issues and a range of certificates for subscription. These sales are remunerated in line with the commission for the banking syndicate or issuing institution. In addition, comdirect bank AG receives pro rata commission for carrying out capital measures. As in the previous year, commission from these areas in financial year 2012 totalled less than €0.1m.

In joint campaigns with Commerzbank AG, comdirect bank AG offered its customers the opportunity to buy and sell Commerzbank warrants and certificates OTC for a limited period of time, whereby comdirect bank AG waived the commission payable by the customer on all transactions with a defined maximum volume. In return, comdirect bank AG received a refund of the lost order commission from Commerzbank.

comdirect bank AG and European Bank for Fund Services GmbH (ebase) offer their customers a large number of funds from a variety of investment companies, including investment companies of the Commerzbank Group. In financial year 2012, the comdirect group received sales and sales follow-up commission at prevailing market rates from the investment companies of the Commerzbank Group.

For placement activities for the benefit of ebase, Commerzbank AG received sales and ongoing sales follow-up commission amounting to €11.7m (2011: €12.3m) in financial year 2012.

As part of its processing and management services for custody accounts, ebase procures support and services from Commerzbank AG. In financial year 2012, Commerzbank AG received payment of €1.5m (2011: €1.2m) for these services.

ebase purchased other services from Commerzbank AG in the amount of €0.3m in financial year 2012 (2011: €0.3m).

On 22 March 2000, comdirect bank AG concluded an agreement with Commerzbank AG. Among other things, the agreement relates to support for PR activities, compliance with stock exchange and other obligations resulting from admission to the stock exchange and advice on the holding of the annual general meeting of shareholders.

On 15 March 2005, comdirect bank AG concluded an agreement with Commerzbank AG concerning the cash receiving office and depository service for the shares of comdirect bank AG.

Commerz Direktservice GmbH, whose sole shareholder is Commerzbank AG, provides call centre services for the purposes of gaining and supporting customers and promoting sales, primarily for customers of and on behalf of Commerzbank AG. Commerz Direktservice GmbH does not have its own customer base. comdirect bank AG maintained service agreements with Commerz Direktservice GmbH in the field of operating customer business and provision of operating resources. In the financial year, comdirect bank AG received payment of €0.6m (2011: €2.2m) for these services. Commerz Directservice GmbH's Quickborn location was closed with effect from 30 June 2012. Due to the early termination of the service agreements, an additional payment of €1.1m was due to comdirect bank AG for the telecommunications systems.

comdirect bank AG and its affiliated companies have insured old-age pension obligations by means of an allocation to trust assets with Commerzbank Pension-Trust e.V. As of 31 December 2012 the market value of trust assets administered in the trust totalled €4.8m (2011: €4.1m).

With an agreement dated 9 January 2003, comdirect bank AG acquired a holding in WST-Broker GmbH, Frankfurt/Main. WST-Broker GmbH routed customer orders to execution on the trading floors on behalf of comdirect bank AG. With effect from 5 October 2011, its shareholders comdirect bank AG (54%) and Commerzbank AG (36%) resolved to close WST-Broker-GmbH. The company has been in liquidation since then.

comdirect bank AG received tax reimbursement in financial years 2011 and 2012 resulting from the retrospective recognition of write-downs on foreign holdings from the year 2001. comdirect bank AG received an amount of €4.0m as part of a settlement in order to meet potential claims of comdirect bank AG vis-à-vis Commerzbank AG resulting from the tax relationship between the companies at that time.

The Board of Managing Directors reports separately on the scope and appropriateness of the intra-group services of comdirect bank AG with affiliated companies as part of its dependency report (Section 312 German Stock Corporation Act (AktG)).

Government-related entity disclosures

The Federal Republic of Germany holds a stake of 25% plus one share in Commerzbank AG, which allows it as the responsible party for the Federal Agency for Financial Market Stabilisation (Bundesanstalt für Finanzmarktstabilisierung – FMSA) to exert a considerable influence over Commerzbank AG. This gives it indirect influence over the comdirect group.

As at the reporting date, the comdirect group held bonds from the government and government-related entities with a book value of €79.0m (prior-year reporting date: €105.6m). The comdirect group generated interest income of €2.5m from these bonds during the reporting year (2011: €2.6m).

Other related party disclosures

In the financial year, there were financial relations with related natural persons (members of the Board of Managing Directors and the Supervisory Board and members of their immediate family), including through the use of products of comdirect group as part of the normal product and service offering. All products and services were carried out at normal third party terms and conditions and are of secondary importance for the company. The related parties did not accrue any unjustified advantage from their position with the comdirect group, nor did comdirect group suffer any financial losses.

In addition to the financial relations as part of the product and service offering of comdirect group, related parties received compensation on the basis of their position as members of the boards (see note (69)). The employee representatives in the Supervisory Board additionally receive payment as a result of their employment by comdirect bank AG in an amount that is usual for the company in accordance with the corresponding works agreement and the associated grading of the respective job profile.

There were no other financial relations with related natural persons in the financial year.