> Risk report

Risk-oriented global bank management

The overall aim of comdirect is to increase the value of the company on a sustainable basis with a manageable level of risk at all times, whilst striking a balance between attractive earnings and the creation of future earnings potential through customer and asset growth.

comdirect pursues business models, which are geared towards generating net commission income and net interest income in brokerage, banking and advice. The associated risks are transparent and limits are set for risks which can be quantified and compliance with these limits is monitored on a continual basis.

We do not assess risks on an isolated basis but as an integral part of global bank management. In every market and corporate phase, the aim is to secure an optimum risk/return ratio taking external and internal influencing factors into consideration and allowing for comdirect's risk-bearing capacity as well as regulatory requirements.

A consistent risk strategy is developed on the basis of comdirect's business strategy and adopted by the Board of Managing Directors of comdirect bank AG. This strategy specifies the extent to which comdirect is prepared to take on risk to utilise opportunities and to provide the equity to do this. Specific sub-strategies for all material individual risks were defined in the overall risk strategy.

In accordance with the stipulations of the minimum requirements for risk management (MaRisk), we have established a process for planning, adjusting, implementing and assessing our strategies that facilitates a target/actual comparison of objectives and the level of implementation achieved.

Risk management

Our risk management system forms the basis for implementation of the risk strategy. The system enables us to identify risks at an early stage, assess them under various assumptions and scenarios, and carefully manage them. We are therefore in a position to take measures immediately to counter risks in the event of any unwanted developments. The procedures with which we measure, aggregate and manage risks are enhanced continually on a best practice basis. In this respect, we are closely integrated into the risk management systems of the Commerzbank Group.

The comdirect bank Board of Managing Directors is responsible for the risk management system. The Board specifies the permissible overall risk and its allocation across the individual types of risk and business divisions. The Internal Capital Adequacy Assessment Process (ICAAP) ensures that sufficient capital is available to cover all material risks.

At comdirect, the CFO (Chief Financial Officer) – independent from the overall responsibility of the Board of Managing Directors – is responsible for monitoring and implementing the risk strategy.

The task of risk management is to identify, measure, assess and manage as well as monitor and communicate all risks in the respective risk categories. The management is carried out partly on a centralised basis, for market and liquidity risks for instance, and partly on a decentralised basis, as in the case of operational risks (OpRisk) and reputation risks. With the aid of a risk inventory we obtain a regular overview of the material risks and examine whether and to what extent these risks may adversely affect the capital resources, earnings situation or liquidity situation. Taking account of risk concentrations, tolerances are set for all material risks and the effect of such concentrations is also analysed across all risk types.

The Risk Management department is responsible for risk controlling. It monitors, evaluates and aggregates risks for the bank as a whole. In addition, the department implements the corresponding regulatory requirements and monitors compliance with them.

Comprehensive and up-to-date risk reporting forms an essential part of the risk management system. The Board of Managing Directors receives regular risk status reports. Key risk ratios are included in the overall management of comdirect. Risk status reports provide information on the current development of major risk categories among other things. Thus we promptly identify developments that require countermeasures.

Internal Audit regularly checks the functionality and suitability of risk management activities pursuant to the minimum requirements for risk management (MaRisk).

Inclusion in the Commerzbank Group

comdirect is included in the risk management processes of the Commerzbank Group to identify, measure, assess and manage as well as monitor and communicate risks. Against this backdrop, the bank makes use of the "waiver regulation" under Section 2a of the German Banking Act (KWG). As a subsidiary of the Commerzbank Group, it is exempt from applying the regulations of Section 10 of the German Banking Act (KWG) (Reporting of own funds to the Federal Financial Supervisory Authority) and Section 13 of the German Banking Act (KWG) (Notification of major loans of more than 10% of the liable capital to Deutsche Bundesbank).

As a result of this integration, comdirect meets the requirements in the three pillars of Basel II as follows:

- The first pillar of Basel II relates to the approaches for measuring credit, market and operational risk, which are used to calculate the minimum capital requirements of a bank. For internal management purposes as well as for the Commerzbank Group's risk management, we determine the overall risk position of comdirect using advanced procedures. Credit risk is mostly assessed using the Advanced Internal Ratings Based Approach (AIRB). With regard to operational risks, comdirect uses the Advanced Measurement Approach (AMA).

- The minimum requirements for risk management for banks and financial services institutions (MaRisk), the second pillar of Basel II, are complied with throughout the comdirect group. These relate to the implementation of internal procedures, which are to be checked by the regulatory authorities and are used among other things to assess the risk situation and appropriate capital resources, which are based on the respective risk profile of comdirect.

- The third pillar of Basel II relates to the disclosure of risks. Here the parent company, Commerzbank AG, meets the requirements for compliance for the Commerzbank Group as a whole.

Adjustments during the reporting year

On 24 September 2012, we extended the product offering in customer credit business with the new Visa card credit product (debiting at weekly intervals). The new credit product was integrated into comdirect's risk management system, in particular through the use of a correspondingly precise and adequately conservative rating model. This expansion of lending business only led to a minor rise in the economically required capital for credit risks in the ICAAP.

Furthermore, as part of the risk inventory carried out during the financial year, reputation risk, which previously was assessed and managed as part of OpRisk management, was classified as a separate material type of risk.

Risk categories of comdirect

We classify risks in line with the German Accounting Standard DRS 5-10 and distinguish between market risk, credit risk, liquidity and operational risk. The other risks are business risk and model risk, which are additionally classified as material types of risk and included in the risk-bearing capacity analysis. Reputation risk also represents a material type of risk, but as a non-quantifiable risk is managed on a purely qualitative basis and not backed by economically required capital as part of the ICAAP.

A *market risk* describes the potential loss on positions in the bank's own portfolio caused by future market price fluctuations. A distinction is made between general changes in market prices and a specific market risk related to individual financial instruments. With regard to risk factors, we distinguish between interest rate, credit spread, equity price and currency risks. The main market risks for comdirect are the interest rate risk and the credit spread risk in the banking book. The interest rate risk arises in particular from maturity transformations, i.e. the mismatching of fixed interest rates on assets and liabilities. The credit spread risk results from changes in risk premiums on bonds against a low risk reference interest rate. Hedged items essentially comprise bonds and promissory notes as well as money market transactions with other financial institutions, which are used for the investment of surplus customer deposits. If required, interest rate swaps and forward rate agreements are concluded for the purposes of hedging and general interest book management.

The *credit risk* describes the risk of a financial loss which arises when a borrower is unable to pay or to pay on time the contractually agreed consideration. This primarily includes counterparty and issuer risks arising from business involving money market and capital market transactions, as well as credit risks in retail business.

Liquidity risk in the narrower sense is understood as the risk that the bank will be unable to meet or to meet on time its current and future payment obligations. The broader definition of liquidity risk also encompasses refinancing risk, which is the risk that the liquidity will not be sufficient if required or that it can only be acquired in the money and capital markets at terms that are significantly less favourable than expected, as well as market liquidity risk. The latter describes the risk of being unable to unwind or close out securities positions to the desired extent or only at a loss as a result of inadequate market depth or market disruptions. The liquidity risk is a material risk for comdirect and is adequately taken into account in the risk management and controlling processes. Nevertheless, the liquidity risk is not included in the risk-bearing capacity analysis, since in line with the definition chosen, it cannot be usefully limited through economic capital.

Operational risk is understood as possible losses resulting from the use of operating processes and systems that are inappropriate or susceptible to failure as well as human error and external events such as natural disasters or terrorist attacks. Furthermore, operational risks comprise the legal risks resulting from contractual agreements or a change to legal framework parameters. Personnel risks are also classified as operational risks. These essentially comprise the potential loss of personnel in key positions, who play a major role in comdirect's success.

Reputation risk is understood as the risk of the public or customers losing confidence in the bank as a result of negative events in the course of its operating activities. Such risks often arise as secondary effects resulting from operational risks such as those relating to IT, compliance or legal risks.

Business risk encompasses possible losses from negative deviations from plans which can result, for example, from changes in market parameters and competitive behaviour or from incorrect planning.

The *model risk* describes the risk of losses from the early sale of Treasury investments in response to unexpectedly high deposit outflows.

Risk measurement concepts
To measure the risk situation we use both the expected loss and the unexpected loss in various market scenarios.

The expected loss describes the loss that can be expected within a year based on empirical values, for example on past losses. We calculate this figure for credit risks and operational risks.

We determine the unexpected loss on a regular basis and aggregate it to form the overall risk position; this includes market risk, model risk, credit risk and operational risk as well as business risk. The overall risk position is measured uniformly using the economic capital required, i.e. the amount of capital that has to be maintained to cover unexpected losses from positions involving risk at a given probability within a year. This calculation also includes risk categories that do not require equity backing under banking regulations or do not require full capital backing, but which, from an economic viewpoint, represent potential material risk (market risks, model risks and business risks).

comdirect adopts a very conservative approach when calculating the economic capital required using the value-at-risk (VaR) approach. On the one hand, we generally use a confidence level of 99.91% with a holding period of one year when calculating the VaR. On the other, with regard to the aggregation of the individual types of risk to form the overall risk position, comdirect bank does not take into account any correlations that have a risk-mitigating effect.

The overall risk position is matched by the risk cover potential, which comprises the subscribed capital, open reserves (capital and retained earnings), the (forecast) after-tax profit and the revaluation reserve after tax. Other intangible assets such as licences to use software or internally generated software and deferred taxes are deducted from the risk cover potential as adjustment items. The risk-bearing capacity is guaranteed when utilisation of the risk cover potential by comdirect's overall risk position stands at less than 100%. Countermeasures are initiated as soon as the utilisation level reaches the defined early warning thresholds. Corresponding early warning thresholds are also defined for each type of risk.

The value-at-risk model indicates the potential loss under historically observed market conditions. In order to assess potential extreme market developments as well, we carry out additional stress tests.

Integrated stress tests that cover all the types of risk are an integral part of comdirect's risk management and ICAAP process. They are used to examine the resilience of comdirect's portfolio under extreme, but plausible, scenarios that have a low probability of occurrence. To carry out the integrated stress tests, comdirect uses macroeconomic scenario analyses in accordance with MaRisk. These are applied at comdirect group level. They include all risks that are deemed material in accordance with the risk inventory carried out on a regular basis. As well as determining the economic capital required, the results of the integrated stress tests are taken into account and limited as part of the risk-bearing capacity analysis.

In addition to the macroeconomic stress tests, we carry out specific stress tests for each type of risk as part of operational management. These take into consideration both historical and hypothetical extreme events. The third type of stress test carried out is the inverse stress test in accordance with MaRisk. Based on the sensitivity and scenario analyses, extreme events are identified for each type of risk that would jeopardise the existence of comdirect if they occurred. The aim of these analyses is to critically assess the results and any associated potential implications for the business model and risk management of comdirect.

Overall risk position in financial year 2012

At the end of 2012, comdirect's overall risk position stood at €159.4m (end 2011: €235.2m) with a confidence level of 99.91% and a holding period of one year. The substantial decrease in the amount of economically required capital is due in particular to lower market, model and operational risks.

Breakdown of economic capital required 2012 (in € million)

	As of 31.12.2012
Market risk	53.0
Credit risk	66.5
Operational risk	19.9
Business risk	18.3
Model risk	1.8
Economic capital required	**159.4**

The limit utilisation level largely declined and was non-critical with respect to the aggregate risk and all individual risks throughout the whole of the year. At the end of 2012, the utilisation level of the overall limit was 36.6% (end 2011: 54.2%). Even under stress conditions, the economic risk-bearing capacity remained consistent throughout the year; with an overall risk of €178m under stress, the utilisation level of the economic capital was 41%.

The economic capital required for market risks amounted to €53.0m at the end of 2012 (end 2011: €83.8m) and was thus significantly lower than the previous year's figure. The continual decrease in market risks is due to the largely calmer market situation as well as the consistent reduction of the volume of bank bonds from stricken countries in the eurozone (so-called "PIIGS" nations). This PIIGS strategy significantly limited the credit spread risk.

The overall risk of the comdirect group included credit risks with a total CVaR of €66.5m (end 2011: €61.1m); the sovereign debt crisis had an impact here in the form of rating migrations. As with market risk, the negative effect was limited by the consistent reduction in exposure to European bank bonds (see page 48).

The substantial fall in the economic capital required for model risk is attributable to continual growth in deposits and the high level of stability in our customer deposits. The decrease in operational risk stems from comdirect's low OpRisk losses in the past, which are taken into account by the new ErC allocation based on loss data in Commerzbank's AMA model.

As of the balance sheet date, the risk weighted assets calculated in accordance with the requirements of the Solvency Regulation (SolvV) totalled €635.5m.

In preparation for the future requirements of Basel III, since financial year 2010 banks have had to calculate the leverage ratio and report it to the regulator. This is the ratio of Tier 1 capital (Tier 1 capital of €385.9m; see note (53) starting on p. 124) to total assets (non-risk weighted). Pursuant to the regulations scheduled to apply from the start of 2018, the leverage ratio must amount to at least 3%.

To summarise, comdirect has enough of a risk buffer to certainly withstand even lengthy weak market phases. From today's perspective, there are no realistic risks in evidence that could threaten the continued existence of comdirect.

Market risk

Risk quantification, management and reporting

All comdirect trading transactions have to comply with the requirements of the market risk strategy. We monitor market risks – especially interest rate risks and credit spread risks in the banking book – on a daily basis. A VaR model based on a holding period of one day and a confidence level of 97.5% is used for operational management. The assumptions in the model are regularly validated to verify the informative value of the VaR forecast.

To monitor extreme market movements and the extent of losses in the portfolio under worst case conditions, the VaR calculations are supplemented by operational stress tests, whereby possible scenarios such as reversals and shifts in various market price curves are simulated. In addition to interest rate, credit spread and currency scenarios, we also carry out daily stress test calculations for equity price risks in the special funds held by comdirect bank.

The method is described in detail in note (56) starting on page 126.

Current risk situation

As of 31 December 2012, the VaR for market risk was €2.7m (end 2011: €4.3m) and fluctuated over the course of the year between €2.3m and €4.4m. At €111.0m (median), the overall stress value was considerably higher than in the previous year (€83.4m). The rise is due to the calculation method for the credit spread stress test from a standalone perspective which was refined during the reporting year. Through this we take account of the existing risk concentration of our Treasury portfolio in Commerzbank Group positions. The limits for all types of market risk were complied with consistently.

Market risks (in € thousand)

	As of end of previous year	As of end of year	Year high	Year low	Median 2012	Median 2011
Total VaR 97.5% 1 day holding period*	4,348	2,689	4,443	2,257	3,518	5,263
Stress test – overall result	62,539	108,284	119,627	102,278	110,966	83,363

* Model see note (56) from page 126.

As in the previous year, most of the market risk was attributable to credit spread risks. These continually declined over the course of the year, partly because the portfolio of bank bonds from stricken eurozone countries also reduced again as a result of selective sales and scheduled expiries. With regard to general market risks, the interest rate risk was the most important. Given the low level of exposure, equity price risk and currency risk continued to play a minor role.

Credit risk

Risk quantification, management and reporting

Credit risks at comdirect primarily exist in the form of counterparty and issuer risks as a result of trading transactions. In addition, retail lending involves credit risks.

Treasury acts as the front office for counterparty and issuer risks and Customer Services fulfils this function for retail lending. In accordance with MaRisk, other tasks are to be carried out by departments other than the front office departments. The back office tasks for retail lending and the function of risk controlling are carried out by the Risk Management department. The Finance department is responsible for the settlement of trading transactions.

Trading transactions in Treasury are conducted within the limits approved by the Board of Managing Directors of comdirect bank AG as well the Group-wide requirements of Commerzbank. These limits are defined for both the respective counterparties and issuers as well as the underlying transactions. In the capital market, in principle, comdirect only takes direct positions in the investment grade segment, that is with an external rating of BBB– (Standard & Poor's) or Baa3 (Moody's) or better. When assessing the credit rating, comdirect uses both the internal ratings of Commerzbank AG – in accordance with the AIRB approach – as well as those of the external rating agencies.

In retail lending, a distinction is made between the customer credit products loans against securities, the overdraft facility on the comdirect current account and the Visa credit card launched in September 2012. Loans against securities are secured by pledged securities. Potential losses may arise if the price of the pledged securities falls as a result of the general market development or specific market risks of individual securities and it is no longer sufficient to secure the claims on customers. The decision to provide the loan is made with the aid of internal scoring models.

comdirect maintains an early warning system for the credit risks associated with the customer credit business. The necessary adjustments or cancellations of credit lines are carried out immediately.

Credit risks are quantified on a monthly basis by calculating the credit value-at-risk (CVaR) for trading transactions (excluding intragroup receivables) and retail lending. The method is described in detail in note (56) starting on page 126.

Specific loan loss provisions are recognised separately for each product type for customers in the significant lending business, provided a Basel II default criterion applies to those customers.

Portfolio loan loss provisions are recognised for all other customers with claims and/or existing credit lines. The level is primarily influenced by

- the level of claims and open lines, taking conversion factors into consideration,
- the level of the expected probability of default,
- the consideration of existing collateral and the recovery rate.

Called-in claims, which we hand over to collection agencies for recovery, are written down in the amount of the loss incurred.

Current risk situation

At the end of 2012, the total CVaR for credit risks amounted to €66.5m (previous year: €61.1m). The average rating in the Treasury portfolio outside the Commerzbank Group stood at Aa1 compared with Aa3 in the previous year (Moody's). In terms of external ratings, around 95% of the portfolio remained within the investment grade range.

At the end of 2012, 14% (previous year 10%) of the banking book portfolio was invested short term in the money market. The share of capital market investments decreased accordingly, with the investment focus on promissory notes as in the previous year. Of the capital market investments, €0.49bn (previous year: €0.42bn) was attributable to five special funds, which were invested almost exclusively in fixed-income securities (see note (70) on page 149).

As in the previous year, more than 90% of the portfolio was ascribed to German counterparties, with the rest primarily accounted for by other European countries with a focus on Northern Europe.

As of 31 December 2012, less than 0.1% (end 2011: 0.6%) of the balance sheet total was attributable to Treasury positions in the so-called "PIIGS" nations. Here we are continuing to pursue our strategic aim of reducing the positions subject to intensive monitoring, if necessary through disposals prior to final maturity when market opportunities arise.

In comdirect's retail lending, the average total utilisation of loans against securities declined significantly compared with the previous year. At €2.53bn, the credit facility for loans against securities remained virtually unchanged on the level at the end of 2011 (€2.59bn). However, potential utilisation of the credit facility is restricted through the specific collateral value of the respective securities portfolio. As a result of the recovery in the equity markets, this increased over the course of the year from €766m to €791m. Equities accounted for nearly three quarters of the collateral portfolio. Despite the slight price correction in the second quarter, the number and volume of overdrafts on average in the financial year was lower than the respective figure for 2011. For this reason, considerably fewer default action processes were started. On average during the reporting year, taking account of collateral values, the utilisation rate of the credit facility provided for loans against securities stood at 17.1% (previous year: 19.5%); as of year-end 2012, the volume of loans against securities amounted to €124m (previous year: €150m).

The increased number of current accounts with a credit facility associated with the growth in current accounts led once again to greater utilisation of credit lines than in the previous year. The volume rose over the course of the year from €31.2m to €32.9 as of 31 December 2012; this equated to 5.3% of the overdraft facilities of €619m made available (end 2011: €565m). Over the course of the year, the share of overdrafts declined relative to the number of current accounts with an overdraft facility.

As of 31 December 2012, the credit volume utilised in the Visa card portfolio totalled €10.1m, corresponding to 1.6% of the total limit granted of €626m.

At the end of 2012, the total receivables in retail lending amounted to €173.2m and were therefore somewhat lower than in the previous year (€188.7m). Portfolio loan loss provisions and provisions for possible loan losses amounted to €6.7m as of the reporting date. Appropriations stood at €5.6m (including one-off effect from introduction of Visa credit card), while reversals amounted to €1.9m and utilisation was €0.3m.

Liquidity risk

Risk quantification, management and reporting

At comdirect, Treasury is responsible for managing liquidity. In order to cover a possible removal of liquidity by customers, the bank maintains a sufficient volume of funds due at call as well as highly liquid securities, which can be used as collateral to obtain liquidity.

To limit the liquidity risk we are also guided by the requirements of the Liquidity Regulation as well as internal management indicators. In addition to the required regulatory indicators, the liquidity risk is also managed using a limit system based on the available net liquidity concept. The future funding requirement is calculated using the cumulative liquidity available in the future, supplemented by the expected liquidity impact of business policy decisions and assumptions about customer behaviour. The available net liquidity is determined and monitored fordefined stress scenarios. Moreover, the future liquidity indicators in accordance with Basel III – the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) – are already calculated and tracked as monitoring ratios.

Current risk situation

comdirect's liquidity situation was again comfortable in the reporting year and characterised by a high level of surplus liquidity even in the stress scenario. The accumulated available net liquidity consistently exceeded the defined minimum values. In the stress scenario, the net liquidity amounted to €926m as of 31 December 2012 (end 2011: €1,469m) and €869m on average for the year (previous year: €1,265m). In this scenario we simulate an abrupt and massive outflow of customer deposits as well as a sharp rise in the utilisation of open credit lines. Haircuts on highly liquid assets are also simulated. In the maturity band of one week up to one month, the accumulated value under stress conditions was considerably positive. We have thus clearly fulfilled the requirements placed on capital market-oriented institutions by MaRisk. They have to maintain adequate financial resources and highly liquid assets eligible for central bank borrowing in order to be able to bridge a short-term funding requirement for at least a week in the event of stress situation. Other components of the liquidity reserve may be used for the time horizon of at least one month, as long as these can be made liquid without significant losses in value and in compliance with regulatory requirements.

The regulatory liquidity indicator stood on average at 3.88 and was considerably higher than the minimum value of 1 required by the regulatory authorities. The liquidity indicator is calculated by comparing short-term cash and cash equivalents and payment obligations with a maturity of up to one month. The LCR and NSFR indicators calculated as monitoring ratios in accordance with Basel III were both at comfortable levels during the reporting year and higher than the minimum limits for compliance in the future.

Operational risk

Risk quantification, management and reporting

Operational risks vary in line with the underlying business activities and are generally function-dependent. They are therefore managed on a decentralised basis. The regular self-assessments are one instrument used to measure operational risk. All operational risks are continually monitored and loss incidents have to be reported immediately. The operational risks are valued and aggregated centrally by the Risk Management department to form the VaR indicator for operational risks.

Apart from the physical infrastructure (especially hardware), the system architecture (for example multi-tier server structure and software) is of special importance for comdirect. In general, both have built-in redundancy or have a modular structure in order to guarantee a constantly high level of availability for all the required systems and components. As part of business contingency planning for IT, external providers and their business contingency plans are also taken into consideration. In this connection, comdirect has formulated requirements with regard to availability and used them to check the business contingency measures of key service providers.

Organisational and technical measures serve to prevent or limit loss for all areas of operational risk. Organisational instructions, staff training, IT project and quality management as well as business continuity management should all be mentioned in this context. These risk mitigation measures are documented in comdirect's risk manual.

Personnel risks are countered by implementing suitable measures to strengthen personnel commitment and provide professional development programmes (see personnel report on pages 28 to 29).

The Legal Services & Data Protection department at comdirect is responsible for preparing the company in advance for any legal changes. The department carefully follows relevant developments and if necessary, identifies any impact they may have and promptly informs the divisions concerned. comdirect's sources of information include the bank's membership in the Association of German Banks (Bundesverband deutscher Banken e.V.), its general circulars and membership in the working group for direct banks, evaluation of trade magazines as well as its cooperation with the Group Legal department of Commerzbank AG.

Potential liability risks in financial advisory services are minimised through the documentation of advisory meetings and contractual regulations. We also use insurance on a targeted basis as an additional measure for minimising damages. Furthermore, the insurability of risks is regularly reviewed and rated economically.

Current risk situation

The VaR for operational risks (OpVaR) stood at €19.9m at the end of 2012, compared with €38.5m as of 31 December 2011. The number of misuse cases reduced compared with financial year 2011; there were no major incidents. To further enhance our security standards, a SMS alert system for Visa card transactions was established in the financial year and the introduction of the photoTAN procedure prepared for 2013. There were no material legal risks. The same applies for IT risks: the systems and technical process used by comdirect were once again very stable. As in the previous year, system availability averaged 99.9% for the year. Personnel risks in terms of ensuring the quality and quantity of personnel available increased against the backdrop of comdirect's continued growth course and the current labour market environment.

Reputation risk

Risk quantification, management and reporting

In most cases, reputation risks are perceived as consequential risks from other types of risk. All business divisions are therefore tasked with identifying reputation risks and dealing with them in a sensitive and responsible manner. Consequently, the risks determined as part of the risk inventory are also checked for potential reputation risk drivers and any impacts assessed on a qualitative basis as a preventative measure.

Furthermore, a cross-division reputation working group was established which includes representatives from Corporate Communications, Customer Services and Legal Services & Data Protection and examines and assesses potential reputation risks and discusses measures. The reputation working group reports regularly to the Board of Managing Directors.

Current risk situation

At present, there are no reputation risks of material significance for comdirect.

Business risk

Risk quantification, management and reporting

To manage business risks, we primarily assess aspects of corporate planning, the intensity of competition, product development and – as material external influences on comdirect's core business – the number of trades as well as interest rate environment. The net operating profit (NOP) is used to assess the planning variances in past business periods. The VaR of the business risk is determined using a model which illustrates the variances between the planned result and generated NOP.

Strategic decisions regarding the further development of the business model are made on the basis of extensive analysis by the Board of Managing Directors with approval of the Supervisory Board.

Current risk situation

The VaR of €18.3m at the end of 2012 (previous year: €24.6m) reflects the ongoing comparatively high planning uncertainty in the current interest rate and capital market environment.

Model risk

Risk quantification, management and reporting

Model risks stem from managing customer deposits due on demand. When these are invested in comdirect Treasury, certain assumptions are made regarding future customer behaviour in the form of deposit models. Loss risks can result from the fact that Treasury assets have to be sold prematurely due to higher than expected deposit outflows. This could mean that market value losses have to be realised as a result of interest rate rises in the intervening period and/or credit spread widening (close-out risks).

The deposit models for customer deposits are managed by a cross-divisional interdisciplinary team with clear roles and responsibilities as part of integrated earnings and risk controlling. In addition to close monitoring of and comprehensive reporting on material key indicators for the development of deposits, customer behaviour and the competitive environment, the model assumptions are regularly reviewed and potential model adjustments are developed using defined triggers.

When calculating the close-out risk, for reasons of consistency we use the same risk models (VaR and stress) to simulate potential future losses as we do to determine the market risk.

Current risk situation

The current market environment is characterised by fierce competition for customer deposits as an alternative source of funding. Nonetheless, comdirect's deposit volume was very stable in the reporting year and moderately expanded as a result of the increase in the number of current and call money accounts in particular. The model risk remained within the prescribed limits at all times during the reporting period. The VaR for model risks amounted to €1.8m at the end of 2012.

> Supplementary report

No major events or developments of special significance have occurred since the 2012 reporting date.