

COMMERZBANK

The bank at your side



Interim Report as at 30 June

2019

Key figures

Income statement	1.1.-30.6.2019	1.1.-30.6.2018 ¹
Operating profit (€m)	542	659
Operating profit per share (€)	0.43	0.53
Pre-tax profit or loss (€m)	542	659
Consolidated profit or loss ² (€m)	391	533
Earnings per share (€)	0.31	0.43
Operating return on equity based on CET1 ^{3,4} (%)	4.6	5.8
Return on equity of consolidated profit or loss ^{4,9} (%)	3.1	4.3
Cost/income ratio in operating business (excl. compulsory contributions) (%)	73.5	74.5
Cost/income ratio in operating business (incl. compulsory contributions) (%)	81.4	81.4
Balance sheet	30.6.2019	31.12.2018
Total assets (€bn)	518.0	462.4
Risk-weighted assets (€bn)	186.8	180.5
Equity as shown in balance sheet (€bn)	29.4	29.4
Total capital as shown in balance sheet (€bn)	37.6	38.5
Regulatory key figures	30.6.2019	31.12.2018
Tier 1 capital ratio (%)	13.3	13.4
Common Equity Tier 1 ratio ⁵ (%)	12.9	12.9
Common Equity Tier 1 ratio ⁵ (fully loaded, %)	12.9	12.9
Total capital ratio (%)	16.0	16.3
Leverage ratio (%)	4.6	5.0
Leverage ratio (fully loaded, %)	4.5	4.8
Staff	30.6.2019	31.3.2019
Germany	34,903	35,335
Abroad	13,741	13,556
Total	48,644	48,891
Ratings ⁶	30.6.2019	31.3.2019
Moody's Investors Service, New York ⁷	A1/A1/P-1	A1/A1/P-1
S&P Global, New York ⁸	A/A-/A-2	A/A-/A-2
Fitch Ratings, New York/London ⁷	A-/BBB+/F2	A-/BBB+/F2
Scope Ratings, Berlin ⁷	-/A/S-1	-/A/S-1

¹ Prior-year figures restated.

² Insofar as attributable to Commerzbank shareholders.

³ Average Common Equity Tier 1 capital (CET 1) fully loaded.

⁴ Annualised.

⁵ The Common Equity Tier 1 ratio is the ratio of Common Equity Tier 1 capital (CET1) mainly subscribed capital, reserves and deduction items) to risk-weighted assets. The fully loaded basis anticipates full application of the new regulations.

⁶ Further information can be found online at www.commerzbank.com.

⁷ Counterparty rating and deposit rating/issuer credit rating/short-term liabilities.

⁸ Counterparty rating/deposit rating and issuer credit rating/short-term liabilities.

⁹ Ratio of net income attributable to Commerzbank shareholders and average IFRS equity before minority after deduction of goodwill and other intangible assets.

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Performance highlights

1 January to 30 June 2019

Key statements

- Commerzbank continued its growth in terms of both customers and assets in the first half of 2019. The additional business in its core segments enabled the Bank to increase its net interest income in an extremely challenging environment and generate higher adjusted revenues in customer business. In addition to the continued growth in customers and assets, the Bank also achieved further strategic milestones. The Asset & Capital Recovery segment was dissolved on 1 July 2019 thanks to the successful reduction of non-strategic portfolios in recent years. The Bank also took an important step forward with the restructuring of its head office. Since 1 July 2019, IT and the product areas have been working closely together under the name “Campus 2.0”.
- The operating profit for the first six months of 2019 was €542m, compared with €659m in the prior-year period. Consolidated profit attributable to Commerzbank shareholders was €391m, compared with €533m in the first half of the previous year.
- The Group risk result was €–256m, with the quality of the credit portfolio continuing to make a positive impact; the non-performing loans (NPL) ratio was 0.8%. Operating expenses were reduced by 3.8% despite ongoing investment in digitalisation and growth. Compulsory contributions, which include the European banking levy, contributions to the Deposit Protection Fund and the Polish bank tax, have been reported separately since the first quarter of 2019 and rose by 11.5% to €337m.
- The Common Equity Tier 1 ratio was 12.9%; the leverage ratio was 4.5% (fully loaded).
- The operating return on equity was 4.6%, compared with 5.8% in the prior-year period. The return on equity based on consolidated profit or loss (less intangible assets; return on tangible equity) was 3.1%, compared with 4.3% in the previous year. The cost/income ratio was 73.5% with compulsory contributions excluded and 81.4% including compulsory contributions.

Performance of the Commerzbank share

Events on international stock markets in the first six months of 2019 were marked by a number of economic and geopolitical events, including growing tensions in the trade conflict between the USA and China, economic sanctions against Iran and the announcement of gradually increasing US trade tariffs on Mexico. Against the backdrop of a weaker global economic environment and increasing risks in foreign trade, leading central banks tempered their interest rate and inflation expectations. The US Federal Reserve has reduced key interest rates. The European Central Bank (ECB) also hinted at additional measures designed to indirectly support the economic development of the eurozone. These measures are expected as early as the second half of 2019. Despite all the geopolitical challenges and uncertainties, including the ongoing failure to resolve Brexit and the UK's future role in Europe, the stock markets performed very well overall in the first six months of 2019. Falling interest rate expectations in the eurozone and the possibility of further monetary policy measures on the part of the ECB had a comparatively negative impact, however, at least on the European banking sector.

While the EuroStoxx 50 gained 14.6% in the first six months of the year (DAX: +17.4%), the EuroStoxx bank index rose by just 1.3%. The Commerzbank share performed much better, gaining 9.3%. This above-average performance was attributable both to talks with Deutsche Bank about a possible merger and to general takeover speculation.

Highlights of the Commerzbank share	1.1.–30.6.2019	1.1.–30.6.2018
Shares issued in million units (30.6.)	1,252.4	1,252.4
Xetra intraday prices in €		
High	8.26	13.82
Low	5.59	7.92
Closing price (30.6.)	6.32	8.21
Daily trading volume ¹ in million units		
High	19.7	29.1
Low	3.1	4.0
Average	7.8	10.4
Index weighting in % (30.6.)		
MDAX	2.6	.
EURO STOXX Banks	0.7	1.3
Earnings per share in €	0.31	0.43
Book value per share ² in € (30.6.)	22.50	22.35
Net asset value per share ³ in € (30.6.)	21.30	21.17
Market value/Net asset value (30.6.)	0.30	0.39

¹ Total for German stock exchanges.

² Excluding non-controlling interests.

³ Excluding non-controlling interests and the cash flow hedge reserve and less goodwill.

Important business policy events in the second quarter

Commerzbank successfully issues additional Tier 1 bond

Commerzbank Aktiengesellschaft successfully issued its first additional Tier 1 bond at the beginning of July. The bond has a volume of USD1bn and a fixed coupon of 7.0% per annum. The order book was several times oversubscribed, reflecting the extensive interest among investors. The bond is listed on the Luxembourg Stock Exchange. The issue will enable the Bank to optimise its capital structure, partially in response to the amended regulatory requirements imposed by the European Banking Authority. The subordinated bond meets the criteria set out in the Capital Requirements Regulation (CRR) for additional Tier 1 capital (AT1). The instrument has a perpetual maturity and a first call date in April 2025. The bond terms provide for a temporary write-down in the event that the Bank's Common Equity Tier 1 ratio (CET1 ratio) drops below 5.125%.

Commerzbank appoints Roland Boekhout as new member of the Board of Managing Directors responsible for the Corporate Clients segment

At its meeting on 11 July, Commerzbank's Supervisory Board appointed Roland Boekhout to the Board of Managing Directors. He will assume responsibility for Commerzbank's Corporate Clients segment on 1 January 2020 after the customary cooling-off period stipulated in his contract. Roland Boekhout, who is currently a member of the Management Board Banking of ING Group, will succeed Michael Reuther. As agreed and announced last December, Michael Reuther is to leave the Bank to start a new chapter in his professional career. He has agreed to continue as head of Corporate Clients until the end of the year to ensure an orderly transition to Roland Boekhout. The appointment of Roland Boekhout to the Board of Managing Directors is still subject to the usual approval from the supervisory authority.

Interim Management Report

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Economic conditions

Overall economic situation

After making a surprisingly good start to 2019, the global economy lost momentum again in the spring. In China, the numerous measures implemented by the Chinese government to support the economy have not yet had the desired effect. Economic growth continued to weaken. This is also due to the trade conflict with the USA, which is putting increasing pressure on Chinese exporters.

The US economy also expanded more slowly in the first half of 2019 than in the second half of 2018, although it still outstripped potential growth. Nevertheless, the US Federal Reserve recently began to prepare the markets for a rate cut to nip any danger of recession in the bud. The renewed inflation weakness is also likely to play a role.

Economic growth in the eurozone was again below average in the first half of the year. While the recession in industry continued, the service sector fared better thanks to the ECB's expansive monetary policy. Against this backdrop, the ECB also hinted recently at a further loosening of monetary policy. The German economy continued to battle headwinds in the first half of 2019.

Speculation about looser monetary policy led to a further drop in government bond yields in the first half of the year. By the beginning of July, the yield on ten-year German government bonds had reached a new all-time low of -0.4%. Despite the turnaround in monetary policy in the USA, the euro did not appreciate against the US currency. Share prices recently recovered somewhat from the price correction at the beginning of the year.

Financial performance, assets, liabilities and financial position

In the first quarter of 2019, we changed the presentation of compulsory contributions, which comprise contributions to deposit insurance, bank levies and the Polish bank tax. These compulsory contributions are only partially controllable and in future will therefore be presented apart from operating expenses as a separate item in the income statement. We amended the comparative figures for 2018 in the income statement and the related notes. For information on this and other adjustments, see Note 3 to the interim financial statements.

Income statement of the Commerzbank Group

Commerzbank posted an operating profit of €542m in the first six months of 2019, compared with €659m in the prior-year period.

The individual items in the income statement performed as follows in the reporting period:

At €2,505m, net interest income in the period under review was 9.5% above the prior-year level. The Private and Small-Business Customers segment managed to increase its net interest income considerably year on year. Net interest income in Germany benefited from continued growth in lending business, primarily in residential mortgage loans, and from the successful measures taken to increase interest income from deposit business. This offset further declines in credit margins. The upward trend in net interest income also continued at mBank, driven by further growth in consumer lending business and higher income from deposit business. In the Corporate Clients segment, the negative impact of the interest rate environment and intense price competition was more than offset by higher interest income, especially from lending business. In the period under review, the Asset & Capital Recovery segment posted a decline in net interest income in connection with the continued portfolio wind-down.

Net commission income fell by 3.7% year on year to €1,507m. In the Private and Small-Business Customers segment, net commission income declined markedly from the previous year. In Germany, the growth in income from payment services was unable to offset declining commission income from retirement provision and securities business. Net commission income also fell at mBank, due partly to the absence of income from the group insurance business divested in 2018. In the Corporate Clients segment, however, net commission income was stable compared with the prior-year period.

The net income from financial assets and liabilities measured at fair value through profit or loss was €113m in the reporting period, after €403m in the prior-year period. The decline is attributable in particular to remeasurement effects in the Others and Consolidation segment and positive income from restructuring measures in the Corporate Clients segment in the prior-year period.

Other net income from financial instruments was €11m, up €26m on the prior-year period. The increase was primarily due to positive remeasurement effects.

Other net income was €36m in the reporting period, compared with €105m a year earlier. The result for the prior-year period includes income from the sale of the group insurance business of the mBank subsidiary mFinance in the Private and Small-Business Customers segment, and from an investment in the Corporate Clients segment. Interest for tax refund claims also had a positive effect on net income in the previous year.

The risk result was €-256m in the reporting period, compared with €-160m a year earlier. In the Private and Small-Business Customers segment, the risk result was slightly below the prior-year level. In Germany, risk costs fell significantly in line with the lower impairments on the consumer financing portfolio. The lion's share of the risk result was attributable to mBank, which increased its provisioning, particularly in retail customer business, despite the continued good quality of its credit portfolio. The risk result of the Corporate Clients segment increased year on year, mainly due to impairments of individual loan commitments.

Despite ongoing investment in digitalisation and growth, operating expenses were 3.8% lower year on year in the reporting period at €3,150m. While personnel expenses were 3.1% above the prior-year level at €1,754m, administrative expenses, including depreciation on fixed assets and amortisation of other intangible assets, were reduced by 11.2% to €1,395m. The decrease was primarily due to lower IT expenses and consulting costs and more than offset the increase in scheduled depreciation and amortisation.

Compulsory contributions, which include the European banking levy, contributions to the Deposit Protection Fund and the Polish bank tax, have been reported separately since the first quarter of 2019 and rose by 11.5% to €337m.

Pre-tax profit from ongoing operations was €542m, compared with €659m in the prior-year period.

Tax expense on continuing operations for the period under review was €123m, compared with €92m in the previous year.

Profit from continuing operations after tax was €419m, compared with €568m in the prior-year period.

Discontinued operations posted a result after tax of €12m. This includes the income and expenses of the Equity Markets & Commodities (EMC) division sold to Société Générale.

Net of non-controlling interests, a consolidated profit of €391m was attributable to Commerzbank shareholders for the 2019 reporting period, compared with €533m in the previous year.

Operating profit per share came to €0.43 and earnings per share to €0.31. The comparable figures in the prior-year period were €0.53 and €0.43 respectively.

Balance sheet of the Commerzbank Group

Total assets of the Commerzbank Group as at 30 June 2019 were €518.0bn. This represented an increase of 12.0% or €55.7bn compared with the end of 2018.

The cash reserve and demand deposits increased by €11.0bn to €64.9bn. The increase compared with the end of 2018 was due in particular to a rise in demand deposits held with central banks.

Financial assets at amortised cost increased by €20.1bn to €299.2bn compared with the end of 2018. The increase compared with the end of 2018 was largely attributable to a rise in lending business in the Private and Small-Business Customers and Corporate Clients segments and growth in loans and advances to banks.

Financial assets in the fair value OCI category were €29.1bn, up €2.4bn from the end of 2018. This 9.1% rise was largely driven by an increase in securitised debt instruments.

At €47.3bn, financial assets mandatorily measured at fair value through profit or loss were €13.2bn higher than at the end of the previous year. The marked increase was primarily due to a seasonal rise in secured money market transactions in the form of reverse repos and cash collateral.

Financial assets held for trading were €47.7bn at the reporting date, up €5.2bn on the figure at the end of 2018. While positive fair values of interest rate derivatives rose by €3.8bn, positive fair values of currency and equity derivatives fell by €0.8bn overall. Securitised debt instruments increased by €2.0bn.

Non-current assets held for sale and disposal groups, which relate to the sale of the EMC business to Société Générale and the sale of ebase GmbH agreed between comdirect bank AG and the FNZ Group, were €14.2bn, compared with €13.4bn at the end of 2018.

On the liabilities side, financial liabilities at amortised cost were up €33.8bn to €380.4bn compared with the end of 2018. Debt securities issued and sight deposits, in particular from private customers and banks, all increased sharply compared with the end of 2018.

Financial liabilities under the fair value option increased by €16.5bn compared with the end of 2018 to €38.4bn. While there was a slight decline in debt securities issued, deposits and other financial liabilities increased significantly by €16.5bn. The increase was largely due to the rise in secured money market transactions with financial services providers and banks.

Financial liabilities held for trading were €45.1bn, up €1.7bn on the end of 2018. The increase was mainly due to negative fair values of interest rate derivatives, which rose by €3.9bn. By contrast, negative fair values of currency derivatives fell by €1.2bn.

Liabilities from disposal groups amounted to €13.4bn. This includes liabilities related to the sale of the EMC business to Société Générale and the sale of ebase GmbH agreed between comdirect bank AG and the FNZ Group.

Equity

The equity capital (before non-controlling interests) reported in the balance sheet on 30 June 2019 was €28.2bn and therefore in line with the level on 31 December 2018. Further information on the change in equity can be found on pages 43 f. of the Group financial statements.

Risk-weighted assets were €186.8bn as at 30 June 2019, €6.3bn higher than at year-end 2018. The increase resulted in particular from higher risk-weighted assets from credit risks in connection with the credit growth in the core segments, and from effects arising from the adoption of IFRS 16 at the turn of the year.

This growth was only slightly tempered by reductions in risk-weighted assets due to a securitisation transaction in the first quarter of 2019 and the targeted winding-down of portfolios that are not part of the core business. Risk-weighted assets from operational risks also increased due to changes in the external loss database. As at the reporting date, Common Equity Tier 1 was €24.0bn (with transitional provisions). The increase of €0.8bn compared with the end of 2018 was mainly due to the regulatory eligible profit and lower regulatory deductions. The Common Equity Tier 1 ratio was 12.9%. The positive effect on this ratio resulting from the increase in Common Equity Tier 1 capital was offset by the increase in risk-weighted assets. Tier 1 capital was €24.8bn and the corresponding Tier 1 capital ratio 13.3%. The total capital ratio was 16.0% as at the reporting date. The leverage ratio based on the CRD IV/CRR rules applicable on that date, which is equal to Tier 1 capital divided by leverage exposure, was 4.6% (with transitional provisions) or 4.5% (fully loaded).

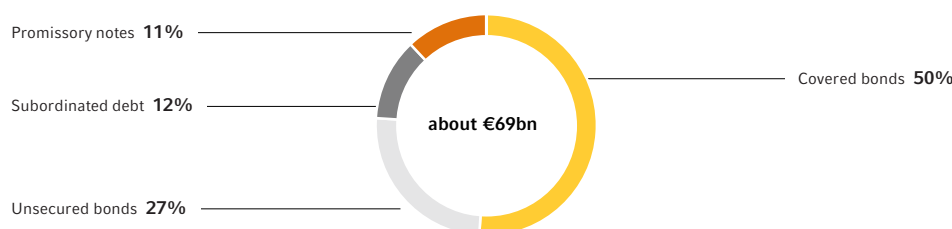
The Bank complies with all regulatory requirements. This information includes the consolidated profit attributable to Commerzbank shareholders for regulatory purposes.

Funding and liquidity

Commerzbank had unrestricted access to the money and capital markets throughout the reporting period, and its liquidity and solvency were also adequate at all times. It was always able to raise the resources required for a balanced funding mix and continued to enjoy a comfortable liquidity position in the period under review.

Capital market funding structure¹

As at 30 June 2019



¹ Based on reported figures.

The Commerzbank Group raised a total of €5.9bn in long-term funding on the capital market in the first half of 2019. The average term of all issues made during the reporting period was over eight years.

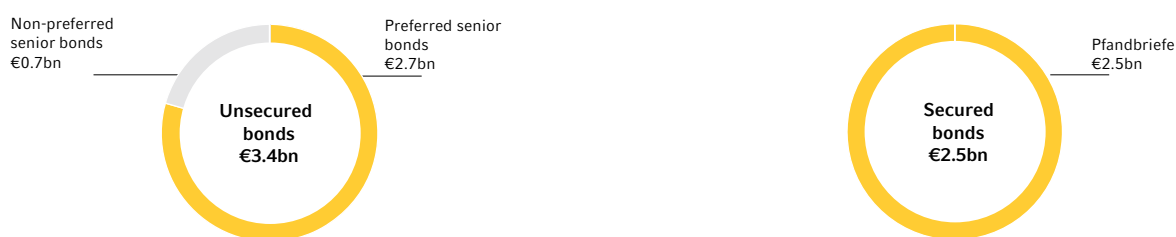
In the unsecured area, Commerzbank Aktiengesellschaft issued two preferred senior benchmark bonds with a total volume of €2.25bn and terms of five years and seven years respectively in the first half of the year. A seven-year non-preferred senior bond with a volume of €500m was placed in June. €0.5bn in private

placements were also issued. mBank issued a preferred senior bond with a volume of CHF125m in the period under review.

In the secured area, mortgage Pfandbriefe with a total volume of €2.5bn were issued. Two benchmark issues of €1bn each with maturities of 5 and 15 years respectively were issued in January. Private placements accounted for €0.5bn. Commerzbank was able to place its issues with a broad range of domestic and foreign investors.

Group capital market funding in the first six months of 2019

Volume €5.9bn



At the end of the first half of 2019, the Bank had a liquidity reserve of €88.0bn in the form of highly liquid assets. The liquidity reserve portfolio functions as a buffer in stress situations. This liquidity reserve portfolio is funded in line with the liquidity risk appetite to ensure that it is kept at the required size throughout the entire reserve period stipulated by the Board of Managing Directors. A part of this liquidity reserve is held in a separate stress liquidity reserve portfolio managed by Treasury to cover liquidity outflows should a stress event occur and to ensure solvency at all times.

The Bank also holds an intraday liquidity reserve portfolio. At the end of the reporting period, the total value of this portfolio was €10.2bn. At 136.02% (average of the last twelve month-end values), Commerzbank was well above the minimum 100% level required for the liquidity coverage ratio (LCR). Further information on the LCR can be found in Note 43 to the Group financial statements. Commerzbank's liquidity situation therefore remains comfortable given its conservative and forward-looking funding strategy. The Bank is not currently drawing on central bank liquidity facilities.

Segment performance

The comments on the segments' results for the first six months of 2019 are based on the segment structure described on pages 63 and 268 ff. of the Annual Report 2018. More information and explanations regarding adjustments of prior-year figures can be found in Notes 3 and 40 to the interim financial statements.

The Asset & Capital Recovery segment was dissolved on 1 July 2019 following the successful winding down of assets over the last few years, with the remaining portfolios transferred to Others and Consolidation and to the Private and Small-Business Customers segment. The corresponding adjustments will be reported for the first time in the segment reporting as at 30 September 2019.

Private and Small-Business Customers

€m	1.1.–30.6.2019	1.1.–30.6.2018 ¹	Change in %/%-points
Income before risk result	2,424	2,436	-0.5
Risk result	-100	-115	-13.0
Operating expenses	1,743	1,800	-3.1
Compulsory contributions	188	145	29.7
Operating profit/loss	392	377	4.1
Average capital employed	5,175	4,654	11.2
Operating return on equity (%)	15.2	16.2	-1.0
Cost/income ratio in operating business (%) - excl. compulsory contributions	71.9	73.9	-1.9
Cost/income ratio in operating business (%) - incl. compulsory contributions	79.7	79.8	-0.1

¹ Figures adjusted due to restatements (see Notes 3 and 40 to the interim financial statements).

In the first six months of 2019, the Private and Small-Business Customers segment proved resilient to the ongoing challenges presented by the environment, posting an increase of €15m in operating profit to €392m. Growing business volumes both in Germany and at mBank, an improved risk result and lower operating expenses all contributed to the positive performance, allowing the segment to counter both the ongoing margin pressure in the domestic lending business and the weaker commission income in the domestic securities business. The extraordinary income received in the comparable prior-year period – mainly the gain of €52m on the disposal of mBank's group insurance business – was also largely offset.

Total segment income before risk result fell only slightly by €13m to €2,424m in the first half of 2019, despite the one-off profit at mBank in 2018. Net interest income in Germany benefited from continued growth in lending business, primarily in residential mortgage loans, and from the successful measures taken to increase interest income from deposit business.

This offset further declines in credit margins. The upward trend in net interest income continued at mBank, driven by further growth in consumer lending business and higher income from deposit business.

Net interest income rose sharply by €95m overall to €1,356m. Net commission income decreased by €50m year on year to €928m. In Germany, the growth in income from payment services was unable to offset declining commission income from retirement provision and securities business. Net commission income at mBank also fell. This reflects the loss of income from the divested group insurance business.

The risk result was €-100m, compared with €-115m in the prior-year period. In Germany, risk costs fell in line with the lower impairments on the consumer financing portfolio. The lion's share of the risk result was attributable to mBank, which increased its provisioning, particularly in retail customer business, despite the continued good quality of its credit portfolio.

Operating expenses were reduced by €56m to €1,743m, reflecting the increasing effectiveness of measures taken to improve cost efficiency. In Germany, administrative expenses fell to a greater extent than personnel expenses. At mBank, operating expenses were stable year on year.

Compulsory contributions were reported separately and rose sharply by €43m year on year to €188m, with mBank posting a

significant increase of €34m. The rise was attributable to a €23m increase in the European banking levy and a higher burden of €14m from the Polish bank tax.

Overall, the Private and Small-Business Customers segment posted a pre-tax profit of €392m in the first half of 2019, which represents an increase of 4.1% on the €377m achieved in the prior-year period.

Corporate Clients

€m	1.1.–30.6.2019	1.1.–30.6.2018 ¹	Change in %/%-points
Income before risk result	1,636	1,765	-7.3
Risk result	-155	-60	.
Operating expenses	1,238	1,282	-3.5
Compulsory contributions	101	108	-6.6
Operating profit/loss	142	315	-54.8
Average capital employed (from continuing operations)	11,798	10,450	12.9
Operating return on equity (%)	2.4	6.0	-3.6
Cost/income ratio in operating business (%) - excl. compulsory contributions	75.6	72.6	3.0
Cost/income ratio in operating business (%) - incl. compulsory contributions	81.8	78.8	3.0

¹ Figures adjusted due to restatements (see Notes 3 and 40 to the interim financial statements).

The first six months of 2019 presented challenges for the Corporate Clients segment, including the persistently low level of interest rates, intense price competition in the German market and a macroeconomic environment fraught with uncertainties. Despite a positive earnings performance in customer business, which was characterised by growth and successful cost management, remeasurement effects and increased loan loss provisions had a negative impact. The Corporate Clients segment posted an operating profit of €142m in the first six months of 2019, compared with €315m in the previous year. Higher interest income from lending business was offset in particular by lower net income from financial assets and liabilities measured at fair value through profit or loss.

The Mittelstand division benefited from the segment's strong market position, which is reflected in an increasing total lending volume as well as earnings growth in the areas of trade finance, payment transactions and capital market products. The International Corporates division recorded a positive performance, with earnings growth seen particularly in lending business. Demand for hedging transactions was also higher among our customers.

Business performance in the Financial Institutions division was also positive and therefore remained solid despite the international trade conflicts.

In the period under review, income before risk result was €129m lower than in the prior-year period at €1,636m. Net interest income rose by €65m to €920m. The increase was mainly due to a higher contribution from lending business. Net commission income was stable year on year at €594m. Net income from financial assets and liabilities at fair value through profit or loss showed an opposing trend and fell to €97m. This was €205m lower than the figure for the prior-year period, which included positive income from restructuring measures.

The risk result increased year on year, mainly due to impairments of individual loan commitments. In the reporting period, the risk result was €-155m, compared with €-60m in the previous year.

Operating expenses were €1,238m, down €45m on the prior-year figure. The decrease was primarily due to lower cost allocations and administrative expenses. Investments in strategic development were successfully offset. The reduction in operating expenses was achieved ahead of schedule thanks to strict cost discipline and made a significant contribution to earnings.

The reported compulsory contributions of €101m related to regulatory expenses – including the European banking levy, which was booked in full in the first quarter.

Overall, the segment posted a pre-tax profit of €142m, compared with €315m in the prior-year period, which represents a decline of around 55%.

Asset & Capital Recovery

€m	1.1.–30.6.2019	1.1.–30.6.2018 ¹	Change in %/%-points
Income before risk result	79	106	-26.1
Risk result	-24	14	.
Operating expenses	15	34	-55.0
Compulsory contributions	9	10	-11.5
Operating profit/loss	31	76	-59.5
Average capital employed	1,620	2,367	-31.6
Operating return on equity (%)	3.8	6.4	-2.6
Cost/income ratio in operating business (%) - excl. compulsory contributions	19.3	31.7	-12.4
Cost/income ratio in operating business (%) - incl. compulsory contributions	30.7	41.2	-10.5

¹ Figures adjusted due to restatements (see Notes 3 and 40 to the interim financial statements).

In the first half of the year, the Asset & Capital Recovery (ACR) segment largely achieved its objective of winding down assets and risks that do not form part of Commerzbank's core business. Since 2012, the total volume measured by exposure at default (EaD, including problem loans and fair value positions with default criterion) has fallen from around €150bn to €4.5bn. The ACR segment was dissolved as of 1 July 2019, with the profit contributions attributable to ACR up to 30 June frozen and all remaining segment assets and liabilities transferred from ACR to Others and Consolidation. The one exception is a financial investment of minor significance, which was transferred to the Private and Small-Business Customers segment. From the second half of 2019 onwards, future earnings contributions from the transferred assets and liabilities will be shown in these two segments.

As at the reporting date, in the sub-portfolios with the greatest credit risks, commercial real estate (EaD: €0.7bn) and ship finance (EaD: €0.2bn), only residual portfolios with a total volume of less than €1bn are reported. The transfer of a portfolio of receivables from local authorities in the United Kingdom to Others and Consolidation at the beginning of the year had already more than halved the public finance portfolios reported in the ACR segment. The substantial reduction in the portfolios over time had only a relatively minor impact on the Commerzbank Group's income statement, with the ACR segment posting an operating profit of €31m in the first half of 2019, after €76m in the prior-year period.

Income before risk result fell to €79m, down from €106m in the prior-year period. A significant proportion of the segment portfolios are measured at fair value, with their value fluctuations representing the lion's share of the earnings performance.

The risk result, which relates almost exclusively to loan loss provisions for commercial real estate loans, was €-24m, compared with €14m in the prior-year period.

In line with the portfolio wind-down operating expenses fell from €34m in the previous year to €15m. Compulsory contributions amounted to €9m.

Overall, the ACR segment posted a pre-tax profit of €31m in the first half of 2019. This represents a decline of €45m compared with the corresponding prior-year period.

Others and Consolidation

The Others and Consolidation segment contains the income and expenses which are not attributable to the business segments. Others covers, for example, Group Treasury, equity holdings not allocated to the business segments and overarching specific individual matters such as expenditure on regulatory fees. Consolidation reconciles the figures shown in segment reporting with the Group financial statements in accordance with IFRS. Others and Consolidation also covers staff, management and support functions, which are likewise charged to the segments. For these units, restructuring costs are an exception to transfer charging, as they are reported centrally in the division.

The Others and Consolidation segment reported an operating loss of €–23m for the first half of 2019, compared with €–108m in the prior-year period. The improvement was driven by higher income in Group Treasury, which is mainly attributable to better management of interest rate and currency risk due to positive market trends. Others and Consolidation also recorded a pre-tax loss of €–23m for the first half of 2019.

Outlook and opportunities report

Future economic situation

The rivalry between the USA and China is increasingly weighing on trade between the two countries. We have therefore revised our economic outlook significantly downwards. In China, the economic stimulus package is likely to boost growth less than previously expected. China's demand for foreign goods has been falling and is unlikely to pick up much in the coming quarters. This forecast points to stabilisation rather than an upturn in the Chinese economy. The escalating trade conflict will also leave its mark on the US economy, which it is still set to grow by 2.5% in 2019, faster than productive potential. Nevertheless, the US Federal Reserve lowered its key interest rate in July, for the first time in ten years.

We expect the eurozone economy to grow by just 0.9% in 2019. However, the economy is still unlikely to slip into recession. Domestic demand continues to be driven by the ECB's expansive monetary policy, which is set to be loosened even further. We expect the ECB to lower its deposit rate by a further 20 basis points to –0.6% in the third quarter of 2019. The UK's departure from the EU, now delayed until the end of October, is likely to have only a temporary impact on the economy in the eurozone. This applies even in the event that the EU and the UK fail to reach an exit agreement.

The export-heavy German economy is being hit particularly hard by the weak global demand and is likely to make only small gains over the rest of the year. We have lowered our growth forecast for 2019 as a whole to 0.4%.

Speculation about a loosening of monetary policy in key markets will shape the picture on the financial markets in the second half of the year. The significantly more substantial interest rate cuts in the USA will weigh on the dollar. The euro is likely to appreciate moderately against the US currency. We expect the yield on ten-year German government bonds to be –0.5% by the end of 2019. The stock markets are likely to trend sideways, though with fluctuations, for the rest of the year.

Future situation in the banking sector

Our views regarding the expected development of the banking sector structurally and over the medium term are basically unchanged from the statements published in the Annual Report 2018. However, the risks to short-term prospects for the banking environment in particular have risen further in recent months. Although the Bundesbank still sees no alarming signs of declining lending standards or excessive credit growth, an unexpectedly sharp deterioration in the economic situation – as outlined in the Financial Stability Report 2018 – could reveal the vulnerabilities of the German banking sector and exacerbate the economic downturn through contagion effects. According to the Bundesbank, an unexpectedly severe economic slump would lead to considerable price corrections, particularly for real estate, equities and bonds, due to high valuations on the asset markets. Assets and loan collateral would then be likely to depreciate significantly, leading to rising losses due to defaults.

Alongside the services sector, domestic demand, which benefits from favourable financing conditions and rising income for employees, has so far been the mainstay of economic activity in the eurozone. Industry, by contrast, is the problem child. The purchasing managers' index remains in recessionary territory, meaning that interest rate cuts by the ECB cannot be ruled out. A resumption of net bond purchases by the ECB is also conceivable.

Against this backdrop, the corporate and small-business customer business of banks in Germany is likely to come under increasing pressure. The German corporate sector in particular is becoming more and more pessimistic about the coming months. The downturn is continuing, particularly in the export-oriented manufacturing sector that is so very important for the German economy. This is due in particular to the escalation of the trade conflict between the USA and China and the increased risk of military conflict in the Middle East. Declining exports will hit banks' interest and commission business.

Local retail customer business, meanwhile, continues to benefit from robust private consumption and ongoing high demand for residential mortgages. The latter is being driven by the lack of affordable housing and in particular by the persistently low level of interest rates. The labour market situation is also still favourable at present, although there are increasing signs of a gradual slowdown. More and more large companies are announcing plans to cut jobs in the future. At the same time, the earnings potential of retail customer business remains limited due to the strong national competition among banks.

In Poland, the business outlook for the banking sector is currently more favourable from an economic perspective than in Germany. Aggregate output continues to climb significantly, supported by private consumption. Although real economic indicators are comparatively strong, there are still political risks, because the smouldering conflict with the EU over policy issues and the forthcoming parliamentary elections in the autumn of this year are creating uncertainty. The Polish banking sector has proved itself to be comparatively robust in assessments of financial stability. There are risks, however, from the growing volumes of unsecured consumer loans and mortgage loans in zloty. In July 2019, a law was passed in relation to mortgages denominated in foreign currencies (mainly Swiss francs) making it easier for Polish private borrowers to obtain assistance with the repayment of their real estate loans in foreign currencies. This new system replaces the existing support fund. The monthly support payments were also increased and extended. The law will enter into force on 1 January 2020. The previous plan to split the current support fund for non-performing borrowers into two separate funds – a support fund and a new conversion fund – was rejected. The new conversion fund, which was originally intended to encourage the conversion of foreign currency loans, was also rejected due to pending proceedings before the European Court of Justice (ECJ) concerning the legal validity of foreign currency index clauses. However, the ECJ has not yet issued a final decision on this matter.

Financial outlook for the Commerzbank Group

Planned funding measures

Commerzbank anticipates that its capital market funding requirement over the coming years will be of the order of €10bn. Commerzbank offers a broad range of products in the capital market. In addition to unsecured funding instruments (preferred and non-preferred senior bonds and Tier 2 subordinated debt), when refinancing Commerzbank can also issue secured funding instruments, in particular mortgage Pfandbriefe and public-sector Pfandbriefe. As such, Pfandbriefe are a key element of Commerzbank's funding mix. These give Commerzbank stable access to long-term funding with cost advantages compared with unsecured sources of funding. Issuance formats range from large-volume benchmark bonds to private placements. Commerzbank does not anticipate any negative effects on the placing of long-term funding instruments in connection with Brexit.

By regularly reviewing and adjusting the assumptions used for liquidity management and the long-term funding requirement, Commerzbank will continue to respond actively to changes in the market environment and business performance in order to secure a comfortable liquidity cushion and an appropriate funding structure.

Planned investments

The Bank's investment plans did not change significantly in the first half of the current year from the plans set out on pages 99 to 101 of the Annual Report 2018. Commerzbank's current and planned investment activity relates to measures under the "Commerzbank 4.0" strategy. We will continue making our business model consistently more focused, implementing digital transformation and boosting efficiency.

Anticipated liquidity trends

In the first half of 2019, events on money and capital markets in the eurozone were still largely dictated by the monetary policy measures implemented by the European Central Bank (ECB) to support the economic recovery in the eurozone and by the political uncertainty created by trade conflicts and Brexit.

The ECB decided to end the securities purchase programme at the end of 2018, meaning that only maturing securities will now be replaced. The ECB will therefore still be a significant investor in the market. At its meeting at the beginning of June, the ECB stated that key interest rates would remain unchanged for now and for the first half of 2020 at least and in any case for as long as necessary. The economic slowdown and declining inflation expectations currently suggest that a possible interest rate reduction and increase in the purchase programme cannot be ruled out. The market is expecting the ECB to mitigate the detrimental effects of the negative interest rate policy on banks' earnings. Allowances on excess reserves held at the ECB and a graduated interest rate for the deposit facility are being debated as appropriate means for achieving this.

Excess liquidity was around €1,760bn as at the end of June 2019. The new series of quarterly targeted longer-term refinancing operations (TLTROs) with two-year maturities will start in September 2019 and end in March 2021. Owing to the high excess liquidity in the market, the volume of longer-term securities repo transactions is restricted. The short-term repo market is functioning smoothly, however, and plays an important role in serving the bond and cash markets. Collateral is expected to become even tighter as a result of the introduction of mandatory bilateral margin requirements for over-the-counter (OTC) derivatives. This requirement comes into full effect for all market participants concerned at the end of 2020. The situation in the bond markets is strongly influenced by the ongoing trade conflicts and the political uncertainties surrounding Brexit. This has led to steady demand for good-quality names. With no sign of a turnaround in interest rates, additional demand will come from financial investors in search of returns.

Against this backdrop, secondary market liquidity, which has already been significantly reduced, will remain modest. We expect German government bond yields to remain very low, even in the long-term segment (yields are currently negative up to just under 20 years), and anticipate persistently high demand from investors for high-quality securities. In view of this, we believe credit spreads will remain tight.

Commerzbank's liquidity management is well prepared to cope with changing market conditions and able to respond promptly to new market circumstances. We still anticipate no significant impact on our liquidity situation from Brexit. The Bank has a comfortable liquidity position that is above internal limits and the currently applicable requirements prescribed by the German Liquidity Regulation and MaRisk.

Our business planning is designed to maintain a liquidity cushion commensurate with the prevailing market conditions and related uncertainties. This is supported by our business model in retail and corporate customer business and continued access to secured and unsecured debt instruments in the money and capital markets.

Anticipated performance of the Commerzbank Group

We stand by the guidance we gave in the Annual Report 2018 regarding the anticipated development of the Commerzbank Group's overall result in 2019. Overall, we expect a slight year-on-year increase in consolidated net income for the 2019 financial year, although this target has become significantly more ambitious given the earnings development in the first half of the year, the noticeable worsening of the macroeconomic situation and the increasingly uncertain geopolitical situation.

Interim Risk Report

The Interim Risk Report is a separate reporting section in the Interim Report. It forms part of the Interim Management Report.

Interim Risk Report

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Risk-oriented overall bank management

Commerzbank defines risk as the danger of possible losses or profits foregone due to internal or external factors. In risk management, we normally distinguish between quantifiable and non-quantifiable types of risk. Quantifiable risks are those to which a value can normally be attached in financial statements or in regulatory capital requirements, while non-quantifiable risks include compliance and reputational risk.

Risk management organisation

Commerzbank regards risk management as a task for the whole Bank. The Chief Risk Officer (CRO) is responsible for developing and implementing the Group's risk policy guidelines for quantifiable risks, laid down by the Board of Managing Directors, as well as for measuring these risks. The CRO regularly reports to the full Board of Managing Directors and the Supervisory Board's Risk Committee on the overall risk situation within the Group.

The risk management organisation comprises Credit Risk Management, Intensive Care, Market Risk Management as well as Risk Controlling and Capital Management. All divisions have a direct reporting line to the CRO.

Group Compliance is the second line of defence for establishing appropriate governance, procedures and systems to avoid the Bank being unintentionally endangered as a consequence of compliance risks. This includes the risks associated with money laundering, terrorist financing, sanctions and embargoes, markets compliance, and fraud and corruption. Group Compliance is led by the Chief Compliance Officer, who reports directly to the member of the Board of Managing Directors with responsibility for Group Compliance.

Further details on the risk management organisation within Commerzbank can be found in the Group Risk Report 2018.

Risk-bearing capacity and stress testing

Risk-bearing capacity analysis is a key part of overall bank management and Commerzbank's Internal Capital Adequacy Assessment Process (ICAAP). The aim is to ensure that sufficient capital is held at all times.

Since the first quarter of 2019, the monitoring of risk-bearing capacity (RBC) from the economic perspective of the ICAAP has been carried out on the basis of the going concern approach defined by the regulator (ECB ICAAP guidelines of November 2018). The confidence level for the calculation of economically required capital is 99.90% and is harmonised with the going concern approach. Only the economic value of equity components that absorb losses in the going concern approach is taken into account in determining the economic risk coverage potential.

Risk-bearing capacity is also assessed using macroeconomic stress scenarios. The scenarios are simulated quarterly at Group level with a time horizon of 12 months.

Risk-bearing capacity is monitored and managed monthly at Group level. Risk-bearing capacity is deemed to be assured as long as the RBC ratio is higher than 100%. As at 30 June 2019 the RBC ratio was 159% (193% as at 31 December 2018). The change in the RBC ratio is largely attributable to the methodological adjustments made in the first quarter based on the new ICAAP guidelines published by the ECB (e.g. the non-inclusion of subordinate capital components), which led to a decrease in risk coverage potential compared with December 2018. The RBC ratio remains at a comfortable level.

Risk-bearing capacity Group I €bn	30.6.2019 ¹	31.12.2018 ¹
Economic risk coverage potential	24	27
Economically required capital²	15	14
thereof for default risk	9	10
thereof for market risk	4	3
thereof for operational risk	2	2
thereof diversification effects	-2	-2
RBC ratio (%)³	159	193

¹ Confidence level as from 31 March 2019: 99.90%; as at 31 December 2018: 99.91%.

² Including physical asset risk, risk of unlisted investments and risk buffer for reserve risk and the quantification of potential fluctuations in value of goodwill and intangibles.

³ RBC ratio = economic risk coverage potential/economically required capital (including risk buffer).

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Default risk

Default risk is defined as the risk of losses sustained or profits foregone due to the default of a counterparty. It is a quantifiable material risk and includes the material sub-risk types of credit default risk, issuer risk, counterparty risk, country and transfer risk, dilution risk and reserve risk.

Commerzbank Group

Commerzbank focuses its business on two customer segments, Private and Small-Business Customers and Corporate Clients. In the Asset & Capital Recovery (ACR) segment, the Bank bundled the activities of the Commercial Real Estate and Ship Finance areas and complex financings from the Public Finance area for the purpose of

completely winding down the portfolios in these areas over time. The ACR segment was closed on 1 July 2019 and the remaining portfolios were transferred to the Others and Consolidation segment.

Credit risk parameters To manage and limit default risks in the Commerzbank Group, we use risk parameters including the following: exposure at default (EaD), hereinafter also referred to simply as exposure, loss at default (LaD), expected loss (EL), risk density (EL/EaD), credit value at risk (CVaR = economically required capital for credit risk with a confidence level of 99.90% and a holding period of one year), risk-weighted assets and “all-in” for bulk risks.

The credit risk parameters in the rating classes 1.0 to 5.8 as at 30 June 2019 were as follows:

Credit risk parameters	30.6.2019				31.12.2018			
	Exposure at default €bn	Expected loss €m	Risk density bp	CVaR €m	Exposure at default €bn	Expected loss €m	Risk density bp	CVaR €m
Private and Small-Business Customers	171	451	26	2,140	165	420	25	2,476
Corporate Clients	195	495	25	4,883	187	467	25	5,458
Asset & Capital Recovery	4	43	107	348	8	46	57	643
Others and Consolidation ¹	70	26	4	2,001	72	35	5	1,790
Group	440	1,015	23	9,373	432	968	22	10,366

¹ Mainly liquidity portfolios of Treasury.

The CVaR decrease is driven by the adjustment of the level of confidence from 99.91% to 99.90% in the first quarter of 2019.

When broken down on the basis of PD ratings, 84% of the Group's portfolio is in the internal rating classes 1 and 2, which represent investment grade.

Rating breakdown EaD %	30.6.2019					31.12.2018				
	1.0-1.8	2.0-2.8	3.0-3.8	4.0-4.8	5.0-5.8	1.0-1.8	2.0-2.8	3.0-3.8	4.0-4.8	5.0-5.8
Private and Small-Business Customers	31	51	14	3	1	32	51	14	3	1
Corporate Clients	20	60	15	3	1	20	59	16	3	1
Asset & Capital Recovery	5	70	10	15	1	27	56	8	9	1
Others and Consolidation	63	34	2	0	0	45	53	1	0	0
Group	31	53	13	2	1	29	55	13	2	1

The regional breakdown of the exposure corresponds to the Bank's strategic direction and reflects the main areas of its global business activities. Around half of the Bank's exposure relates to Germany, another third to other countries in Europe, 8% to North America and 5% to Asia. The rest is broadly diversified and is split among a

large number of countries where we serve German exporters in particular or where Commerzbank has a local presence. The expected loss of the Group portfolio is mainly divided between Germany and the other European countries.

Group portfolio by region	30.6.2019			31.12.2018		
	Exposure at default €bn	Expected loss €m	Risk density bp	Exposure at default €bn	Expected loss €m	Risk density bp
Germany	239	514	22	227	477	21
Western Europe	91	157	17	84	162	19
Central and Eastern Europe	42	204	49	41	197	48
North America	36	63	18	32	54	17
Asia	20	38	19	37	44	12
Other	12	40	34	10	34	33
Group	440	1,015	23	432	968	22

In view of current geopolitical developments, national economies such as Russia, Turkey and China are closely monitored. As at the end of the second quarter of 2019, exposure to Russia was €2.5bn (31 December 2018: €2.6bn), exposure to Turkey was €1.7bn (31 December 2018: €1.7bn), and exposure to China was €5.7bn (31 December 2018: €6.4bn).

The sovereign exposures of Italy and Spain are also still closely monitored as a result of the sovereign debt crisis. As at the end of the second quarter of 2019, Commerzbank's Italian sovereign exposure was €8.9bn (31 December 2018: €8.4bn), while its Spanish sovereign exposure was €1.4bn (31 December 2018: €1.3bn).

Risk result The risk result relating to the Group's lending business in the first half of 2019 was €-256m and therefore stood at a higher level than the year-earlier period as expected.

The following table shows the breakdown of the risk result by stage according to IFRS 9. Note 27 of the interim financial statements (credit risks and credit losses) contains details regarding the stages; the definition of the risk result can be found in Note 10 (risk result).

The fluctuations of market values in the shipping portfolio are not recognised in the risk result. They are recognised in the net income from financial assets and liabilities measured at fair value through profit or loss.

Risk result €m	1.1.-30.6.2019				1.4.-30.6.2019				1.1.-31.3.2019			
	Stage 1	Stage 2	Stage 3 ¹	Total	Stage 1	Stage 2	Stage 3 ¹	Total	Stage 1	Stage 2	Stage 3 ¹	Total
Private and Small-Business Customers	-3	15	-112	-100	-1	20	-68	-48	-2	-5	-44	-52
Corporate Clients	1	-10	-146	-155	0	7	-134	-127	0	-17	-12	-28
Asset & Capital Recovery	0	2	-25	-24	0	0	-23	-23	0	2	-2	-1
Others and Consolidation	-3	52	-26	23	-2	48	-26	21	-1	4	0	2
Group	-5	58	-309	-256	-2	75	-250	-178	-3	-17	-58	-78

¹ Stage 3 including POCI (POCI – purchased or originated credit-impaired).

Risk result ¹ €m	1.1.-30.6.2018				1.4.-30.6.2018				1.1.-31.3.2018			
	Stage 1	Stage 2	Stage 3 ²	Total	Stage 1	Stage 2	Stage 3 ²	Total	Stage 1	Stage 2	Stage 3 ²	Total
Private and Small-Business Customers	16	-31	-100	-115	-14	12	-63	-66	30	-42	-36	-49
Corporate Clients	-8	-41	-11	-60	-8	-37	9	-35	0	-4	-21	-25
Asset & Capital Recovery	8	-1	6	14	7	3	6	16	1	-3	0	-2
Others and Consolidation	-6	3	5	2	-3	1	5	3	-3	2	0	-1
Group	10	-69	-100	-160	-18	-22	-43	-82	27	-48	-57	-77

¹ Retroactively adjusted (see Note 3 to the interim financial statements).

² Stage 3 including POCI (POCI – purchased or originated credit-impaired).

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The risk result of the third and fourth quarters of 2018, with loan loss provisions of €133m and €154m respectively projected for a full year, is in line with a normalised level. From the present perspective, the risk result for the year 2019 as a whole will therefore not be less than €550m.

Default portfolio The Group's default portfolio decreased by €78m in the first half of 2019 and stood at €3,762m as at 30 June 2019.

The following breakdown of the default portfolio shows the claims in the default portfolio in the amortised cost and fair value OCI (other comprehensive income) categories. The claims in the Ship Finance and Commercial Real Estate default portfolios in the fair value category held by the Bank in the amount of €186m are not shown.

Default portfolio Group €m	30.6.2019			31.12.2018		
	Loans	Securities	Total	Loans	Securities	Total
Default portfolio	3,762	0	3,762	3,769	71	3,839
LLP ¹	1,639	0	1,639	1,606	3	1,609
Coverage ratio excluding collateral (%) ²	44	0	44	43	4	42
Collateral	891	0	891	913	0	913
Coverage ratio including collateral (%) ²	67	0	67	67	4	66
NPL ratio (%) ³			0.8			0.9

¹ Loan loss provisions.

² Coverage ratio: LLP (and collateral) as a proportion of the default portfolio.

³ NPL ratio: default portfolio (non-performing loans – NPL) as a proportion of total exposure (EaD including NPL).

Private and Small-Business Customers segment

The Private and Small-Business Customers segment (PSBC) comprises the activities of Private Customers, Small-Business Customers, comdirect bank and Commerz Real. mBank is also shown in the Private and Small-Business Customers segment. Private Customers includes Commerzbank's branch business in Germany for private customers as well as Wealth Management. Small-Business Customers contains business customers and small corporate customers.

The focus of the portfolio is on traditional owner-occupied home financing and the financing of real estate capital investments (resi-

dential mortgage loans and investment properties with a total EaD of €85bn). We provide our business and small-business customers with credit in the form of individual loans with a volume of €22bn. In addition, we meet our customers' day-to-day demand for credit with consumer loans (consumer and instalment loans and credit cards, to a total of €16bn). The portfolio's expansion in the first half was largely due to residential mortgage loans.

The risk density of the portfolio increased by one basis point to 26 basis points compared with the end of the previous year.

Credit risk parameters	30.6.2019			31.12.2018		
	Exposure at default €bn	Expected loss €m	Risk density bp	Exposure at default €bn	Expected loss €m	Risk density bp
Private Customers	102	177	17	99	177	18
Business Customers	31	77	25	29	67	23
comdirect bank	4	20	57	4	6	17
Commerz Real	1	2	38	1	2	29
mBank	35	174	50	33	167	50
PSBC	171	451	26	165	420	25

In the Private and Small-Business Customers segment, the risk result in the first half of 2019 was €–100m and therefore remained below the low level of the prior-year period.

The default portfolio in the segment stood at €1,785m as at 30 June 2019.

Default portfolio PSBC €m	30.6.2019			31.12.2018		
	Loans	Securities	Total	Loans	Securities	Total
Default portfolio	1,785	0	1,785	0	0	1,751
LLP	919	0	919	850	0	850
Coverage ratio excluding collateral (%)	51	0	51	49	0	49
Collateral	564	0	564	531	0	531
Coverage ratio including collateral (%)	83	0	83	79	0	79
NPL ratio (%)			1.0			1.1

Corporate Clients segment

The Corporate Clients segment (CC) comprises the Group's activities with mid-size corporate clients, the public sector, institutional customers and multinational corporates. The segment is also responsible for the Group's relationships with banks and financial

institutions in Germany and abroad, as well as with central banks. The regional focus of our activities is on Germany and Western Europe. The Group's customer-oriented capital markets activities are also bundled in this segment.

Credit risk parameters	30.6.2019			31.12.2018		
	Exposure at default €bn	Expected loss €m	Risk density bp	Exposure at default €bn	Expected loss €m	Risk density bp
Mittelstand	80	236	30	74	198	27
International Corporates	75	139	19	68	149	22
Financial Institutions	22	64	29	23	69	30
Other	18	57	32	22	50	23
CC	195	495	25	187	467	25

The EaD of the Corporate Clients segment increased from €187bn to €195bn compared with 31 December of the previous year. Risk density remained stable at 25 basis points.

For details of developments in the Financial Institutions portfolio, please see page 24.

The risk result in the Corporate Clients segment stood at €–155m, which was, as expected, higher than the low level of the year-earlier period. In the first half of 2018, the segment benefited from larger reversals.

The default portfolio in the segment stood at €1,708m as at 30 June 2019.

Default portfolio CC €m	30.6.2019			31.12.2018		
	Loans	Securities	Total	Loans	Securities	Total
Default portfolio	1,708	0	1,708	1,669	67	1,736
LLP	633	0	633	636	3	639
Coverage ratio excluding collateral (%)	37	0	37	38	4	37
Collateral	233	0	233	251	0	251
Coverage ratio including collateral (%)	51	0	51	53	4	51
NPL ratio (%)			0.9			0.9

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Asset & Capital Recovery segment

The Asset & Capital Recovery segment (ACR) comprises positions of the portfolios in the areas of Commercial Real Estate and Ship Finance and complex financings from the Public Finance area. The segment was established for the purpose of completely winding down the portfolios in these areas over time. The ACR segment

was closed on 1 July 2019 and the remaining portfolios were transferred to the Others and Consolidation segment.

EaD for the ACR segment in the performing loan book totalled €4bn as at 30 June 2019, which is a decrease of around €4bn compared with the end of the previous year due to the transfer of part of the Public Finance portfolio to Treasury.

Credit risk parameters	30.6.2019			31.12.2018		
	Exposure at default €bn	Expected loss €m	Risk density bp	Exposure at default €bn	Expected loss €m	Risk density bp
Commercial Real Estate	0	2	53	0	2	53
Ship Finance	0	0	19	0	0	29
Public Finance	4	40	115	8	44	57
ACR	4	43	107	8	46	57

Commercial Real Estate The portfolio further decreased due to redemptions and repayments. Compared with 31 December 2018, risk density remained stable at 53 basis points.

Public Finance The Public Finance sub-portfolio in the ACR segment is largely made up of a private finance initiative (PFI) portfolio (€3.5bn EaD) with a regional focus on the UK.

Ship Finance The ship finance exposure in the performing loan book was further reduced to one remaining instance of ship financing, for which the Bank is in repayment negotiations with the borrower. All other financings in the performing loan book of the portfolio at the beginning of the year have since either been wound down or have NPL status. The latter also includes amounts outstanding from exposure settlements, for example from insolvencies.

The risk result in the ACR segment was €-24m in the first half of 2019 (first half of 2018: €14m). The default portfolio stood at €269m as at 30 June 2019.

Default portfolio ACR €m	30.6.2019			31.12.2018		
	Loans	Securities	Total	Loans	Securities	Total
Default portfolio	269	0	269	348	4	351
LLP	88	0	88	123	0	123
Coverage ratio excluding collateral (%)	33	0	33	35	0	35
Collateral	94	0	94	131	0	131
Coverage ratio including collateral (%)	68	0	68	73	0	72
NPL ratio (%)			6.3			4.1

Further portfolio analyses

The analyses below are independent of the existing segment allocation. The positions shown are already contained in full in the Group and segment presentations above.

Corporates portfolio by sector

A breakdown of the corporates exposure by sector is shown below:

Corporates portfolio by sector	30.6.2019			31.12.2018		
	Exposure at default €bn	Expected loss €m	Risk density bp	Exposure at default €bn	Expected loss €m	Risk density bp
Energy supply/Waste management	19	58	31	18	62	34
Consumption	15	55	37	14	54	37
Technology/Electrical industry	15	36	25	13	31	24
Wholesale	13	49	37	13	48	37
Chemicals/Plastics	13	48	38	9	41	43
Transport/Tourism	12	38	33	11	30	26
Basic materials/Metals	12	37	31	11	42	40
Services/Media	12	35	30	10	30	29
Automotive	11	35	33	10	27	28
Mechanical engineering	10	25	26	9	24	28
Construction	6	16	25	6	16	28
Pharmaceutical/Healthcare	5	13	28	4	10	24
Other	6	9	16	5	7	13
Total	147	456	31	133	421	32

Financial Institutions portfolio

Our network of correspondent banks continued to focus on trade finance activities on behalf of our corporate customers and on capital market activities. In derivatives, we enter into trades with selected counterparties under the European Market Infrastructure Regulation (EMIR) standards.

We continue to keep a close watch on the impact of regulatory requirements on banks. In this context, we continue to pursue our

strategy of holding as few exposures as possible which might absorb losses in the event of a bail-in of an affected institution.

We are keeping a close eye on developments in various countries with individual issues such as recessions, embargoes or economic uncertainty caused by political events (e.g. trade war, Brexit) and are responding with flexible portfolio management that is tailored to the individual situation of each country. Overall, our risk appetite is geared to keeping the portfolio as responsive as possible.

FI portfolio by region	30.6.2019			31.12.2018		
	Exposure at default €bn	Expected loss €m	Risk density bp	Exposure at default €bn	Expected loss €m	Risk density bp
Germany	5	6	12	5	6	12
Western Europe	16	11	7	15	12	8
Central and Eastern Europe	3	17	62	3	17	56
North America	2	1	3	2	1	4
Asia	11	22	20	12	24	21
Other	6	23	36	6	23	40
Total	43	79	18	43	83	19

Non-Bank Financial Institutions portfolio

The Non-Bank Financial Institutions (NBFI) portfolio mainly comprises insurance companies, asset managers, regulated funds and central counterparties. Business activities are focused on Germany, Western Europe and the United States.

We carry out new business with NBFIs, partly in light of regulatory requirements (clearing via central counterparties) and partly

in the interests of our institutional customers, with a focus on attractive opportunities with customers with good credit ratings. We manage our portfolios with the aim of ensuring their high quality and responsiveness. We are keeping a close eye on risks due to political events (e.g. Brexit) and are responding with flexible portfolio management that is tailored to the individual situation.

18 Risk-oriented overall bank management

19 Default risk

26 Market risk

28 Liquidity risk

30 Operational risk

31 Other risks

NBFi portfolio by region	30.6.2019			31.12.2018		
	Exposure at default €bn	Expected loss €m	Risk density bp	Exposure at default €bn	Expected loss €m	Risk density bp
Germany	18	26	14	18	25	14
Western Europe	12	30	24	12	23	19
Central and Eastern Europe	2	17	95	1	8	65
North America	8	18	21	9	24	28
Asia	2	2	11	2	2	13
Other	1	6	57	1	2	31
Total	43	98	23	42	84	20

Originator positions

Commerzbank has in recent years securitised receivables from loans to the Bank's customers with a current volume of €7.0bn, primarily for capital management purposes.

As at the reporting date 30 June 2019, risk exposures with a value of €6.6bn were retained. By far the largest portion of these positions is accounted for by €6.3bn of senior tranches, which are nearly all rated good or very good.

Securitisation pool €bn	Maturity	Commerzbank volume ¹			Total volume ¹
		Senior	Mezzanine	First loss piece	
Corporates	2025–2036	6.3	0.1	0.2	7.0
Total 30.6.2019		6.3	0.1	0.2	7.0
Total 31.12.2018		5.3	< 0.1	0.1	5.9

¹ Tranches/retentions (nominal): banking and trading book.

Conduit exposure and other asset-backed exposures

Commerzbank is the sponsor of the multiseller asset-backed commercial paper conduit Silver Tower. It uses it to securitise receivables, in particular trade and leasing receivables, from customers in the Corporate Clients segment. The transactions are financed predominantly through the issue of asset-backed commercial paper (ABCP) or through the drawing of credit lines (liquidity lines). In view of regulatory changes and the relocation of the Silver Tower conduit to Luxembourg, since the beginning of the year part of the financing has also been carried out through the direct purchase of funding notes that are taken onto the Bank's balance sheet. The volume and risk values for the securitisation of receivables in the Corporate Clients segment were stable at €3.9bn in the first half of 2019.

Liquidity risks from securitisations are modelled in the internal liquidity risk model on a risk-adjusted basis. Firstly, a worst-case assumption is made that Commerzbank will have to take on the funding of a major part of the purchase facilities provided to its special-purpose vehicles within the scope of the Silver Tower conduit. Secondly, the Bank's holdings of securitisation transactions

only qualify as liquid assets if they are eligible for rediscount at the European Central Bank. These positions are only included in the liquidity risk calculation after risk-adjusted discounts are applied.

The other asset-backed exposures mainly comprise government-guaranteed asset-backed securities (ABS) held by Commerzbank Finance & Covered Bond S.A. and Commerzbank AG in Germany. In the first half of 2019 the volume remained at €4.0bn (December 2018: €4.0bn); risk values¹ also remained nearly stable at €3.9bn (December 2018: €3.8bn).

There are also investments in the Structured Credit area. The volume of new investments entered into since 2014 stood at €4.3bn (December 2018: €3.8bn). In general, we have traditionally invested in bonds of senior tranches of securitisation transactions in the consumer (auto) ABS, UK RMBS and CLO asset classes, which show a robust structure and a moderate risk profile. At the end of the first half of 2019 (as already at the end of 2018) this portfolio contained only AAA-rated CLO positions. Remaining structured credit positions with a volume of €1.1bn were already in the portfolio prior to 2014 (December 2018: €1.3bn), while risk values stood at €0.3bn (December 2018: €0.4bn).

¹ Risk value is the balance sheet value of cash instruments. For long CDS positions, it comprises the nominal value of the reference instrument less the net present value of the credit derivative.

Market risk

Market risk is the risk of potential financial losses due to changes in market prices (interest rates, commodities, credit spreads, exchange rates and equity prices) or in parameters that affect prices such as volatilities and correlations. Losses may impact profit or loss directly, e.g. in the case of trading book positions. However, for banking book positions they are reflected in the revaluation reserve or in hidden liabilities/reserves.

Risk management

A standardised value-at-risk model (historical simulation) incorporating all positions that are relevant for market risk is used for the internal management of market risk. Smaller Commerzbank Group entities use standardised approaches under partial use rules. VaR quantifies the potential loss from financial instruments due to changed market conditions over a predefined time horizon and with a specific probability. Further details on the methodology used are given in the Group Risk Report 2018. In order to provide a consistent presentation in this report, all figures relating to the VaR are based on a confidence level of 99%, a holding period of one day, equally weighted market data and a 254-day history.

In internal management, all positions relevant to market risk are covered, and trading and banking book positions are jointly managed. In addition, for regulatory purposes the trading book is managed separately (in accordance with regulatory requirements, including currency and commodity risks in the banking book) and interest rate risks in the banking book are managed on a stand-alone basis.

In the first half of 2019, the VaR for the overall book increased by €9m to €44m.

VaR contribution €m	30.6.2019	31.12.2018
Overall book	44	34
thereof trading book	9	10

The EU Benchmarks Regulation entered into force on 1 January 2018. The purpose of the Benchmarks Regulation is to improve the transparency and integrity of the calculation and application of indices used as benchmarks for financial instruments and financial contracts or for measuring the performance of investment funds.

The EU recently decided to extend the transitional period until the end of 2021 so as to enable the institutions affected to prepare for the forthcoming developments and to give the market time to develop appropriate procedures that comply with the new regulation. Moreover, the European Money Market Institute (EMMI) as administrator of the Euribor received the approval of the competent regulatory authority for the use of the “hybrid approach”. This means that this index can still be used and conversion costs are significantly reduced for the banks. In preparation for this, the Bank has established a Group project and integrated it into the Delivery Organisation (Campus 2.0), which came into force on 1 July 2019 and in which all the units concerned are integrated. As part of this strategic initiative, the necessary adjustment requirements are identified and taken into account in an implementation plan so that the Bank is prepared in good time for the conversion of business and IT processes and can plan expenses for the following years accordingly. This applies in particular to the introduction of the new European Short Term Rate (€STR), which will be published by the ECB from 2 October 2019 onwards and will replace the existing EONIA by the end of 2021.

Trading book

Below, we show how the regulatory market risk ratios of the trading book portfolio developed. Most of Commerzbank’s trading book positions derive from the Corporate Clients segment and Group Treasury division. The VaR figures comprise all risks in the internal VaR model. Smaller Commerzbank Group entities use standardised approaches for their regulatory capital calculation under partial use rules. These figures are not contained in the VaR figures shown in this report.

In the course of the first half of 2019, VaR fell slightly from €10m to €9m. VaR in the trading book is at a low level by historical standards.

VaR of portfolios in the trading book €m	1.1.-30.6.2019	2018
Minimum	6	6
Mean	7	9
Maximum	11	12
VaR at end of reporting period	9	10

18	Risk-oriented overall bank management
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The market risk profile is diversified across all asset classes.

VaR contribution by risk type in the trading book €m	30.6.2019	31.12.2018
Credit spreads	1	1
Interest rates	3	2
Equities	2	3
FX	2	2
Commodities	2	1
Total	9	10

Further risk ratios are calculated for regulatory capital adequacy. This includes the calculation of stressed VaR. Stressed VaR is calculated using the internal model on the basis of the VaR method described above. The main difference lies in the market data used to value the assets. Stressed VaR measures the risk in the present position in the trading book by reference to market movements from a specified crisis period in the past. The crisis observation period used for this is checked regularly through model validation and approval processes and adjusted where necessary. The crisis observation period remained the same in the first six months of 2019. Stressed VaR rose slightly from €35m at end-2018 to €38m at the end of June 2019.

The market risk profile in stressed VaR is also diversified across all asset classes. Interest rate risk is the prevailing asset class.

Stressed VaR contribution by risk type in the trading book €m	30.6.2019	31.12.2018
Credit spreads	7	5
Interest rates	11	12
Equities	9	10
FX	6	4
Commodities	5	4
Total	38	35

In addition, the incremental risk charge and the equity event VaR figures quantify the risk of deterioration in creditworthiness and event risks in trading book positions. The incremental risk charge rose by €4m to €23m in the first half of 2019. The decline is mainly attributable to changes in positions in the Corporate Clients segment.

The reliability of the internal model (historical simulation) is monitored in various ways, including by backtesting on a daily

basis. The VaR calculated is set against actually occurring profits and losses. The VaR used in backtesting is based on the complete historical simulation and therefore represents all internal models used in the market risk VaR calculation of capital adequacy requirements at Group level. The process draws a distinction between “clean P&L” and “dirty P&L” backtesting. In the former, exactly the same positions in the income statement are used as were used for calculating the VaR. This means that the profits and losses result only from changes in market prices (hypothetical changes in the portfolio value). In dirty P&L backtesting, by contrast, profits and losses from newly concluded and expired transactions from the day under consideration are also included (actual profits and losses induced by portfolio value changes). Profits and losses from valuation adjustments and model reserves are factored into dirty and clean P&L according to the regulatory requirements. If the actual loss exceeds the VaR, it is described as a negative backtesting outlier.

Analysing the results of backtesting provides an informative basis for checking parameters and for improving the market risk model. In the first half of 2019, we saw no negative clean P&L outliers and no negative dirty P&L outliers. The results confirm the quality of the VaR model. Backtesting is also used by the supervisory authorities for evaluating internal risk models. Negative outliers are classified by means of a traffic-light system laid down by the supervisory authorities. All negative backtesting outliers at Group level (from both clean P&L and dirty P&L) must be reported to the supervisory authorities, citing their extent and cause. As the VaR concept gives a prediction of potential losses on the assumption of normal market conditions, it is supplemented by the calculation of stress tests. These stress tests measure the risk to which Commerzbank is exposed, based on unlikely but still plausible events. These events may be simulated using extreme movements on various financial markets. The key scenarios relate to major changes in credit spreads, interest rates and yield curves, exchange rates, share prices and commodities prices. Events simulated in stress tests include all stock prices falling by 15%, a parallel shift in the yield curve or changes to the curve’s gradient. Extensive Group-wide stress tests and scenario analyses are carried out as part of risk monitoring.

The internal model’s individual components are independently validated at regular intervals to assess their appropriateness for risk measurement. The identification and elimination of model weaknesses are of particular importance in this.

Banking book

The key drivers of market risk in the banking book are the Group Treasury portfolios, with their credit spread, interest rate and basis risks, and the area of Asset & Capital Recovery (ACR) – Public Finance, along with the positions held by the subsidiary Commerzbank Finance & Covered Bond S.A. The ACR segment was closed on 1 July 2019 and the remaining portfolios were transferred to the Others and Consolidation segment.

In market risk management, credit spread sensitivities in the banking and trading books are considered together. Credit spread sensitivities (downshift of 1 basis point) for all securities and derivative positions (excluding loans) were at €44m as at the end of the first half of 2019 (31 December 2018: €41m).

Most credit spread sensitivities related to securities positions measured at amortised cost. Changes in market price have no impact on the revaluation reserve or the income statement for these positions.

The impact of an interest rate shock on the economic value of the Group's banking book is simulated monthly in compliance with regulatory requirements. In accordance with the EU Banking Directive, the German Federal Financial Supervisory Authority (BaFin) and the European Central Bank (ECB) have prescribed two scenarios of uniform, sudden and unexpected changes in interest rates (+/-200 basis points) to be used by all banks, which have to report on the results of this stress test every quarter.

The outcome of the +200 basis points scenario would be a potential loss of €2,940m (31 December 2018: €1,651m potential loss), while the -200 basis points scenario would result in a potential profit of €546m, both as at 30 June 2019 (31 December 2018: €230m potential profit). Commerzbank does not, therefore, need to be classified as a bank with elevated interest rate risk, as the decline in net present value represents less than 20% of its regulatory capital.

As at 30 June 2019, the interest rate sensitivity of the entire banking book (without pension funds) was €12.5m per basis point of interest rate reduction. The increase of €3m per basis point of interest rate reduction is attributable to changes in positions in the Treasury division.

Pension fund risk is also part of market risk in the banking book. Our pension fund portfolio comprises a well-diversified investment section and a section comprising insurance-related liabilities. The duration of the liabilities is extremely long (cash outflows modelled over almost 90 years), and the main portion of the overall portfolio's present value risk is in maturities of 15 years and over. The main risk drivers are long-term euro interest rates, credit spreads and expected euro inflation due to anticipated pension dynamics. Equity, volatility and foreign exchange risk also need to be taken into consideration. Diversification effects be-

tween individual risks reduce the overall risk. The extremely long maturities of these liabilities represent the greatest challenge particularly for hedging credit spread risk. This is because there is insufficient liquidity in the market for corresponding hedging products.

Market liquidity risk

Market liquidity risk is the risk of the Bank not being able to liquidate or hedge risky positions in a timely manner, to the desired extent and on acceptable terms as a result of insufficient liquidity in the market. Market liquidity risk is taken into account in Commerzbank's risk-bearing capacity concept by scaling the value at risk to one year and the therefore implicitly recognised liquidation period. Additional valuation adjustments for market liquidity risk are also reflected in the calculation of the risk coverage capital.

Liquidity risk

We define liquidity risk in the narrower sense as the risk that Commerzbank will be unable to meet its payment obligations on a day-to-day basis. In a broader sense, liquidity risk describes the risk that future payments cannot be funded for the full amount, in the required currency or at standard market conditions, as and when they are due.

Risk management

Commerzbank uses a wide range of tools to manage and monitor liquidity risks on the basis of its own liquidity risk model. The stress scenario within the Bank that underlies the model and is relevant for management purposes allows for the impact of both a bank-specific stress event and a broader market crisis. Binding regulatory requirements are an integral component of the management mechanism.

Group Treasury is responsible for the Group's liquidity management operations. Group Treasury is represented in all major locations of the Group in Germany and abroad and has reporting lines into all subsidiaries. Commerzbank manages its global liquidity centrally using cash pooling. This approach ensures that liquidity resources are used efficiently and that this occurs across all time zones, as Group Treasury units are located in Frankfurt, London, New York and Singapore. Additional information on this subject can be found in the "Funding and liquidity" section of the Interim Management Report. Liquidity risk is monitored on the basis of the Bank's own liquidity risk model by the independent risk function.

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31	Other risks

The Bank has established early warning indicators for the purpose of managing liquidity risk. These ensure that appropriate steps can be taken in good time to secure long-term financial solidity.

Risk concentrations can lead to increased outflows of liquidity, particularly in a stress situation, and thus to increased liquidity risk. They can, for example, occur with regard to maturities, large individual creditors or currencies. By means of ongoing monitoring and reporting, emerging risk concentrations in funding can be recognised in a timely manner and mitigated through suitable measures.

This also applies to payment obligations in foreign currencies. The Bank also mitigates concentration by continuously using broadly diversified sources of funding, in particular diverse customer deposits and capital market instruments. Commerzbank also ensures that it monitors foreign exchange risks and fulfils the currency matching requirements for highly liquid assets and net liquidity outflows.

In the event of a liquidity crisis, the emergency plan provides for various measures for different types of crisis, which can be launched by the central ALCO. The emergency plan forms an integral part of Commerzbank's recovery plan and is updated at least once a year; the individual liquidity emergency measures are checked regularly during the year for plausibility. The emergency plan also defines a clear allocation of responsibilities for the processes to be followed in emergency situations and gives details of any action that may need to be taken.

Quantification and stress testing

Commerzbank uses a wide range of tools to manage and monitor liquidity risks on the basis of its own liquidity risk model. In addition to internal economic considerations, liquidity risk modelling also factors in the binding regulatory requirements under the Capital Requirements Regulation (CRR) and the Minimum Requirements for Risk Management (MaRisk). Commerzbank incorporates this within its liquidity risk framework, thereby quantifying the liquidity risk appetite established by the full Board of Managing Directors.

The stress scenarios within the Bank that underlie the model and are relevant for management purposes allow for the impact of both a bank-specific stress event and a broader market crisis. The Commerzbank-specific idiosyncratic scenario simulates a stress situation arising from a rating downgrade of two notches, whereas the market-wide scenario is derived from experience of the sub-

prime crisis and simulates an external market-wide shock. The main liquidity risk drivers of both scenarios are a markedly increased outflow of short-term customer deposits, above-average drawdown of credit lines, prolongations of lending business regarded as commercially necessary, the need to provide additional collateral for secured transactions and the application of higher risk discounts to the liquidation values of assets. As a complement to the individual scenarios, the Bank also simulates the impact on the liquidity gap profile (net liquidity position) of a scenario that combines idiosyncratic and market-specific effects. The liquidity gap profile is shown for the whole of the modelling horizon across the full spectrum of maturities and follows a multi-level concept. This allows for a nuanced presentation – deterministic and modelled cash flows in existing business on the one hand and the inclusion of prolongations on the other.

The table below shows the liquidity gap profile values after application of the respective stress scenarios for periods of one and three months as at the end of the first half. Significantly more liquidity flows out in a combined scenario compared with the individual scenarios. As at the end of the second quarter of 2019, in the one-month and three-month periods, the combined stress scenario leaves net liquidity of €14.4bn and €13.5bn respectively.

Net liquidity in the stress scenario €bn		30.6.2019	31.12.2018
Idiosyncratic scenario	1 month	20.5	16.6
	3 months	21.2	19.2
Market-wide scenario	1 month	24.8	21.6
	3 months	31.4	22.7
Combined scenario	1 month	14.4	11.0
	3 months	13.5	11.7

Liquidity reserves

Significant factors in the liquidity risk appetite include the reserve period, the size of the liquidity reserve portfolio held to compensate for unexpected short-term liquidity outflows, and the limits in the various maturity bands. As the liquidity reserve portfolio consists of highly liquid assets, it functions as a buffer in stress situations. The liquidity reserve portfolio is funded in line with the liquidity risk appetite to ensure that it is kept at the required size throughout the entire reserve period stipulated by the Board of Managing Directors.

As at the reporting date, the Bank had a liquidity reserve of €88.0bn (as at year-end 2018: €77.3bn) in the form of highly liquid assets. A part of this liquidity reserve is held in a separate stress liquidity reserve portfolio managed by Group Treasury to cover liquidity outflows should a stress event occur and to ensure solvency at all times. In addition, the Bank operates an intraday liquidity reserve portfolio in the amount of €10.2bn as at the reporting date (31 December 2018: €10.0bn).

Liquidity reserves from highly liquid assets €bn	30.6.2019	31.12.2018
Highly liquid assets	88.0	77.3
of which level 1	82.8	61.9
of which level 2A	3.8	14.1
of which level 2B	1.5	1.3

Liquidity ratios

Throughout the first half of 2019, Commerzbank's internal liquidity ratios, including the regulatory liquidity coverage ratio (LCR), were at all times above the limits set by the Board of Managing Directors. The same is true of compliance with the survival period calculation set down by MaRisk.

The regulatory LCR is contained in the internal liquidity risk model as a binding secondary condition. The LCR is calculated as the ratio of liquid assets to net liquidity outflows under stressed conditions. It is used to measure whether a bank has a large enough liquidity buffer to independently withstand any potential imbalance between inflows and outflows of liquidity under stressed conditions over a period of 30 calendar days. Since 1 January 2018, the Bank has had to maintain a ratio of at least 100%.

In the first half of 2019, Commerzbank significantly exceeded the minimum ratio of 100% on every reporting date. As at the end of the first half of 2019, the average month-end value of the LCR over the last twelve months was 136.02% (as at the end of 2018: 135.66%).

The Bank has established corresponding limits and early warning indicators to ensure the LCR minimum requirements are met. Further information on the composition of the LCR is given in Note 43 (liquidity coverage ratio) of the interim financial statements.

Operational risk

Based on the Capital Requirements Regulation (CRR), Commerzbank defines operational risk (OpRisk) as the risk of loss resulting from the inadequacy or failure of internal processes, people and systems or from external events. This definition includes legal risks; it does not cover strategic or reputational risks. Given the increased economic significance of compliance risk, Commerzbank treats it as a separate risk type. Given the increasing digitalisation of the business environment, cyber risk is an inherent existential threat for Commerzbank and is also managed as a separate risk type. In line with the CRR, however, losses from compliance risks and cyber risks are still incorporated into the model for determining the regulatory and economic capital required for operational risks.

Commerzbank takes an active approach to managing operational risk, aiming to systematically identify OpRisk profiles and risk concentrations and to define, prioritise and implement risk mitigation measures.

Commerzbank uses the advanced measurement approach (AMA) to measure regulatory and economic capital for operational risks. Risk-weighted assets for operational risks on this basis came to €22.8bn at the end of the second quarter of 2019 (31 December 2018: €21.4bn, 99.90% quantile), while economically required capital was €1.8bn (since the first quarter of 2019: 99.90% quantile; 31 December 2018: €1.8bn, 99.91% quantile).

The implementation plan of the Basel Committee provides for the introduction of the standardised approach for calculating operational risk (OpRisk) regulatory capital requirements from 1 January 2022. This approach is based on the multiplication of two components, the business indicator component (BIC) and the internal loss multiplier (ILM). The BIC is derived from the business indicator, which is the sum of an interest, leases and dividend component, a services component and a financial component, and a coefficient determined by the size of the business indicator. The second component in the standardised approach is the risk-sensitive internal loss multiplier, which reflects the Bank's internal operational losses.

OpRisk management includes an annual evaluation of the Bank's internal control system (ICS) and a risk scenario assessment. Furthermore, OpRisk loss events are subjected to ongoing analysis and to ICS backtesting on an event-driven basis. Lessons learned activities are carried out for loss events \geq €1m. External OpRisk events at competitors are also systematically evaluated.

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The total charge for OpRisk events at the end of the first half of 2019 was approximately €23m (full-year 2018: €30m). The events mainly related to losses in the “Process related” and “External fraud” categories.

OpRisk events ¹ €m	30.6.2019	31.12.2018
Internal fraud	3	4
External fraud	6	7
Damage and IT failure	1	5
Products and business practices	4	- 17
Process related	9	30
HR related	0	0
Group	23	30

¹ Losses incurred and provisions, less OpRisk-based income and repayments.

Other risks

To meet the requirements of Pillar 2 of the Basel framework, MaRisk requires an integrated approach to risk that also includes unquantifiable risk categories. At Commerzbank, these are subjected to a qualitative management and control process. Details of legal and compliance risk are shown below. As regards all other risks, there were no significant changes in the first half of 2019 compared with the position reported in the Group Risk Report 2018.

Legal risk Commerzbank and its subsidiaries are involved in a variety of court and arbitration cases, claims and official investigations (legal proceedings) in connection with a broad range of issues. They include, for example, allegations of defective advice, disputes in connection with credit finance or payment transactions, entitlements to occupational pensions, allegedly false accounting and incorrect financial statements, enforcement of claims due to tax issues, allegedly incorrect prospectuses in connection with underwriting transactions, alleged violations of competition laws, and cases brought by shareholders and other investors as well as investigations by US authorities. In addition, changes to rulings by supreme courts, which may render them more restrictive, as well as to legal conditions, e.g. in the private customer business, may result in more claims being brought against Commerzbank or its subsidiaries. In these court cases, claimants are mostly asking for the payment of compensation, claims on account of unjust enrichment or the reversal of agreements already entered into. If the courts were to find in favour of one or more of the claimants in these cases, Commerzbank could be liable to pay compensation, which

could in some cases be substantial, or could incur the expense of reversing agreements or of other cost-intensive measures. Regulatory authorities and governmental institutions in various countries in which Commerzbank and its subsidiaries are or have been active have for some years been investigating irregularities in connection with the fixing of foreign exchange rates and with foreign exchange business in general. In the course of these investigations, regulatory authorities and governmental institutions have also sought checks on Commerzbank or have approached the company with requests for information. Commerzbank has cooperated fully with these bodies and also looked into the relevant matters on the basis of its own comprehensive investigations. In one case the investigating authority transferred the process to the national tribunal for competition affairs. The possibility of financial consequences arising from some of these matters cannot be ruled out.

The public prosecutor's office in Frankfurt is investigating equity transactions conducted by Commerzbank and the former Dresdner Bank around the dividend record date (cum-ex transactions). Commerzbank is cooperating fully with the authorities. It had already initiated a forensic analysis of cum-ex transactions at the end of 2015, which was concluded at the start of 2018 with regard to Commerzbank's equity transactions and is still ongoing regarding the equity transactions of the former Dresdner Bank.

In the circular of the German Federal Ministry of Finance (BMF) dated 17 July 2017, the tax authorities addressed the treatment of cum-cum transactions, declaring their intention to critically examine past transactions for indications of abuse of law. According to the view put forward in the BMF circular, abuse of law pursuant to Article 42 of the German Tax Code (Abgabenordnung, AO) is indicated if there are no economically reasonable grounds for the transaction in question and the structure of the transaction appears to be largely tax-induced (tax arbitrage). The circular provides a non-exhaustive list of cases which the BMF will assess for tax purposes. In a letter dated 18 July 2017, the Bundesbank asked Commerzbank to assess the financial repercussions of the potential application of the BMF circular by means of a survey form. Based on the analyses conducted for cum-cum transactions, the Bank recognised precautionary provisions for potentially refundable own capital gains taxes.

With respect to cum-cum securities lending transactions, Commerzbank is exposed to compensation claims from third parties for crediting entitlements that have been denied. Based on the analyses performed, Commerzbank considers it rather unlikely that such claims could be enforced. However, it cannot be ruled out. Based on our estimates, there could be a financial impact in these cases.

For the other cum-cum-relevant transactions, Commerzbank has concluded that the legal structuring it adopted was appropriate under Article 42 of the German Tax Code.

The possibility that this conclusion could alter as developments unfold, for example in connection with assessments made by the tax authorities and fiscal/civil courts, cannot be completely ruled out.

In connection with the index clauses of loans denominated in Swiss francs (CHF) to Polish private customers, a court in Warsaw in a proceeding against another bank has submitted a request for a preliminary ruling to the European Court of Justice (ECJ). The question relates to the consequences under Polish law that an abusive indexing clause of a foreign currency loan would have in individual cases. In May 2019, the ECJ Advocate-General stated that a GBC indexing clause that was unlawful under Polish law must be declared void at the consumer's request if this is more favourable for the consumer. In effect, under Polish law this could mean that foreign currency loans would be converted into PLN and charged interest at LIBOR. A ruling is expected in September 2019. Depending on the ECJ's ruling, this could lead to negative financial impacts for the affected banks in Poland and therefore also to adverse consequences for Commerzbank. These consequences cannot be determined reliably at this time.

Some of these cases could also have an impact on the reputation of Commerzbank and its subsidiaries. The Group recognises provisions for such proceedings if liabilities are likely to result from them and the amounts to which the Group is likely to be liable can be determined with sufficient accuracy. Since there are considerable uncertainties as to how such proceedings will develop, the possibility cannot be ruled out that some of the provisions recognised for them may prove to be inadequate once the courts' final rulings are known. As a result, substantial additional expense may be incurred. This is also true in the case of legal proceedings for which the Group did not consider it necessary to recognise provisions. The eventual outcome of some legal proceedings might have an impact on Commerzbank's results and cash flow in a specified reporting period; in the worst case it cannot be fully ruled out that the liabilities that might result from them may also have a significant impact on Commerzbank's earnings performance, assets and financial position.

Further information on legal proceedings may be found in Note 38 regarding provisions and Note 39 regarding contingent liabilities and lending commitments in the interim financial statements.

Compliance risk In 2015 Commerzbank reached settlements with various US authorities regarding violations of US sanctions and anti-money laundering provisions. The Bank has already dealt with the majority of the findings relating to the settlements. The Bank has also received various interim reports and the final report from the monitor appointed by the New York State Department of Financial Services (DFS), to which it has responded with corresponding implementation programmes. The Bank has made good progress in carrying out the implementation programmes and has dealt with most of the measures. As a result, the monitor has completed its activities and the appointment ended on 24 June 2019.

In line with the requirements of the UK Financial Services and Markets Act 2000 (FSMA), in 2017 Commerzbank London mandated a consulting company as a "skilled person". The consulting company carried out a review of existing structures and processes (especially with regard to money laundering, financing of terrorism as well as sanctions/embargoes) and prepared a report for the UK Financial Conduct Authority (FCA). Commerzbank London subsequently put in place a full-scale remediation project, the implementation of which is being evaluated by the skilled person, with half-yearly reports to the FCA. Here too, Commerzbank has made good progress in implementation. The skilled person concluded the third phase of its audit in the second quarter of 2019. A fourth phase will commence in the third quarter as planned.

Since 31 December 2012 Commerzbank has been provisionally registered as a swap dealer with the U.S. Commodity Futures Trading Commission (CFTC). In accordance with a consent order issued by the CFTC on 8 November 2018, Commerzbank has engaged an outside consultant approved by the CFTC for a period of two years. The CFTC may extend this period by a further year at its discretion, based on its assessment of Commerzbank's remedial efforts. During the review period the outside consultant will produce annual reports assessing the swap dealer's compliance with the Commodity Exchange Act and the regulations of the CFTC. The report will also contain recommendations on improving the swap dealer's practices, policies and procedures. The outside consultant started work in April 2019 and is expected to present an initial report in the first quarter of 2020.

At the request of the Hong Kong Monetary Authority (HKMA), Commerzbank Hong Kong engaged an outside consultant to review the branch's local control and governance structures. The outside consultant began its audit in May 2019 and will present the final report at the beginning of the third quarter of 2019.

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26	Market risk
28	Liquidity risk
30	Operational risk
31	Other risks

Disclaimer Commerzbank's internal risk measurement methods and models which form the basis for the calculation of the figures shown in this report are state-of-the-art and based on banking sector practice. The risk models produce results appropriate to the management of the Bank. The measurement approaches are regularly reviewed by Risk Controlling and Internal Audit as well as by German and European supervisory authorities. Despite being carefully developed and regularly checked, models cannot cover all the

influencing factors that have an impact in reality or illustrate their complex behaviour and interactions. These limits to risk modelling apply in particular in extreme situations. Supplementary stress tests and scenario analyses can only show examples of the risks to which a portfolio may be exposed in extreme market situations. However, stress-testing all imaginable scenarios is not feasible. Stress tests cannot offer a final estimate of the maximum loss should an extreme event occur.

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Statement of comprehensive income

Income statement

€m	Notes	1.1.-30.6.2019	1.1.-30.6.2018 ¹	Change in %
Interest income accounted for using the effective interest method	(8)	3,830	3,588	6.7
Interest income accounted for not using the effective interest method	(8)	619	602	2.8
Interest income	(8)	4,449	4,190	6.2
Interest expenses	(8)	1,944	1,903	2.2
Net interest income	(8)	2,505	2,288	9.5
Dividend income	(9)	11	21	-44.7
Risk result	(10)	-256	-160	60.3
Commission income	(11)	1,870	1,911	-2.1
Commission expenses	(11)	364	346	5.1
Net commission income	(11)	1,507	1,565	-3.7
Net income from financial assets and liabilities at fair value through profit or loss	(12)	113	403	-72.0
Net income from hedge accounting	(13)	96	20	.
Other sundry realised profit or loss from financial instruments		18	-15	.
Gain or loss on disposal of financial assets – Amortised Cost		-7	-1	.
Other net income from financial instruments	(14)	11	-15	.
Current net income from companies accounted for using the equity method		7	9	-21.1
Other net income	(15)	36	105	-66.1
Operating expenses	(16)	3,150	3,274	-3.8
Compulsory contributions	(17)	337	302	
Pre-tax profit or loss from continuing operations		542	659	-17.7
Taxes on income	(18)	123	92	34.2
Consolidated profit or loss from continuing operations		419	568	-26.1
Consolidated profit or loss from discontinued operations		12	23	-46.2
Consolidated profit or loss		432	591	-26.9
Consolidated profit or loss attributable to non-controlling interests		41	57	-28.6
Consolidated profit or loss attributable to Commerzbank shareholders		391	533	-26.7

¹ Prior-year figures adjusted due to restatements (see Note 3).

€		1.1.-30.6.2019	1.1.-30.6.2018 ¹	Change in %
Earnings per share	(19)	0.31	0.43	-26.7

¹ Prior-year figures adjusted due to restatements (see Note 3).

The earnings per share, calculated in accordance with IAS 33, are based on the consolidated profit or loss attributable to Commerzbank shareholders. No conversion or option rights were

outstanding either in the previous or current year. The figure for diluted earnings per share was therefore identical to the undiluted figure.

Condensed statement of comprehensive income

€m	1.1.-30.6.2019	1.1.-30.6.2018 ¹	Change in %
Consolidated profit or loss	432	591	-26.9
Change from remeasurement of defined benefit plans not recognised in income statement	-240	-165	45.1
Change from the remeasurement of equity instruments (FVOCIoR)			.
Reclassified to retained earnings	-0	0	.
Change in value not recognised in income statement	5	1	.
Change from remeasurement in Own Credit Spread (OCS) of liabilities FVO not recognised in the income statement	-47	52	.
Items not recyclable through profit or loss	-282	-113	.
Change in revaluation reserve (FVOCI mR)			.
Reclassified to income statement	-25	-4	.
Change in value not recognised in income statement	69	-28	.
Change in cash flow hedge reserve			.
Reclassified to income statement	2	15	-85.5
Change in value not recognised in income statement	7	12	-44.2
Change in currency translation reserve			.
Reclassified to income statement	-	-2	.
Change in value not recognised in income statement	56	-152	.
Change from non-current assets held for sale or disposal groups			.
Reclassified to income statement	-	-	.
Change in value not recognised in income statement	-	-	.
Change in companies accounted for using the equity method	-0	1	.
Items recyclable through profit or loss	108	-158	.
Other comprehensive income	-173	-271	-36.0
Total comprehensive income	258	320	-19.2
Comprehensive income attributable to non-controlling interests	54	11	.
Comprehensive income attributable to Commerzbank shareholders	204	308	-33.9

¹ Prior-year figures adjusted due to restatements (see Note 3)

€m	1.4.-30.6.2019	1.4.-30.6.2018 ¹	Change in %
Consolidated profit or loss	298	295	1.1
Change from remeasurement of defined benefit plans not recognised in income statement	-16	-66	-76.5
Change from the remeasurement of equity instruments (FVOCIoR)	-	-	
Reclassified to retained earnings	-0	-	
Change in value not recognised in income statement	1	1	
Change from remeasurement in Own Credit Spread (OCS) of liabilities FVO not recognised in the income statement	-36	8	.
Items not recyclable through profit or loss	-51	-56	-9.5
Change in revaluation reserve (FVOCIImR)			
Reclassified to income statement	-13	-1	
Change in value not recognised in income statement	50	-27	
Change in cash flow hedge reserve			
Reclassified to income statement	1	3	-65.7
Change in value not recognised in income statement	2	-1	.
Change in currency translation reserve			
Reclassified to income statement	-	-	.
Change in value not recognised in income statement	1	-100	.
Change from non-current assets held for sale or disposal groups			
Reclassified to income statement	-	-	.
Change in value not recognised in income statement	-	-	.
Change in companies accounted for using the equity method	-0	-1	-92.1
Items recyclable through profit or loss	41	-126	.
Other comprehensive income	-10	-182	-94.4
Total comprehensive income	288	112	.
Comprehensive income attributable to non-controlling interests	43	-18	.
Comprehensive income attributable to Commerzbank shareholders	244	131	86.8

¹ Prior-year figures adjusted due to restatements (see Note 3).

The breakdown of other comprehensive income for the first six months was as follows:

Other comprehensive income €m	1.1.-30.6.2019			1.1.-30.6.2018 ¹		
	Before taxes	Taxes	After taxes	Before taxes	Taxes	After taxes
Change from remeasurement in Own Credit Spread (OCS) of liabilities FVO	-47	-0	-47	47	5	52
Change from the remeasurement of equity instruments (FVOCIoR)	5	-0	5	1	-0	1
Change from remeasurement of defined benefit plans	-290	50	-240	-244	78	-165
Change in revaluation of debt securities (FVOCIImR)	56	-12	44	-44	12	-32
Change in cash flow hedge reserve	12	-3	9	32	-5	27
Change in currency translation reserve	56	0	56	-154	0	-154
Change from non-current assets held for sale and disposal groups	-	-	-	-	-	-
Change in companies accounted for using the equity method	-0	-	-0	1	-	1
Other comprehensive income	-208	34	-173	-360	89	-271

¹ Prior-year figures adjusted due to restatements (see Note 3).

In the second quarter, the breakdown of other comprehensive income was as follows:

Other comprehensive income €m	1.4.-30.6.2019			1.4.-30.6.2018 ¹		
	Before taxes	Taxes	After taxes	Before taxes	Taxes	After taxes
Change from remeasurement in Own Credit Spread (OCS) of liabilities FVO	-37	0	-36	9	-0	8
Change from the remeasurement of equity instruments (FVOCIoR)	1	-0	1	0	1	1
Change from remeasurement of defined benefit plans	-25	10	-16	-96	29	-66
Change in revaluation of debt securities (FVOCIImR)	45	-7	37	-36	8	-28
Change in cash flow hedge reserve	4	-1	3	4	-1	2
Change in currency translation reserve	1	0	1	-100	0	-100
Change from non-current assets held for sale and disposal groups	-	-	-	-	-	-
Change in companies accounted for using the equity method	-0	-	-0	-1	-	-1
Other comprehensive income	-12	1	-10	-220	37	-182

¹ Prior-year figures adjusted due to restatements (see Note 3).

Income statement (by quarter)

€m	2019		2018 ¹			
	2 nd quarter	1 st quarter	4 th quarter	3 rd quarter	2 nd quarter	1 st quarter
Interest income accounted for using the effective interest method	1,919	1,911	1,864	1,866	1,827	1,761
Interest income accounted for not using the effective interest method	317	303	414	335	298	304
Interest income	2,235	2,214	2,278	2,201	2,125	2,065
Interest expenses	961	983	1,041	978	936	967
Net interest income	1,274	1,231	1,237	1,223	1,190	1,098
Dividend income	10	1	6	9	6	14
Risk result	-178	-78	-154	-133	-82	-77
Commission income	931	939	931	909	941	970
Commission expenses	192	171	178	138	178	169
Net commission income	739	768	754	771	763	802
Net income from financial assets and liabilities at fair value through profit or loss	28	85	-121	85	200	203
Net income from hedge accounting	46	50	22	6	36	-16
Other sundry realised profit or loss from financial instruments	33	-15	47	8	4	-19
Gain or loss on disposal of financial assets - Amortised Cost	-2	-5	-12	-2	-1	0
Other net income from financial instruments	31	-20	35	6	3	-19
Current net income from companies accounted for using the equity method	2	5	2	1	3	6
Other net income	-1	37	101	40	-24	129
Operating expenses	1,581	1,569	1,579	1,607	1,636	1,638
Compulsory contributions	72	265	63	55	58	244
Pre-tax profit or loss from continuing operations	298	244	240	346	401	258
Taxes on income	26	97	82	94	99	-7
Consolidated profit or loss from continuing operations	272	147	158	252	302	265
Consolidated profit or loss from discontinued operations	26	-13	-23	-10	-7	30
Consolidated profit or loss	298	134	135	242	295	296
Consolidated profit or loss attributable to non-controlling interests	27	14	22	24	23	34
Consolidated profit or loss attributable to Commerzbank shareholders	271	120	113	218	272	262

¹ Prior-year figures adjusted due to restatements (see Note 3).

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Balance sheet

Assets €m	Notes	30.6.2019	31.12.2018	Change in %
Cash on hand and cash on demand		64,947	53,914	20.5
Financial Assets – Amortised Cost	(20)	299,204	279,137	7.2
of which pledged as collateral		4,215	3,637	15.9
Financial Assets – Fair Value OCI	(22)	29,085	26,659	9.1
of which pledged as collateral		2,712	2,377	14.1
Financial Assets – Mandatorily Fair Value P&L	(24)	47,300	34,073	38.8
of which pledged as collateral		–	–	.
Financial Assets – Held for Trading	(25)	47,698	42,501	12.2
of which pledged as collateral		3,635	1,246	.
Value adjustment on portfolio fair value hedges		919	199	.
Positive fair values of derivative hedging instruments		2,003	1,457	37.4
Holdings in companies accounted for using the equity method		178	173	2.6
Intangible assets	(32)	3,141	3,246	–3.2
Fixed assets	(33)	3,643	1,547	.
Investment properties		13	13	.
Non-current assets held for sale and assets of disposal groups	(35)	14,158	13,433	5.4
Current tax assets		769	783	–1.8
Deferred tax assets		3,126	3,116	0.3
Other assets	(37)	1,847	2,119	–12.9
Total		518,030	462,369	12.0

Liabilities and equity €m	Notes	30.6.2019	31.12.2018	Change in %
Financial Liabilities – Amortised Cost	(21)	380,444	346,668	9.7
Financial Liabilities – Fair Value Option	(23)	38,403	21,949	75.0
Financial Liabilities – Held for Trading	(26)	45,108	43,404	3.9
Value adjustment on portfolio fair value hedges		1,412	532	.
Negative fair values of derivative hedging instruments		2,107	1,462	44.1
Provisions	(39)	2,900	3,153	-8.0
Current tax liabilities		370	472	-21.6
Deferred tax liabilities		26	20	28.2
Liabilities of disposal groups	(36)	13,365	12,914	3.5
Other liabilities	(38)	4,478	2,384	87.8
Equity		29,417	29,411	0.0
Subscribed capital		1,252	1,252	.
Capital reserve		17,192	17,192	.
Retained earnings		9,921	10,054	-1.3
Other reserves (with recycling)		-192	-287	-33.1
Total before non-controlling interests		28,173	28,211	-0.1
Non-controlling interests		1,244	1,200	3.7
Total		518,030	462,369	12.0

Statement of changes in equity

€m	Subscribed capital	Capital reserve	Retained earnings ¹	Other reserves			Total before non-controlling interests ¹	Non-controlling interests	Equity ¹
				Revaluation reserve ¹	Cash flow hedge reserve	Currency translation reserve			
Equity as at 31.12.2017 (after restatements)	1,252	17,192	11,230	-571	-54	-192	28,858	1,164	30,022
Change from first-time application of IFRS 9	-	-	-1,833	657	-2	-	-1,178	-24	-1,202
Equity as at 1.1.2018	1,252	17,192	9,397	86	-55	-192	27,680	1,141	28,820
Total comprehensive income	-	-	421	-33	27	-106	308	11	320
Consolidated profit or loss			533	-	-	-	533	57	591
Change in Own Credit Spread (OCS) of Liabilities FVO			52	-	-	-	52	-	52
Change from remeasurement of defined benefit plans			-165	-	-	-	-165	-0	-165
Change in measurement of equity instruments (FVOCIoR)			1				1	0	1
Change in revaluation of debt securities (FVOCIImR)				-33			-33	1	-32
Change in cash flow hedge reserve					27		27	-	27
Change in currency translation reserve						-107	-107	-47	-154
Change from non-current assets held for sale and disposal groups									
Change in companies accounted for using the equity method						1	1	-	1
Dividend paid on shares								-22	-22
Changes in ownership interests									
Other changes			7				7	1	8
Equity as at 30.6.2018	1,252	17,192	9,825	53	-28	-298	27,995	1,130	29,125

¹ Prior-year figures adjusted due to restatements (see Note 3).

€m	Subscribed capital	Capital reserve	Retained earnings	Other reserves			Total before non-controlling interests	Non-controlling interests	Equity
				Revaluation reserve	Cash flow hedge reserve	Currency translation reserve			
Equity as at 1.1.2019	1,252	17,192	10,054	-9	-15	-264	28,211	1,200	29,411
Total comprehensive income			109	47	6	43	204	54	258
Consolidated profit or loss			391				391	41	432
Change in Own Credit Spread (OCS) of Liabilities FVO			-47				-47	-	-47
Change from remeasurement of defined benefit plans			-239				-239	-1	-240
Change in measurement of equity instruments (FVOCIoR)			4	-			4	1	5
Change in revaluation of debt securities (FVOCIrR)				47			47	-3	44
Change in cash flow hedge reserve					6	-	6	3	9
Change in currency translation reserve						43	43	13	56
Change from non-current assets held for sale and disposal groups				-		-	-	-	-
Change in companies accounted for using the equity method						-0	-0	-	-0
Dividend paid on shares			-250				-250	-6	-257
Changes in ownership interests			2				2	-5	-3
Other changes			7				7	1	7
Equity as at 30.6.2019	1,252	17,192	9,921	38	-9	-221	28,173	1,244	29,417

As at 30 June 2019, there was no material impact on “Other reserves” from assets held for sale and disposal groups.

The main changes in the currency translation reserve in the current financial year thus far are due to the US dollar, Polish zloty, British pound, Russian rouble and Brazilian real. Other changes

primarily include changes from taxes not recognised in the income statement.

The changes in ownership interests of €-3m in 2019 resulted from the purchase of additional shares in companies that had already been consolidated.

Cash flow statement (condensed version)

€m	2019	2018 ¹	Change in %
Cash and cash equivalents as at 1.1.	53,914	55,222	-2.4
Net cash from operating activities	11,100	1,261	.
Net cash from investing activities	-332	-132	.
Net cash from financing activities	196	-144	.
Total net cash	10,964	985	.
Effect from exchange rate changes	69	36	93.1
Cash and cash equivalents as at 30.6.	64,947	56,243	15.5

¹ Prior-year figures adjusted due to restatements (see Note 3).

With regard to the Commerzbank Group, the cash flow statement is not very informative. The cash flow statement neither replaces the liquidity/financial planning for us, nor is it used as a management tool.

Selected notes

General information

(1) Accounting policies

The Commerzbank Group has its headquarters in Frankfurt/Main, Germany. The parent company is Commerzbank Aktiengesellschaft, which is registered in the Commercial Register at the District Court of Frankfurt/Main under registration no. HRB 32000. Our interim financial statements as at 30 June 2019 were prepared in accordance with Art. 315e of the German Commercial Code (Handelsgesetzbuch, or "HGB") and Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 (the IAS Regulation). In addition, other regulations for adopting certain international accounting standards on the basis of the International Financial Reporting Standards (IFRS) approved and published by the International Accounting Standards Board (IASB) and their interpretation by the IFRS Interpretations Committee have also been applied. This interim report takes particular account of the requirements of IAS 34 relating to interim financial reporting.

All standards and interpretations that are mandatory within the EU in financial year 2019 have been applied. We have not applied standards and interpretations that are not required until financial year 2020 or later.

The interim management report, including the separate interim risk report pursuant to Art. 315 of the German Commercial Code, is published on pages 6 to 30 of this interim report.

Uniform accounting and measurement methods are used throughout the Commerzbank Group in preparing the financial statements. For fully consolidated companies and holdings in companies accounted for using the equity method we have generally used financial statements prepared as at 30 June 2019.

The Group financial statements are prepared in euros, the reporting currency of the Group. Unless otherwise indicated, all amounts are shown in millions of euros. All items under €500,000.00 are presented as €0.00, and zero items are denoted by a dash. Due to rounding, in some cases the individual figures presented may not add up precisely to the totals provided.

(2) Initially applicable, revised and new standards and interpretations

Initially applicable standards and interpretations

The IASB published a new standard on the accounting treatment of leases, IFRS 16 Leases, in January 2016, which was transposed into EU law in the fourth quarter of 2017. The standard must

be applied in the EU for financial years beginning on or after 1 January 2019. It replaces IAS 17 and the related interpretations IFRIC 4, SIC-15 and SIC-27.

The application of IFRS 16 resulted in an increase of €2,307m. in total assets as of 1 January 2019. In financial year 2019, instead of the previously recognised administrative expenses, the income statement will show depreciation on the recognised rights of use and interest expenses from the unwinding of the discount on lease liabilities.

Note 6 of this interim report contains the reconciliation table as at 1 January 2019 in accordance with IFRS 16.

On 7 June 2017, IFRIC Interpretation 23 (Uncertainty over Income Tax Treatments) was published. This interpretation aims to clarify the recognition and measurement of income taxes in accordance with IAS 12 when uncertainty prevails regarding the treatment for income tax purposes. The IFRIC interpretation must be applied in the EU for financial years beginning on or after 1 January 2019. There were no impacts on the Group financial statements.

Revised standards

Revised standards IFRS 3, IFRS 11, IAS 12 and IAS 23, which were implemented as part of the Annual Improvements Project 2015–2017, did not have any material impacts on the Group financial statements. The revised standards must be applied for all financial years beginning on or after 1 January 2019.

New standards

The new accounting standard IFRS 17 Insurance Contracts, which was published in May 2017, will replace the IFRS 4 standard. The new standard applies not only to insurance companies, but to all entities that issue insurance contracts within the scope of the standard. IFRS 17 aims to achieve consistent, principles-based accounting for insurance contracts. It stipulates that insurance liabilities must be measured at the current settlement amount, instead of at historical cost. The IASB's intention in issuing IFRS 17 is to create a uniform basis for recognising, measuring, reporting and making disclosures in the notes regarding insurance contracts. The standard, which must be applied in the EU for financial years beginning on or after 1 January 2021, still needs to be transposed into European law. Based on our current analyses, we do not expect any significant impact on the Group Financial Statements.

(3) Changes

The realisation result from the disposal of financial assets at amortised cost was transferred out of the sub-item of the risk result as at 31 December 2018 and is now shown as a sub-item of other net income from financial instruments. This resulted in a more accurate presentation and a consistent separation into valuation and realisation components for financial instruments measured at amortised cost and fair value OCI. The comparative figures for the second quarter of 2018 have been adjusted accordingly. This had no impact on the statement of comprehensive income or the earnings per share.

In the first quarter of 2019, we changed the presentation of compulsory contributions, which comprise contributions to deposit

insurance, bank levies and the Polish bank tax. These compulsory contributions are only partially controllable and in future will therefore be presented apart from operating expenses as a separate item in the income statement. We amended the comparative figures in the income statement and the related notes for 2018. The restatements had no impact on consolidated profit or loss, the statement of comprehensive income or the earnings per share.

Additionally, the prior-year figures in the income statement for the discontinued business division EMC have been restated in accordance with the requirements of IFRS 5 (see Note 33).

€m	Originally reported 1.1.-30.6.2018	Adjustments according to IAS 8	Adjustments discontinued operations ¹	Restated 1.1.-30.6.2018
Interest income	4,240	–	–49	4,190
Interest expenses	2,033	–	–130	1,903
Net interest income	2,207	–	81	2,288
Dividend income	21	–	–	21
Risk Result	–160	1	–	–160
Commission income	1,924	–	–13	1,911
Commission expenses	362	–	–16	346
Net commission income	1,562	–	3	1,565
Net income from financial assets and liabilities at fair value through profit or loss	625	–	–222	403
Net income from hedge accounting	20	–	–	20
Other profit or loss from financial instruments	–15	–1	–	–15
Current net income from companies accounted for using the equity method	9	–	–	9
Other net income	105	–	–0	105
Operating expenses	3,684	–302	–108	3,274
Compulsory contributions	–	302	–	302
Restructuring expenses	–	–	–	–
Pre-tax profit or loss	689	–	–30	659
Taxes on income	99	–	–7	92
Pre-tax profit or loss from continuing operations	591	–	–23	568
Consolidated profit or loss from discontinued operations	–	–	23	23
Consolidated profit or loss	591	–	–0	591
Consolidated profit or loss attributable to non- controlling interests	57	–	–	57
Consolidated profit or loss attributable to Commerzbank shareholders	533	–	–0	533

¹ EMC business, which is to be sold to Société Générale (see Note 33).

4) Report on events after the reporting period

Issue of an additional Tier 1 bond

Commerzbank AG successfully issued its first additional Tier 1 bond at the beginning of July. The bond has a volume of USD1bn and a fixed coupon of 7.0% per annum and is listed on the Luxembourg Stock Exchange. The instrument has a perpetual maturity and a first call date in April 2025.

This issue will enable Commerzbank to optimise its capital structure, partially in response to the amended regulatory requirements imposed by the European Banking Authority (EBA). The subordinated bond meets the criteria set out in the Capital Requirements Regulation (CRR) for additional Tier 1 capital (AT1). The bond terms provide for a temporary write-down in the event that the Bank's Common Equity Tier 1 ratio (CET1 ratio) drops below 5.125%.

Sale of ebase GmbH

On 16 July 2019, our subsidiary comdirect bank AG, Quickborn, sold ebase GmbH (European Bank for Financial Services GmbH). The sale of the wholly owned subsidiary of comdirect bank AG was agreed in July 2018. Following approval by the banking supervisory authorities and the competition authorities, the sale to the financial technology provider FNZ Group has now been completed. The purchase price is €154m and will have a positive effect on the Commerzbank Group's income in the third quarter of the fiscal year.

Accounting and measurement policies

(5) Changes in accounting and measurement policies

With the exception of the application of IFRS 16 (see Note 6) and the changes described in Note 3, we have applied the same accounting and measurement policies in these interim financial

statements as in our Group financial statements as at 31 December 2018 (see page 159 ff. of the Annual Report 2018).

(6) First-time application of IFRS 16

The effects of the application of IFRS 16 and the new accounting policies applied as of 1 January 2019 are presented below.

First-time application is in accordance with the transitional provisions of IFRS 16 using the modified retrospective method. The figures for the comparison period were not adjusted. There were no effects to be recognised in equity.

With the application of IFRS 16, the Commerzbank Group recognised lease liabilities as of 1 January 2019 for leases previously classified as operating leases under IAS 17. These liabilities were measured at the net present value of the outstanding lease payments discounted at the incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate was 1.22% per annum.

For the lessee, the previous classification according to operating and finance leases no longer applies. The requirements for the lessor remain essentially unchanged, however.

For the first-time application, we made use of the simplification rule to include any provisions for onerous contracts in the right of use. For leases previously classified as operating leases, the status as at the changeover date was used as the basis. There was no retrospective calculation and consideration of initial direct costs. The exercise of extension or termination options continued to be assessed on the basis of the current facts and not based on the

retrospective probability of exercise at the start of the contract. We also chose to use the optional simplification rule to exclude leases for low-value leased assets from recognition in the balance sheet. At the time of initial application, we did not assess whether a contract existing prior to 1 January 2019 should be classified in whole or in part as a lease in accordance with IFRS 16. The estimates made in accordance with the previous regulations IAS 17 and IFRIC 4 were adopted. The right of use per lease was recognised according to the lease liability adjusted for prepaid or accrued payments.

In future, a right-of-use asset and a corresponding lease liability will be recognised for all leases. We recognise the right of use under fixed assets and depreciate it on a straight-line basis over the term of the lease. Maturity and call options are recognised as soon as their exercise is deemed sufficiently certain. The lease liability is recognised at the net present value of the future lease payments to be made. Subsequent measurement is performed using the effective interest method. We make use of the option to exclude low-value leases from accounting and recognise them directly as expenses.

The following table shows the reconciliation to the lease liability as of 1 January 2019, based on the lease obligations under operating leases as at 31 December 2018

€m	
Off-balance sheet lease liabilities as at 31.12.2018	2,657
Of which not IFRS 16 relevant	130
Application relief for leases of low-value assets	55
Others	0
Gross lease liabilities as at 1.1.2019	2,472
Discounting	154
Total lease liabilities as at 1.1.2019	2,317

As at 30 June 2019, the recognised rights of use amounted to €2,153m and mainly consisted of lease agreements for land and buildings.

(7) Consolidated companies**Acquisition of LeaseLink Sp. z.o.o.**

In the first quarter of 2019, mLeasing, a leasing company from the mBank subgroup, acquired a 100% interest in LeaseLink Sp. z.o.o.. LeaseLink is a company from the fintech sector specialised in leasing payment services. The purchase price is equivalent to € 7m. The following table shows the assets and liabilities recognised in the balance sheet that were consolidated at provisional values as at 30 June 2019:

€m	30.6.2019
Financial assets - Amortised Cost	16
Intangible assets	1
Fixed assets	0
Other assets	1
Total identified assets	18
Financial liabilities - Amortised Cost	17
Total identified liabilities	17
Net asset value	0
Purchase price/consideration	7
Goodwill	7

All shares in Commerz Funds Solutions S.A., Luxembourg, which was previously included in the group of consolidated companies, were sold in the second quarter of the 2019 financial year. This transaction is one of the steps in the transfer of the Equity Markets & Commodities (EMC) division to Société Générale Group. Please refer to Note 33 for further details on the transfer of the EMC division.

Apart from this, no material companies were newly included in the scope of consolidated companies. In addition, no material companies were sold or liquidated or are no longer consolidated for other reasons.

In the first quarter of financial year 2018, the Bank sold its interest in Capital Investment Trust Corporation, Taipei, Taiwan, a shareholding that previously had been accounted for using the equity method. This sale resulted in a positive effect on the income statement in other net income (see Note 15).

Notes to the income statement

(8) Net interest income

All interest income and interest expenses – including interest-like income and expenses – are reported in this item, provided they do not result from the held-for-trading portfolio.

Interest income includes all interest income that is generated from the primary bank business or banking-related transactions. This income results primarily from the provision of capital.

As with interest income, interest expenses contains all interest expenses, including reversals of premiums/discounts or other amounts based on the effective interest method, as well as interest-like expenses in connection with the ordinary banking business.

Other interest expenses include the net of interest income and interest expenses of hedge accounting items.

€m	1.1.-30.6.2019	1.1.-30.6.2018 ¹	Change in %
Interest income accounted for using the effective interest method	3,830	3,588	6.7
Interest income – Amortised Cost	3,612	3,383	6.8
Interest income from lending and money market transactions	3,198	2,964	7.9
Interest income from the securities portfolio	414	419	-1.2
Interest income – Fair Value OCI	167	148	12.5
Interest income from lending and money market transactions	12	13	-6.1
Interest income from the securities portfolio	155	136	14.2
Prepayment penalty fees	51	57	-9.5
Interest income accounted for not using the effective interest method	619	602	2.8
Interest income – Mandatorily Fair Value P&L	393	316	24.7
Interest income from lending and money market transactions	363	305	18.9
Interest income from the securities portfolio	30	10	.
Positive interest from financial instruments held as liabilities	226	287	-21.2
Interest expenses	1,944	1,903	2.2
Interest expenses – Amortised Cost	1,311	1,334	-1.7
Deposits	818	815	0.3
Debt securities issued	494	519	-4.8
Interest expenses – Fair Value Option	377	226	66.9
Deposits	361	198	81.9
Debt securities issued	16	27	-41.8
Negative interest from financial instruments held as assets	235	332	-29.3
Interest expenses from lease liabilities	13	-	
Other interest expenses	9	11	-19.1
Total	2,505	2,288	9.5

¹ Prior-year figures adjusted due to restatements (see Note 3).

(9) Dividend income

All dividends from shares and similar equity instruments – with the exception of dividends from trading portfolios – are reported in this item.

Here we also report the current net income from non-consolidated subsidiaries, which is realised through profit and loss transfer agreements. The non-consolidated subsidiaries are assigned to the mandatorily fair value P&L category.

€m	1.1.-30.6.2019	1.1.-30.6.2018	Change in %
Dividends from equity instruments – Fair Value OCI	2	1	52.2
Dividends from equity instruments – Mandatorily Fair Value P&L	5	14	-60.3
Current net income from non-consolidated subsidiaries	4	6	-25.7
Total	11	21	-44.7

A portfolio of European standard stocks (blue chips) held by a subsidiary in the Commerzbank Group was classified in the fair value OCI category. In the first six months of 2019, dividends of €2m

were received from these stocks and recognised in the income statement in dividend income (previous year: €1m).

(10) Risk result

The risk result contains changes to provisions recognised in the income statement for on- and off-balance-sheet financial instruments for which the IFRS 9 impairment model is to be applied. This also includes reversals of loss provisions when derecognition occurs because of scheduled redemptions, write-ups and amounts recovered on claims written-down and direct write-downs not

resulting from a substantial modification. In addition, changes to provisions recognised in the income statement for certain off-balance-sheet items that are not financial guarantees as defined in IFRS 9 (certain guarantees, letters of credit, see Note 39) are taken into account.

€m	1.1.-30.6.2019	1.1.-30.6.2018 ¹	Change in %
Financial Assets – Amortised Cost	-249	-179	39.1
Financial Assets – Fair Value OCI	8	1	.
Financial Guarantees	-0	-14	-97.1
Lending commitments and indemnity agreements	-15	32	.
Total	-256	-160	60.3

¹ Prior-year figures adjusted due to restatements (see Note 3).

For information on the organisation of risk management and on the relevant key figures, as well as additional analyses and explanatory material on the expected credit loss, please refer to the interim management report contained in this interim report (see page 6 ff.).

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(11) Net commission income

The Group reports income and expenses generated from the utilisation of services in net commission income. These amounts are realised when clients are provided with operational facilities, special business relationships or creditworthiness without changing the capitalised balance of banking claims. This also applies with

respect to commissions from the sale of foreign currencies, bank notes and precious metals, provided the activity relates to a service transaction and not to proprietary trading. The same applies conversely when the Bank utilises third-party services.

€m	1.1.-30.6.2019	1.1.-30.6.2018 ¹	Change in %
Commission income	1,870	1,911	-2.1
Securities transactions	566	591	-4.2
Asset management	155	171	-9.2
Payment transactions and foreign business	696	678	2.6
Guarantees	110	106	3.9
Net income from syndicated business	119	128	-7.3
Intermediary business	82	109	-25.0
Fiduciary transactions	13	13	0.2
Other income	130	115	13.1
Commission expenses	364	346	5.1
Securities transactions	138	132	3.9
Asset management	15	32	-53.8
Payment transactions and foreign business	75	76	-0.6
Guarantees	12	11	8.0
Net income from syndicated business	0	0	-28.8
Intermediary business	90	68	31.3
Fiduciary transactions	8	9	-4.9
Other expenses	26	18	46.3
Net provision income	1,507	1,565	-3.7
Securities transactions	428	458	-6.6
Asset management	140	139	1.0
Payment transactions and foreign business	620	602	3.0
Guarantees	98	95	3.4
Net income from syndicated business	119	128	-7.3
Intermediary business	-8	41	.
Fiduciary transactions	5	4	10.6
Other income	104	97	6.9
Total	1,507	1,565	-3.7

¹ Prior-year figures adjusted due to restatements (see Note 3).

The breakdown of commission income into segments by type of services based on IFRS 15 is as follows:

1.1.-30.6.2019 €m	Private and Small-Business Customers	Corporate Clients	Asset & Capital Recovery	Others and Consolidation ¹	Group
Securities transactions	565	21	0	-20	566
Asset management	153	2	-	-	155
Payment transactions and foreign business	317	385	0	-6	696
Guarantees	14	100	0	-4	110
Net income from syndicated business	0	118	0	-	119
Intermediary business	81	38	0	-37	82
Fiduciary transactions	8	5	-	-	13
Other income	108	34	0	-11	130
Total	1,246	703	0	-79	1,870

¹ The items in Others and Consolidation mainly relate to effects from the consolidation of expenses and income.

1.1.-30.6.2018 ² €m	Private and Small-Business Customers	Corporate Clients	Asset & Capital Recovery	Others and Consolidation ¹	Group
Securities transactions	588	10	0	-8	591
Asset management	152	18	0	0	171
Payment transactions and foreign business	319	369	1	-10	678
Guarantees	13	93	0	0	106
Net income from syndicated business	1	113	4	10	128
Intermediary business	92	17	0	0	109
Fiduciary transactions	13	0	0	0	13
Other income	94	17	1	4	115
Total	1,272	638	5	-4	1,911

¹ The items in Others and Consolidation mainly relate to effects from the consolidation of expenses and income.

² Prior-year figures adjusted due to restatements (see Note 3).

(12) Net income from financial assets and liabilities measured at fair value through profit and loss

This item includes the net income from financial assets and liabilities measured at fair value through profit or loss. It contains the net gain or loss from financial instruments in the held-for-trading category, the net gain or loss from financial instruments in the mandatorily fair value P&L category, and the net gain or loss from financial instruments in the fair value option category.

The net gain or loss from financial instruments in the held-for-trading category is the Bank's net trading income and is reported as the net balance of expenses and income. This item therefore includes:

- interest income, including dividends received and interest expenses from financial instruments held for trading;
- realised gains and losses from the sale of securities held for trading purposes, claims, foreign currencies and precious metals;

- net remeasurement gain or loss from remeasurements to fair value;
- net gain or loss from derivative financial instruments;
- net gain or loss from fair value adjustments (credit valuation adjustment/CVA, debit valuation adjustment/DVA, funding valuation adjustment/FVA);
- commission expenses and income incurred in connection with the acquisition or disposal of financial instruments held for trading purposes.

The net gain or loss from financial instruments in the mandatorily fair value P&L category and the net gain or loss from financial instruments in the fair value option category contain only net remeasurement gains or losses and realised profit or loss. Expenses and income are each presented on a net basis.

€m	1.1.-30.6.2019	1.1.-30.6.2018 ¹	Change in %
Profit or loss from financial instruments – Held for Trading	89	286	-68.7
Profit or loss from financial instruments – Fair Value Option	-102	28	.
Profit or loss from financial instruments – Mandatorily Fair Value P&L	125	89	39.9
Total	113	403	-72.0

¹ Prior-year figures adjusted due to restatements (see Note 3).

(13) Net income from hedge accounting

Net income from hedge accounting includes gains and losses on the valuation of effective hedges in fair value hedge accounting

(fair value hedge). Net income from hedge accounting also includes the ineffective portion of effective cash flow hedges.

€m	1.1.-30.6.2019	1.1.-30.6.2018	Change in %
Fair Value Hedges			
Changes in fair value attributable to hedging instruments	148	329	-55.0
Micro fair value hedges	-139	224	.
Portfolio fair value hedges	287	105	.
Changes in fair value attributable to hedged items	-52	-308	-83.1
Micro fair value hedges	197	-205	.
Portfolio fair value hedges	-250	-104	.
Cash Flow Hedges			
Gain or loss from effectively hedged cash flow hedges (ineffective part only)	0	0	-99.9
Total	96	20	.

(14) Other net income from financial instruments

This item contains the gain or loss on disposals of financial assets in the fair value OCI category as well as the gain or loss from the repurchase of financial liabilities in the amortised cost category.

The result from the disposal of financial assets in the amortised cost category includes effects from sales of financial instruments measured at amortised cost that are not triggered by a change in credit rating. It also contains the results from contractual adjustments agreed when loan arrangements with customers are restructured due to a deterioration in their creditworthiness (substantial modifications).

In the case of financial assets in the fair value OCI category (with recycling), the difference between amortised cost and fair value is recognised in the revaluation reserve until disposal

(except for impairments) without effect on income, and therefore not in the income statement. The revaluation reserve resulting from debt securities is reversed through profit and loss when the asset is disposed of. In the previous year this was also applicable for the available for sale category.

The disposal of financial liabilities in the amortised cost category results in a net realised profit or loss, which arises directly from the difference between the sale price and amortised costs.

In addition, the gain or loss from changes in estimates and well as the net remeasurement gain or loss from non-substantial modifications of financial instruments – Amortised cost are reported in this item.

€m	1.1.-30.6.2019	1.1.-30.6.2018 ¹	Change in %
Other sundry realised profit or loss from financial instruments	18	-15	.
Realised profit or loss from financial assets – Fair Value OCI	25	4	.
Realised profit or loss from financial liabilities – Amortised Cost	13	6	.
Gain or loss on non-substantial modifications – Amortised Cost	-3	-2	52.5
Gain or loss on non-substantial modifications – Fair Value OCI	-	-	.
Changes in uncertainties in estimates – Amortised Cost	-17	-23	-24.9
Changes in uncertainties in estimates – Fair Value OCI	-	-	.
Gain or loss on disposal of financial instruments (AC portfolios)	-7	-1	.
Gains on disposal of financial instruments (AC portfolios)	14	0	.
Losses on disposal of financial instruments (AC portfolios)	21	1	.
Total	11	-15	.

¹ Prior-year figures adjusted due to restatements (see Note 3).

The Commerzbank Group has loan portfolios totalling €301bn (previous year: €281bn) with financial instruments measured at amortised cost. This classification requires that the financial instruments included therein be allocated to a portfolio with the “hold to collect” business model and that no SPPI- non-compliant side agreements exist. These portfolios can involve not only redemptions but also sales of assets, while still remaining fundamentally in compliance with this business model. This is particularly the case if the debtor’s credit rating has deteriorated significantly or the asset no longer corresponds to the required criteria as set out in the internal guidelines, or if the sale is the result of portfolio reallocations just prior to the maturity of these assets.

The net gain or loss from the sale of financial instruments (AC portfolios) mainly resulted when the Group sold promissory note loans as part of permitted portfolio measures and repayments of loans.

Commerzbank modifies some of the contractual terms of loans granted, as part of non-substantial modifications that do not result in the derecognition of the previous financial instrument. The default risk of these assets after the change is measured as at the respective reporting date and compared with the risk under the original conditions.

(15) Other net income

Other net income primarily comprises allocations to and reversals of provisions and income and expenses from operating leases.

This item also includes the realised profit or loss and net remeasurement gain or loss from associated companies and jointly controlled entities.

€m	1.1.-30.6.2019	1.1.-30.6.2018 ¹	Change in %
Other material items of income	220	272	-19.1
Reversals of provisions	75	51	48.7
Operating lease income	85	84	1.8
Income from building and architects' services	0	0	-79.3
Hire-purchase income and sublease income	7	4	87.6
Income from investment properties	0	1	-16.1
Income from non-current assets held for sale	-	-	.
Income from disposal of fixed assets	2	1	87.4
Income from FX rate differences	9	23	-59.4
Remaining other income	41	110	-62.8
Other material items of expense	181	208	-13.1
Allocations to provisions	27	66	-59.7
Operating lease expenses	76	60	27.6
Expenses arising from building and architects' services	-	0	.
Hire-purchase expenses and sublease expenses	4	2	63.0
Expenses from investment properties	0	0	-9.2
Expenses from non-current assets held for sale	-	0	.
Expenses from disposal of fixed assets	1	1	50.3
Expenses from FX rate differences	7	23	-68.0
Remaining other expenses	65	55	17.3
Other tax (netted)	-7	7	.
Realised profit or loss and net remeasurement gain or loss from associated companies and jointly controlled entities (netted)	3	34	-91.4
Other net income	36	105	-66.1

¹ Prior-year figures adjusted due to restatements (see Note 3).

(16) Operating expenses

Personnel expenses €m	1.1.-30.6.2019	1.1.-30.6.2018	Change in %
Wages and salaries	1,640	1,579	3.9
Expenses for pensions and similar employee benefits	114	123	-7.3
Total	1,754	1,702	3.1

Administrative expenses €m	1.1.-30.6.2019	1.1.-30.6.2018 ¹	Change in %
Occupancy expenses	115	289	-60.2
IT expenses	270	306	-11.9
Workplace and information expenses	119	125	-5.3
Advisory, audit and other expenses required to comply with company law	133	212	-37.4
Travel, representation and advertising expenses	114	133	-14.0
Personnel-related administrative expenses	60	78	-23.5
Other administrative expenses	82	96	-13.9
Total	893	1,240	-28.0

¹ Prior-year figures adjusted due to restatements (see Note 3).

Depreciation and amortisation €m	1.1.-30.6.2019	1.1.-30.6.2018	Change in %
Office furniture and equipment	57	61	-7.1
Land and buildings	6	8	-32.5
Intangible assets	260	263	-0.9
Right of use	180	n/a	
Total	503	332	51.3

(17) Compulsory contributions

Compulsory contributions €m	1.1.-30.6.2019	1.1.-30.6.2018 ¹	Change in %
Deposit Protection Fund	73	70	4.3
Polish bank tax	60	46	31.5
European bank levy	204	187	9.3
Total	337	302	11.5

¹ Prior-year figures adjusted due to restatements (see Note 3).

(18) Taxes on income

Group tax expense was €123m as at 30 June 2019 (previous year: €92m). With pre-tax profit of €542m (previous year: €659m) the Group's effective tax rate was 22.7% (previous year: 14.4% (Group income tax rate: 31.5%, previous year: 31.5%)). Group tax expense mainly comprises the current tax expenses of the mBank

subgroup, comdirect bank Aktiengesellschaft and Commerzbank Aktiengesellschaft for the reporting period. The reduction in the tax rate compared with the Group income tax rate was primarily attributable to aperiodic tax income and lower tax rates at foreign locations on the operating profit realised there.

(19) Earnings per share

	1.1.-30.6.2019	1.1.-30.6.2018 ¹	Change in %
Operating profit (€m)	542	659	-17.7
Consolidated profit or loss attributable to Commerzbank shareholders (€m)	391	533	-26.7
Average number of ordinary shares issued	1,252,357,634	1,252,357,634	.
Operating profit per share (€)	0.43	0.53	-17.7
Earnings per share (€)	0.31	0.43	-26.7

¹ Prior-year figures adjusted due to restatements (see Note 3).

Earnings per share, calculated in accordance with IAS 33, are based on the consolidated profit or loss attributable to Commerzbank shareholders and are calculated by dividing the consolidated profit or loss by the weighted average number of shares outstanding during the financial year. As in the previous

year, no conversion or option rights were outstanding in the reporting year. The figure for diluted earnings per share was therefore identical to the undiluted figure. The breakdown of operating profit is set out in the segment report (see Note 40).

Notes to the balance sheet

Financial assets and liabilities

(20) Financial assets – Amortised Cost

If the contractually agreed cash flows of a financial asset comprise only interest and principal payments (i.e. the asset is SPPI-compliant) and this asset was allocated to the “hold to collect” business model, it is measured at amortised cost. The carrying

amount of these financial instruments is reduced by any loan loss provision (see Note 27 Credit risks and credit losses).

Interest payments for these financial instruments are recognised in net interest income using the effective interest rate method.

€m	30.6.2019	31.12.2018	Change in %
Loans and advances	267,083	247,387	8.0
Central banks	384	93	.
Banks	33,150	31,775	4.3
Corporate clients	101,335	92,090	10.0
Private customers	105,455	100,902	4.5
Other financial corporations	12,853	11,369	13.1
General governments	13,905	11,159	24.6
Debt securities	32,121	31,750	1.2
Banks	2,500	2,563	-2.4
Corporate clients	4,052	3,506	15.6
Other financial corporations	4,873	5,529	-11.9
General governments	20,695	20,152	2.7
Total	299,204	279,137	7.2

The business model for a portfolio of promissory note loans issued by British public-sector bodies, which had a carrying amount of €2.8bn, was changed as of 1 January 2019. As part of the planned closure of the Asset & Capital Recovery segment (run-off portfolio), this portfolio was grouped under Treasury and has been administered by the Investment Office since 1 January 2019 (see also Note 40). Distribution and sales activities for the portfolio have been discontinued. As of 1 January 2019, future sales for this portfolio are now only permitted in the event of a significant deterioration in credit quality. Portfolio management and management remuneration are therefore not based on fair value. The objective of the portfolio is to generate the contractually agreed cash flows. The contractually agreed cash flows are solely payments of interest and principal for the purposes of IFRS 9.

The change of business model resulted in reclassification from the mFVPL measurement category to the “amortised cost” category. The effective interest rate calculated at the time of reclassification was 2.8%. For the first six months of 2019, interest income for the reclassified portfolio was €35m and interest expense was zero.

The fair value of the portfolio at 30 June 2019 was €2.8bn. If the portfolio had remained in the mFVPL measurement category, the fair value change since the start of the year and the offsetting change in value of the derivatives held to hedge the portfolio would have been recognised in the income statement under net income from financial assets and liabilities measured at fair value through profit or loss. This would have resulted in net income of €-65m which mainly resulted from credit spread effects on the British pound. Since reclassification, the portfolio has been assigned to the portfolio fair value hedge accounting of Commerzbank.

(21) Financial liabilities – Amortised Cost

As a rule, financial liabilities must be subsequently measured at amortised cost.

Deposits include primarily deposits due on demand, term deposits and savings deposits.

We report in other debt issues also those subordinated securitised and unsecuritised issues which in the event of an insolvency or liquidation can be repaid only after the claims of all non-subordinated creditors have been satisfied.

€m	30.6.2019	31.3.2018	Change in %
Deposits	332,445	301,144	10.4
Central banks	4,796	2,955	62.3
Banks	55,468	45,076	23.1
Corporate clients	81,529	80,618	1.1
Private customers	134,981	125,899	7.2
Other financial corporations	36,045	30,993	16.3
General governments	19,626	15,603	25.8
Debt securities issued	47,999	45,524	5.4
Money market instruments	5,705	5,648	1.0
Covered bonds	20,602	18,869	9.2
Other debt securities issued	21,691	21,006	3.3
Total	380,444	346,668	9.7

New issues with a total volume of €9.0bn were issued in the first six months of 2019. In the same period, the volume of bonds maturing amounted to €7.1bn and redemptions to €0.5bn.

(22) Financial assets – Fair Value OCI

Measurement at fair value with recognition of the change in value in other comprehensive income with recycling (FVOCI with recycling) is required if the financial instrument is allocated to a portfolio with the “hold to collect and sell” business model and, in addition, the contractually agreed cash flows are solely interest and principal payments and are thus SPPI-compliant.

The changes in fair value are recognised in the revaluation reserve (OCI) without effect on income, except for impairments, which are recognised in the income statement. The recognition of loan loss provisions is explained in Note 27 “Credit risks and credit losses”. When a financial instrument is derecognised, the accumulated gains and losses recognised to date in OCI are reclassified to the income statement (recycling) and reported in other net income from financial instruments. Interest income from

these financial assets is recognised in net interest income using the effective interest method.

In addition, the financial assets – fair value OCI also include equity instruments for which we have chosen the option of fair value measurement without recycling with no effect on income, provided that these meet the definition of equity in accordance with IAS 32 and are not held for trading purposes. Such a classification is set voluntarily and irrevocably per financial instrument. All gains or losses from these equity instruments are never reclassified to the income statement, rather they are reclassified into retained earnings when sold (without recycling). These equity instruments are not subject to impairment testing. Any dividends paid on these instruments are recognised as dividend income in the income statement, provided they do not involve a return of capital.

€m	30.6.2019	31.12.2018	Change in %
Loans and advances (with recycling)	1,260	1,300	-3.0
Central banks	-	-	.
Banks	157	148	6.4
Corporate clients	532	539	-1.3
Private customers	-	-	.
Other financial corporations	87	38	.
General governments	483	574	-15.8
Debt securities (with recycling)	27,780	25,328	9.7
Banks	11,660	10,448	11.6
Corporate clients	935	749	24.9
Other financial corporations	5,555	5,001	11.1
General governments	9,630	9,131	5.5
Equity instruments (without recycling)	45	31	45.7
Corporate clients	43	30	45.6
Other financial corporations	2	1	47.0
Total	29,085	26,659	9.1

A portfolio of European standard stocks (blue chips) held by a subsidiary in the Commerzbank Group was classified in the fair value OCI category.

As at 30 June 2019, the fair value of these shares amounted to €45m (previous year: €31m). Dividends of €2m (previous year:

€1m) were received from these shares and recognised in the income statement in dividend income. In addition, sales from this portfolio resulted in a realised profit or loss totalling €0m (previous year €0m) which was recognised in retained earnings without effect on income.

(23) Financial liabilities – Fair Value Option

Under IFRS 9 rules, in the case of an accounting mismatch the management of financial liabilities on a fair value basis and the existence of embedded derivatives requiring separation may also be conditions for applying the fair value option to liabilities.

If the fair value option is used for financial liabilities or for hybrid contracts, the changes in fair value resulting from fluctuations in own credit spread are not recognised in the income statement, but in other comprehensive income (without recycling) with no effect on income.

€m	30.6.2019	31.12.2018	Change in %
Deposits	37,627	21,083	78.5
Central banks	4,578	2,734	67.4
Banks	11,971	8,498	40.9
Corporate clients	647	1,015	-36.3
Private customers	154	157	-1.5
Other financial corporations	20,054	8,511	.
General governments	223	167	33.5
Debt securities issued	776	866	-10.4
Other debt securities issued	776	866	-10.4
Total	38,403	21,949	75.0

For liabilities to which the fair value option was applied, the change in fair value in the first six months of 2019 due to credit risk reasons was €15m (previous year: €-48m). The cumulative change was €-47m (previous year: €-18m).

€0m (previous year: €0m) realised from disposals of financial liabilities for which the fair value option was applied was recognised in retained earnings without effect on income.

New issues with a total volume of €0.1bn were issued in the first six months of 2019. During the same period the volume of repayments was €0.2bn, there were no significant maturing issues within the same period.

(24) Financial assets – Mandatorily Fair Value P&L

This item includes financial instruments that are allocated to the residual business model and not reported in financial assets – held for trading. In addition, transactions allocated to the “hold to collect” and “hold to collect and sell” business model are included here if they are not SPPI-compliant. Examples of such transactions include investment fund units, profit-sharing certificates, silent participations and assets managed on a fair value basis.

Equity instruments are exclusively contracts providing a residual interest in the assets of a company after deducting all asso-

ciated debts, such as shares or interests in other joint-stock companies.

Equity instruments are not SPPI-compliant because the investor has no claim to interest and principal repayments. As a result, these instruments are usually measured at fair value through profit or loss. An exception to this rule exists for equity instruments for which the Group has chosen the option to measure them at fair value in other comprehensive income without recycling (see Note 22).

€m	30.6.2019	31.12.2018	Change in %
Loans and advances	43,863	31,386	39.8
Central banks	8,189	8,266	-0.9
Banks	14,183	10,785	31.5
Corporate clients	1,914	2,053	-6.8
Private customers	218	262	-16.8
Other financial corporations	18,811	6,082	.
General governments	549	3,938	-86.1
Debt securities	3,032	2,350	29.0
Banks	122	73	68.2
Corporate clients	105	116	-9.6
Other financial corporations	1,323	1,407	-6.0
General governments	1,482	754	96.5
Equity instruments	404	337	20.0
Banks	9	9	-
Corporate clients	345	283	21.7
Other financial corporations	50	44	13.3
Total	47,300	34,073	38.8

(25) Financial assets – Held for Trading

This category includes interest- and equity-related securities, promissory note loans and other claims, derivative financial instruments (derivatives that do not qualify for hedge accounting) as well as other trading portfolios allocated to the residual business model and held for trading. These financial instruments are used to realise profits from short-term fluctuations in prices or traders' margins.

Irrespective of the type of product, these financial assets are measured at fair value through profit or loss. The fair value changes of the respective transactions are therefore reported

through profit or loss in the income statement. If the fair value cannot be established on an active market, items are measured by means of comparable prices, indicative prices of pricing service providers or other banks (lead managers), or internal valuation models (net present value or option pricing models).

Interest income and expenses and gains or losses on measurement and disposal from these financial instruments are recorded in the income statement under net income from financial assets and liabilities measured at fair value through profit or loss.

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€m	30.6.2019	31.12.2018	Change in %
Loans and advances	793	1,028	-22.9
Banks	499	628	-20.5
Corporate clients	277	254	8.8
Other financial corporations	1	3	-73.8
General governments	16	143	-88.5
Debt securities	3,590	1,621	.
Banks	819	523	56.7
Corporate clients	119	61	93.6
Other financial corporations	433	390	11.1
General governments	2,219	648	.
Equity instruments	1,407	1,021	37.9
Banks	12	10	24.9
Corporate clients	1,395	1,011	38.0
Other financial corporations	-	-	.
Positive fair values of derivative financial instruments	41,007	38,067	7.7
Interest-rate-related derivative transactions	31,065	27,302	13.8
Currency-related derivative transactions	7,025	7,442	-5.6
Equity derivatives	997	1,518	-34.3
Credit derivatives	537	511	5.0
Other derivative transactions	1,384	1,294	7.0
Other trading positions	901	764	17.9
Total	47,698	42,501	12.2

(26) Financial liabilities – Held for Trading

This item comprises derivative financial instruments (derivatives that do not qualify for hedge accounting), own issues in the trading book and delivery commitments arising from short sales of securities.

€m	30.6.2019	31.12.2018	Change in %
Certificates and other issued bonds	42	49	-14.4
Delivery commitments arising from short sales of securities	2,198	3,091	-28.9
Negative fair values of derivative financial instruments	42,868	40,264	6.5
Interest-rate-related derivative transactions	33,378	29,464	13.3
Currency-related derivative transactions	7,339	8,512	-13.8
Equity derivatives	580	743	-21.9
Credit derivatives	916	923	-0.7
Other derivative transactions	655	622	5.3
Total	45,108	43,404	3.9

Credit risks and credit losses

(27) Credit risks and credit losses

Principles and measurements

IFRS 9 stipulates that impairments for credit risks from loans and securities that are not recognised at fair value through profit or loss must be recognised using a 3-stage model based on expected credit losses. In the Commerzbank Group, the following financial instruments are included in the scope of this impairment model:

- financial assets in the form of loans and advances as well as debt securities measured at amortised cost;
- financial assets in the form of loans and advances as well as debt securities measured at fair value through other comprehensive income (FVOCI);
- lease receivables;
- irrevocable lending commitments which under IFRS 9 are not measured at fair value through profit or loss;
- financial guarantees within the scope of IFRS 9 that are not measured at fair value through profit or loss.

The Group determines the impairment using a 3-stage model based on the following requirements:

In stage 1, as a rule all financial instruments are recognised if their risk of a loan loss (hereinafter default risk) has not risen significantly since their initial recognition. In addition, stage 1 includes all transactions with limited default risk as at the reporting date for which Commerzbank utilises the option provided for in IFRS 9 to refrain from making an assessment about a significant increase in the default risk. A limited default risk exists for all financial instruments with an investment-grade internal credit rating on the financial reporting date (corresponds to a Commerzbank rating of 2.8 or better). An impairment must be recognised for financial instruments in stage 1 in the amount of the expected credit loss over the next 12 months (12-month ECL).

Stage 2 includes those financial instruments with default risk that has risen significantly since their initial recognition and which, as at the financial reporting date, cannot be classified as transactions with limited default risk. Impairments in stage 2 are

recognised in the amount of the financial instrument's lifetime expected credit loss (LECL).

Financial instruments that are classified as impaired as at the reporting date are allocated to stage 3. Commerzbank's criterion for this classification is the definition of a default in accordance with Art. 178 of the Capital Requirements Regulation (CRR). The following events can be indicative of a customer default:

- Imminent insolvency (over 90 days past due).
- The Bank is assisting in the financial rescue/restructuring measures of the customer with or without restructuring contribution(s).
- The Bank has demanded immediate repayment of its claims;
- The customer is in insolvency proceedings.

The LECL is likewise used as the value of the required impairment for stage-3 financial instruments in default. When determining the LECL, the Group distinguishes in principle between significant and insignificant cases. The amount of the LECL for insignificant transactions (volumes up to €5m) is determined based on statistical risk parameters. The LECL for significant transactions (volumes greater than €5m) is the expected value of the losses derived from individual expert assessments of future cash flows based on several potential scenarios and their probability of occurrence.

Financial instruments which when initially recognised are already considered impaired as per the aforementioned definition (purchased or originated credit-impaired, or POCI) are handled outside the 3-stage impairment model and are therefore not allocated to any of the three stages. The initial recognition is based on fair value without recording an impairment, using an effective interest rate that is adjusted for creditworthiness. The impairment recognised in subsequent periods equals the cumulative change in the LECL since the initial recognition in the balance sheet. The LECL remains the basis for the measurement, even if the value of the financial instrument has risen.

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€m	As at 1.1.2019	Net allocations / reversals	Utilisation	Change in the group of consolidated companies	Exchange rate changes / reclassification	As at 30.6.2019
Valuation allowances for risks from financial assets	2,229	241	285	–	14	2,199
Financial Assets – Amortised Cost	2,213	249	298	–	15	2,178
Loans and advances	2,106	277	272	–	13	2,124
Debt securities	107	–28	26	–	1	54
Financial Assets – Fair value OCI	16	–8	–12	–	–0	20
Loans and advances	7	–8	–15	–	–0	13
Debt securities	9	0	2	–	0	7
Provisions for financial guarantees	9	0	–	–	0	10
Provisions for lending commitments	136	–5	–	–	0	131
Provisions for indemnity agreements	119	20	–	–	1	139
Total	2,493	256	285	–	16	2,479

€m	As at 1.1.2018	Net allocations / reversals	Utilisation	Change in the group of consolidated companies	Exchange rate changes / reclassification	As at 31.12.2018
Valuation allowances for risks from financial assets	2,226	475	466	–	–6	2,229
Financial Assets – Amortised Cost	2,209	477	467	–	–7	2,213
Loans and advances	2,119	462	467	–	–9	2,106
Debt securities	90	15	0	–	2	107
Financial Assets – Fair value OCI	16	–2	–1	–	1	16
Loans and advances	7	–0	–	–	0	7
Debt securities	9	–1	–1	–	1	9
Provisions for financial guarantees	10	–1	–	–	0	9
Provisions for lending commitments	127	9	–	–	–0	136
Provisions for indemnity agreements	156	–38	0	–	1	119
Total	2,518	446	466	–	–5	2,493

The breakdown into stages in the current financial year is as follows:

€m	Stage 1	Stage 2	Stage 3	POCI	Total
Valuation allowances for risks from financial assets	286	359	1,461	92	2,199
Loans and advances	254	330	1,461	92	2,137
Debt securities	32	30	0	–	62
Provisions for financial guarantees	2	2	3	3	10
Provisions for lending commitments	70	45	8	9	131
Provisions for indemnity agreements	1	75	42	21	139
Total	359	481	1,514	125	2,479

The breakdown into stages as at 31 December 2018 is as follows:

€m	Stage 1	Stage 2	Stage 3	POCI	Total
Valuation allowances for risks from financial assets	278	418	1,471	62	2,229
Loans and advances	248	335	1,469	61	2,113
Debt securities	30	83	2	1	116
Provisions for financial guarantees	2	1	2	4	9
Provisions for lending commitments	70	48	13	5	136
Provisions for indemnity agreements	1	67	37	15	119
Total	351	534	1,523	86	2,493

Other notes on financial instruments

(28) IFRS 13 fair value hierarchies and disclosure requirements

Fair value hierarchy

Under IFRS 13, financial instruments are assigned to the three levels of the fair value hierarchy as follows:

- Level 1: Financial instruments where the fair value is based on quoted prices for identical financial instruments in an active market.
- Level 2: Financial instruments where no quoted prices are available for identical instruments in an active market and the fair value is established using valuation techniques which rely on observable market parameters.
- Level 3: Financial instruments where valuation techniques are used that incorporate at least one material input for which there is insufficient observable market data and where at least this input has a more than insignificant impact on the fair value.

With respect to the methods of model-based measurements (level 2 and level 3) relevant for banks, IFRS 13 recognises the market approach and the income approach. The market approach relies on measurement methods that draw on information about identical or comparable assets and liabilities.

The income approach reflects current expectations about future cash flows, expenses and income. The income approach may also include option price models. These valuations are subject to a higher degree to judgements by management. Market data or third-party inputs are relied on to the greatest possible extent, and company-specific inputs to a limited degree.

Valuation models must be consistent with accepted economic methodologies for pricing financial instruments and must incorporate all factors that market participants would consider appropriate in setting a price.

The fair values that can be realised at a later date may fundamentally deviate from the estimated fair values.

All fair values are subject to the Commerzbank Group's internal controls and procedures, which set out the standards for independently verifying or validating fair values. These controls and procedures are carried out and coordinated by the Independent Price Verification (IPV) Group within the finance function. The models, inputs and resulting fair values are reviewed regularly by senior management and the risk function.

Disclosure obligations

Below, a distinction is made between:

- financial instruments measured at fair value (fair value OCI, fair value option, mandatorily fair value P&L and held for trading);
- financial instruments measured at amortised cost.

The respective disclosure requirements regarding these financial instruments are set out in IFRS 7 and IFRS 13. For example,

they require explanatory statements on the valuation techniques applied and the inputs used for levels 2 and 3, as well as quantitative disclosures on unobservable inputs (level 3). The reporting entity must also provide the date of, reasons for and information about reclassifications between fair value hierarchy levels, reconciliations between the opening and closing balances for level 3 portfolios as at the respective reporting dates, and unrealised gains and losses. In addition, sensitivities for the unobservable inputs (level 3) are to be presented, and information on the day one profit or loss is to be provided.

a) Financial instruments measured at fair value

According to IFRS 13, the fair value of an asset is the amount for which it could be sold between knowledgeable, willing independent parties in an arm's length transaction. The fair value therefore represents an exit price. The fair value of a liability is defined as the price at which the debt could be transferred to a third party as part of an orderly transaction.

The measurement of liabilities must also take account of the Bank's own credit spread. If third parties provide security for our liabilities (e.g. guarantees), this security is not taken into account in the valuation of the liability, as the Bank's repayment obligation remains the same.

When measuring derivative transactions, the Group uses the possibility of establishing net risk positions for financial assets and liabilities. The measurement takes into account not only counterparty credit risk but also the Bank's own default risk. The Group determines credit valuation adjustments (CVAs) and debit valuation adjustments (DVAs) by simulating the future fair values of its portfolios of derivatives with the respective counterparty based on observable market data (e.g. CDS spreads). In the case of funding valuation adjustments (FVAs), the funding costs or income of uncollateralised derivatives, as well as collateralised derivatives where there is only partial collateral or the collateral cannot be used for funding purposes, are recognised at fair value. Like CVAs and DVAs, FVAs are also determined from the expected value of the future positive or negative portfolio fair values using observable market data (e.g. CDS spreads). The funding curve used to calculate the FVA is approximated by the Commerzbank funding curve.

IFRS 9 requires that all financial instruments be measured at fair value upon initial recognition. This is usually the transaction price. If a portion relates to something other than the financial instrument being measured, fair value is estimated using a valuation method.

The following tables show the financial instruments reported in the balance sheet at fair value by IFRS 9 fair value category and by class.

Financial assets €bn	30.6.2019				31.12.2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial Assets – Fair Value OCI								
Loans and advances	–	1.3	–	1.3	–	1.3	–	1.3
Debt securities	18.3	9.5	0.0	27.8	15.4	9.7	0.2	25.3
Equity instruments	0.0	–	–	0.0	0.0	–	–	0.0
Financial Assets – Mandatorily Fair Value P&L								
Loans and advances	–	42.1	1.7	43.9	–	26.6	4.8	31.4
Debt securities	0.4	1.4	1.2	3.0	0.6	0.7	1.0	2.4
Equity instruments	0.0	–	0.4	0.4	0.0	–	0.3	0.3
Financial Assets – Held for Trading								
Loans and advances	0.1	0.7	–	0.8	0.2	0.9	–	1.0
Debt securities	2.9	0.7	0.0	3.6	0.9	0.7	0.0	1.6
Equity instruments	1.4	0.0	0.0	1.4	1.0	–	–	1.0
Derivatives	–	37.2	3.8	41.0	–	34.7	3.4	38.1
Others	0.9	–	–	0.9	0.8	–	–	0.8
Positive fair values of derivative financial instruments								
Hedge accounting	–	2.0	–	2.0	–	1.5	–	1.5
Non-current assets held for sale and disposal groups								
Loans and advances	–	0.1	–	0.1	–	0.2	–	0.2
Debt securities	1.9	0.2	0.0	2.1	2.3	0.1	0.0	2.4
Equity instruments	6.3	0.0	0.0	6.3	7.8	–	–	7.8
Derivatives	–	4.4	0.1	4.5	–	2.2	0.1	2.3
Total	32.2	99.6	7.3	139.1	29.1	78.4	10.0	117.5

Financial liabilities €bn	30.6.2019				31.12.2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial liabilities - Fair Value Option								
Deposits	–	37.6	–	37.6	–	21.1	–	21.1
Debt securities issued	0.8	–	–	0.8	0.9	–	–	0.9
Financial liabilities - Held for Trading								
Derivatives	–	39.3	3.6	42.9	–	37.0	3.3	40.3
Certificates and other notes issued	0.0	–	0.0	0.0	0.0	–	0.0	0.0
Delivery commitments arising from short sales of securities	2.1	0.1	–	2.2	2.7	0.4	0.0	3.1
Negative fair values of derivative hedging instruments								
Hedge accounting	–	2.1	–	2.1	–	1.5	–	1.5
Liabilities of disposal groups								
Deposits	–	3.2	–	3.2	–	3.3	–	3.3
Debt securities issued	–	–	–	–	–	–	–	–
Derivatives	–	4.2	0.3	4.5	–	3.4	0.3	3.7
Certificates and other notes issued	4.0	0.0	–	4.0	4.5	–	–	4.5
Delivery commitments arising from short sales of securities	0.4	0.1	–	0.4	0.5	0.0	–	0.5
Total	7.3	86.6	3.9	97.8	8.6	66.5	3.7	78.8

A reclassification to a different level occurs where a financial instrument is reclassified from one level of the 3-level valuation hierarchy to another. This may be caused, for example, by market changes that impact on the input factors used to value the financial instrument.

Commerzbank reclassifies items as at the end of the reporting period.

In the first six months of 2019 a number of reclassifications from level 1 to level 2 were carried out, as there were no listed market prices available. These related to €0.4bn debt securities in the FVOCI category and €0.2bn debt securities in the category HFT, €0.4 bn debt securities in the category mFVPL and €0.1bn delivery commitments arising from short sales of securities in the HFT category. Furthermore, debt securities of €2.3bn in the FVOCI category, debt securities of €0.5bn in the HFT category, €0.5bn delivery commitments arising from short sales of securities in the HFT category and €0.1bn debt securities issued

in the FVO category were reclassified from level 2 to level 1, as observable market prices were again available. We did not make any other significant reclassifications between level 1 and level 2.

In financial year 2018 reclassifications from level 1 to level 2 were carried out, as there were no listed market prices available. These related to €1.2bn debt securities in the HFT category and €0.3bn debt securities in the mFVPL category, €0.5bn debt securities in the FVOCI category and €0.1bn delivery commitments arising from short sales of securities in the HFT category. Furthermore €0.8bn of debt securities in the FVOCI category, €0.1bn debt securities in the mFVPL category, €0.1bn debt securities in the HFT category, and €0.1bn delivery commitments arising from short sales of securities in the HFT category were reclassified from level 2 to level 1, as observable market prices were again available. We did not make any other significant reclassifications between level 1 and level 2. The changes in financial instruments in the level 3 category were as follows:

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Financial Assets €m	Financial Assets – Fair Value OCI	Financial Assets – Mandatorily Fair Value P&L	Financial Assets – Held for Trading	Non-current assets held for sale and disposal groups	Total
Fair Value as at 1.1.2019	215	6,208	3,415	125	9,962
Changes in the group of consolidated companies	–	–	–	–	–
Gains or losses recognised in income statement during the period	–0	–211	407	1	198
of which unrealised gains or losses	–0	–211	407	16	213
Gains or losses recognised in revaluation reserve	–	–	–	–	–
Purchases	–	328	40	25	393
Sales	–1	–596	–0	–16	–613
Issues	–	–	–	–	–
Redemptions	–	–	–	–	–
Reclassifications to level 3	3	351	28	58	440
Reclassifications from level 3	–215	–24	–43	–36	–318
IFRS 9 reclassifications	–	–2,762	–	–	–2,762
Reclassifications from/to non-current assets held for sale and disposal groups	–	–	–	–	–
Fair Value as at 30.6.2019	1	3,294	3,848	157	7,300

Financial Assets €m	Financial Assets – Fair Value OCI	Financial Assets – Mandatorily Fair Value P&L	Financial Assets – Held for Trading	Non-current assets held for sale and disposal groups	Total
Fair Value as at 1.1.2018	36	6,319	3,754	–	10,109
Changes in the group of consolidated companies	–	–	–	–	–
Gains or losses recognised in income statement during the period	–1	–90	–158	–	–249
of which unrealised gains or losses	–1	–88	–153	–	–242
Gains or losses recognised in revaluation reserve	–	–	–	–	–
Purchases	–	2,164	–9	1	2,155
Sales	–31	–2,592	–51	–	–2,674
Issues	–	–	–	–	–
Redemptions	–	–	–	–	–
Reclassifications to level 3	288	542	109	2	941
Reclassifications from level 3	–78	–135	–108	–	–321
Reclassifications from/to non-current assets held for sale and disposal groups	–	–	–122	122	0
Fair Value as at 31.12.2018	215	6,208	3,415	125	9,962

Unrealised gains or losses on financial instruments held for trading (securities and derivatives) and on claims and securities measured at fair value through profit or loss are a component of the net income from financial assets and liabilities measured at fair value through profit or loss.

As at 1 January 2019 €2.8bn of a loans and advances portfolio in the category mFVPL was reclassified to the IFRS-9 category AC both in level 3 (see Note 20). In the first six months of 2019 €0.2bn debt securities of IFRS-9 category FVOCI were reclassified from level 3 back to level 2 because market parameters were observable again. In contrast, €0.4bn debt securities of the category mFVPL and €0.1bn of debt securities in non-current assets

held for sale and disposal groups were reclassified from level 1 to level 3 because no market parameters were observable. There were no other significant reclassifications.

In financial year 2018 €0.1bn debt securities of the IFRS-9 category mFVPL were reclassified from level 3 back to level 2 because market parameters were observable again.

In contrast, €0.3bn of loans and receivables in the mFVPL category and €0.3bn debt securities of the category mFVPL were reclassified from level 2 to level 3 because market parameters were not observable.

The changes in financial liabilities in the level 3 category during the financial year were as follows:

Financial Liabilities €m	Financial Liabilities – Fair Value Option	Financial Liabilities – Held for Trading	Liabilities of disposal groups	Total
Fair Value as at 1.1.2019	–	3,330	334	3,665
Changes in the group of consolidated companies	–	–	–	–
Gains or losses recognised in income statement during the period	–	259	–7	253
of which unrealised gains or losses	–	259	39	298
Purchases	–	35	14	49
Sales	–	–44	–	–44
Issues	–	–	–	–
Redemptions	–	–	–57	–57
Reclassifications to level 3	–	–	17	17
Reclassifications from level 3	–	0	–17	–16
Reclassification from/to liabilities of disposal groups	–	–	–	–
Fair Value as at 30.6.2019	–	3,581	284	3,865

Financial Liabilities €m	Financial Liabilities – Fair Value Option	Financial Liabilities – Held for Trading	Liabilities of disposal groups	Total
Fair Value as at 1.1.2018	100	3,897	–	3,997
Changes in the group of consolidated companies	–	–	–	–
Gains or losses recognised in income statement during the period	–	–126	–	–126
of which unrealised gains or losses	–	–104	–	–104
Purchases	–	120	–	120
Sales	–100	–2	–	–102
Issues	–	–	–	–
Redemptions	–	–13	–	–13
Reclassifications to level 3	–	49	–	49
Reclassifications from level 3	–	–261	–	–261
Reclassification from/to liabilities of disposal groups	–	–334	334	–
Fair Value as at 31.12.2018	–	3,330	334	3,665

Unrealised gains or losses on financial liabilities held for trading are a component of the net income from financial assets and liabilities measured at fair value through profit or loss.

In the first six months of 2019 no significant reclassifications of financial liabilities to or from level 3 have taken place.

In financial year 2018 €0.1bn derivatives with negative fair values were reclassified from level 3 to level 2, as market parameters were again observable. Otherwise there were no significant reclassifications of financial liabilities into or out of level 3.

Sensitivity analysis

Where the value of financial instruments is based on unobservable input parameters (level 3), the precise level of these parameters at the reporting date may be derived from a range of reasonable possible alternatives at the discretion of management. In preparing the Group financial statements, appropriate levels for these unobservable input parameters are chosen which are consistent with existing market evidence and in line with the Group's valuation control approach.

The purpose of this disclosure is to illustrate the potential impact of the relative uncertainty in the fair values of financial instruments with valuations based on unobservable input parameters (level 3). Interdependencies frequently exist between the parameters used to determine level 3 fair values. For example, an anticipated improvement in the overall economic situation may cause share prices to rise, while securities perceived as being lower risk, such as German Government Bonds, may lose value. Such interdependencies are accounted for by means of correlation parameters insofar as they have a significant effect on the fair values in question. If a valuation model uses several parameters, the choice of one parameter may restrict the range of possible values the other parameters may take. So, by definition, this category will contain more illiquid instruments, instruments with longer-term maturities and instruments where sufficient independent observable market data is difficult to obtain. The purpose of this infor-

mation is to illustrate the main unobservable input parameters for level 3 financial instruments and subsequently present various inputs on which the key input parameters were based.

The main unobservable input parameters for level 3 and the key related factors may be summarised as follows:

- Internal rate of return (IRR):

The IRR is defined as the discount rate that sets the net present value of all future cash flows from an instrument equal to zero. For bonds, for example, the IRR depends on the current bond price, the nominal value and the duration.

- Credit spread:

The credit spread is the yield spread (premium or discount) between securities that are identical in all respects except for their respective credit quality. The credit spread represents the excess yield above the benchmark reference instrument that compensates for the difference in creditworthiness between the instrument and the benchmark. Credit spreads are quoted in terms of the number of basis points above (or below) the quoted benchmark. The wider (higher) the credit spread in relation to the benchmark, the lower the instrument's creditworthiness, and vice versa for narrower (lower) credit spreads.

- Interest rate-forex (IR-FX) correlation:

The IR-FX correlation is relevant for the pricing of exotic interest rate swaps involving the exchange of funding instruments in one currency and an exotic structured leg that is usually based on the development of two government bond yields in different currencies. Consensus market data for longer durations are not observable for certain exotic interest products. For example, CMT yields for US government bonds with a duration of more than ten years are not observable.

- Recovery rates, survival and default probabilities:

Supply and demand as well as the arbitrage relationship with asset swaps tend to be the dominant factors driving pricing of credit default swaps (CDS). Models for pricing credit default swaps

tend to be used more for exotic structures and off-market default swap valuation for which fixed interest payments above or below the market rate are agreed. These models calculate the implied default probability of the reference asset as a means of discounting the cash flows expected in a credit default swap. The model inputs are credit spreads and recovery rates that are used to interpolate (“bootstrap”) a time series of survival probabilities of the reference asset. A typical recovery rate assumption in the default swap market for senior unsecured contracts is 40%. Assumptions about recovery rates are a factor determining the shape of the survival probability curve. Different recovery rate assumptions translate into different survival probability rates. For a given credit spread, a high recovery rate assumption implies a higher probability of default (relative to a low recovery rate assumption) and hence a lower survival probability. There is a relationship over time between default rates and recovery rates of corporate bond issuers. The correlation between the two is an inverse one: an increase in the default rate (defined as the percentage of issuers defaulting) is generally associated with a decline in the average recovery rate.

In practice, market participants use market spreads to determine implied default probabilities. Estimates of default probabilities also depend on the joint loss distributions of the parties involved in a credit derivative transaction. The copula function is used to measure the correlation structure between two or more variables. The copula function creates a joint distribution while keeping the characteristics of the two independent marginal distributions.

- Repo curve:

The repo curve parameter is an input parameter that is relevant for the pricing of repurchase agreements (repos). Generally, these are short-dated maturities ranging from O/N up to 12 months. Beyond 12-month maturities the repo curve parameter may become unobservable, particularly for emerging market underlyings, due to the lack of available independent observable market data. In some cases, proxy repo curves may be used to estimate the repo curve input parameter. Where this is deemed insufficient, the input parameter will be classified as unobservable. Furthermore, mutual-fund-related repos may also contain unobservable repo curve exposures.

- Price:

Certain interest rate and loan instruments are accounted for on the basis of their price. It follows that the price itself is the unobservable parameter of which the sensitivity is estimated as a deviation in the net present value of the positions.

- Investment fund volatility:

In general, the market for options on investment funds is less liquid than the market for stock options. As a result, the volatility of the underlying investment funds is determined based on the composition of the fund products. There is an indirect method of determining the corresponding volatility surfaces. This method is assigned to level 3 because the market data it uses are not liquid enough to be classified as level 2.

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The following ranges for the material unobservable parameters were used in the valuation of our level 3 financial instruments:

€m		30.6.2019			30.6.2019	
Valuation techniques		Assets	Liabilities	Significant unobservable input parameters	Range	
Loans and advances		1,740	–		–	–
Repos	Discounted cash flow model	1,389	–	Repo-curve (bps)	240	265
Ship financing	Discounted cash flow model	221	–	Credit spread (bps)	150	4,150
Other loans	Discounted cash flow model	130	–	Credit spread (bps)	70	700
Debt securities		1,210	14		–	–
Interest-rate-related transactions	Spread based model	1,210	14	Credit spread (bps)	100	500
of which ABS	Spread based model	853	–	Credit spread (bps)	100	500
Equity instruments		397	–		–	–
Equity-related transactions	Discounted cash flow model	397	–	Price (%)	90%	110%
Derivatives		3,953	3,850			
Equity-related transactions	Discounted cash flow model	130	314	IRR (%)	5%	20%
	Option pricing model	–	–	Investment fund volatility	1%	4%
Credit derivatives (incl. PFI and IRS)	Discounted cash flow model	3,822	3,370	Credit spread (bps)	100	500
		–	–	Recovery rate (%)	0%	80%
Interest-rate-related transactions	Option pricing model	–	167	IR-FX correlation (%)	–30%	52%
Other transactions		–	–		–	–
Total		7,300	3,865			

€m	Valuation techniques	31.12.2018		Significant unobservable input parameters	31.12.2018	
		Assets	Liabilities		Range	
Loans and advances		4,830	–		–	–
Repos	Discounted cash flow model	1,528	–	Repo-curve (bps)	126	257
Ship financing	Discounted cash flow model	479	–	Credit spread (bps)	600	1,200
Other loans	Discounted cash flow model	2,823	–	Credit spread (bps)	70	700
Debt securities		1,267	–		–	–
Interest-rate-related transactions	Spread based model	1,267	–	Credit spread (bps)	100	500
of which ABS	Spread based model	1,072	–	Credit spread (bps)	100	500
Equity instruments		328	–		–	–
Equity-related transactions	Discounted cash flow model	328	–	Price (%)	90%	110%
Derivatives		3,537	3,665			
Equity-related transactions	Discounted cash flow model	122	334	IRR (%), price (%), investment fund volatility	1%	9%
Credit derivatives (incl. PFI and IRS)	Discounted cash flow model	3,415	3,152	Credit spread (bps)	100	500
		–	–	Recovery rate (%)	40%	80%
Interest-rate-related transactions	Option pricing model	–	179	IR-FX correlation (%)	–30%	52%
Other transactions		–	–		–	–
Total		9,962	3,665			

The table below shows the impact on the income statement of reasonable parameter estimates on the edges of these ranges for instruments in level 3 of the fair value hierarchy. The sensitivity

analysis for financial instruments in level 3 of the fair value hierarchy is broken down by type of financial instrument:

€m	30.6.2019		Changed parameters
	Positive effects on income statement	Negative effects on income statement	
Loans	17	–17	
Repos	14	–14	Repo curve
Ship financing	1	–1	Credit Spread
Other loans	2	–2	Credit Spread
Debt securities	48	–48	
Interest-rate-related transactions	48	–48	Price
of which ABS	29	–29	IRR, recovery rate, credit spread
Equity instruments	0	–0	
Equity-related transactions	0	–0	Price
Derivatives	23	–22	
Equity-related transactions	11	–11	IRR, price based, investment fund volatility
Credit derivatives (incl. PFI and IRS)	11	–10	credit spread, recovery rate, price
Interest-rate-related transactions	1	–1	Price, IR-FX correlation
Other transactions	–	–	

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€m	31.12.2018		Changed parameters
	Positive effects on income statement	Negative effects on income statement	
Loans	76	-76	
Repos	15	-15	Repo curve
Ship financing	5	-5	Credit Spread
Other loans	56	-56	Credit Spread
Debt securities	52	-52	
Interest-rate-related transactions	52	-52	Price
of which ABS	33	-33	IRR, recovery rate, credit spread
Equity instruments	1	-1	
Equity-related transactions	1	-1	Price
Derivatives	19	-19	
Equity-related transactions	9	-9	IRR, price based, investment fund volatility
Credit derivatives (incl. PFI and IRS)	10	-10	credit spread, recovery rate, price
Interest-rate-related transactions	-	-	Price, IR-FX correlation
Other transactions	-	-	

The selected parameters lie at the extremes of their range of reasonable possible alternatives. In practice, however, it is unlikely that all unobservable parameters would simultaneously lie at the extremes of their range of reasonable possible alternatives. Consequently, the estimates provided are likely to exceed the actual uncertainty in the fair values of these instruments. The purpose of these figures is not to estimate or predict future changes in fair value. The unobservable parameters were either shifted by between 1 and 10% as deemed appropriate by our independent valuation experts for each type of instrument or a measure of standard deviation was applied.

Day One Profit or Loss

The Commerzbank Group has entered into transactions where the fair value was calculated using a valuation model, where not all

material input parameters were observable in the market. The initial carrying value of such transactions is the fair value. The difference between the transaction price and the fair value under the model is termed the “day one profit or loss”. The day one profit or loss is not recognised immediately in the income statement but over the term of the transaction. As soon as there is a quoted market price on an active market for such transactions or all material input parameters become observable, the accrued day one profit or loss is immediately recognised in the income statement in the gain or loss from financial assets and liabilities measured at fair value through profit or loss. A cumulated difference between the transaction price and fair value determined by the model is calculated for the level 3 items in all categories. Material impacts result only from financial instruments held for trading.

The amounts changed as follows:

€m	Day-One Profit or Loss		
	Financial Assets – Held for Trading	Financial Liabilities – Held for Trading	Total
Balance as at 1.1.2018	-	34	34
Allocations not recognised in income statement	-	35	35
Reversals recognised in income statement	-	-11	-11
Balance as at 31.12.2018	-	58	58
Allocations not recognised in income statement	-	-	-
Reversals recognised in income statement	-	-28	-28
Balance as at 30.6.2019	-	30	30

b) Financial instruments measured at amortised cost

IFRS 7 additionally requires disclosure of the fair values for financial instruments not recognised in the balance sheet at fair value. The measurement methodology to determine fair value in these cases is explained below.

The standard requires that transaction costs also be taken into account when initially measuring assets that will not be measured at fair value in subsequent measurements. These costs include the additional expenses incurred associated with the acquisition, issue or disposal of a financial asset or a financial liability. The transaction costs do not include premiums and discounts, finance costs, internal operating costs or holding costs.

The nominal value of financial instruments that fall due on a daily basis is taken as their fair value. These instruments include cash on hand and cash on demand, as well as overdrafts and demand deposits. We allocate these to level 2. Market prices are not available for loans, as there are no organised markets for trading these financial instruments. In the case of loans, the Bank therefore applies a discounted cash flow model.

The cash flows are discounted using a risk-free interest rate plus premiums for risk costs, refinancing costs, operating expenses and equity costs. The risk-free interest rate is determined based on swap rates (swap curves) that match the corresponding maturities and currencies. These can usually be derived from external data.

In addition, the Bank applies a premium in the form of a calibration constant that includes a profit margin. The profit margin is reflected in the model valuation of loans such that fair value as at the initial recognition date corresponds to the disbursement amount.

Data on the credit risk costs of major banks and corporate customers are available in the form of credit spreads, making it possi-

ble to classify them as level 2. If no observable input parameters are available, it may also be appropriate to classify the fair value of loans as level 3.

In the case of securities accounted for in the amortised cost category of IFRS 9, fair value is determined based on available market prices (level 1), assuming an active market exists. If there is no active market, recognised valuation methods are to be used to determine the fair values. In general, an asset swap pricing model is used for the valuation. The parameters applied comprise yield curves and the asset swap spreads of comparable benchmark instruments. Depending on the input parameters used (observable or not observable), classification is made at level 2 or level 3.

For deposits, a discounted cash flow model is generally used for determining fair value, since market data are usually not available. In addition to the yield curve, own credit spread and a premium for operating expenses are also taken into account. Since credit spreads of the respective counterparties are not used in the measurement of liabilities, they are usually classified as level 2. In the case of non-observable input parameters, classification at level 3 may also be appropriate.

The fair value of debt securities issued is determined on the basis of available market prices. If no prices are available, the discounted cash flow model is used to determine the fair values. A number of different factors, including current market interest rates, own credit spread and capital costs, are taken into account in determining fair value. If available market prices are applied, they are to be classified as level 1. Otherwise, classification at level 2 normally applies, since valuation models rely to a high degree on observable input parameters.

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30.6.2019 €bn	Fair Value	Carrying amount	Difference	Level 1	Level 2	Level 3
Assets	367.0	366.2	0.8	11.8	116.8	238.4
Cash on hand and cash on demand	64.9	64.9	–	–	64.9	–
Financial Assets – Amortised Cost	300.9	299.2	1.7	11.8	50.8	238.4
Loans and advances	272.0	267.1	4.9	–	35.4	236.6
Debt securities	28.9	32.1	–3.2	11.8	15.4	1.8
Value adjustment on portfolio fair value hedges	–	0.9	–0.9	–	–	–
Non-current assets held for sale and disposal groups	1.1	1.1	0.0	0.0	1.1	–
Loans and advances	1.1	1.1	–	–	1.1	–
Debt securities	0.0	0.0	0.0	0.0	0.0	–
Liabilities	383.5	383.0	0.6	29.6	351.1	2.9
Financial Liabilities – Amortised Cost	382.4	380.4	2.0	29.6	350.0	2.9
Deposits	332.2	332.4	–0.2	–	332.2	0.0
Debt securities issued	50.2	48.0	2.2	29.6	17.8	2.9
Value adjustment on portfolio fair value hedges	–	1.4	–1.4	–	–	–
Liabilities of disposal groups	1.1	1.1	–	–	1.1	–
Deposits	1.1	1.1	–	–	1.1	–
Debt securities issued	–	–	–	–	–	–

31.12.2018 €bn	Fair Value	Carrying amount	Difference	Level 1	Level 2	Level 3
Assets	332.0	333.9	–1.9	10.8	102.4	218.8
Cash on hand and cash on demand	53.9	53.9	–	–	53.9	–
Financial Assets – Amortised Cost	277.4	279.1	–1.7	10.8	48.0	218.6
Loans and advances	248.9	247.4	1.5	–	32.1	216.8
Debt securities ¹	28.5	31.8	–3.3	10.8	15.9	1.8
Value adjustment on portfolio fair value hedges	–	0.2	–0.2	–	–	–
Non-current assets held for sale and disposal groups	0.7	0.7	0.0	–	0.4	0.2
Loans and advances	0.6	0.6	0.0	–	0.4	0.2
Debt securities	0.0	0.0	0.0	–	0.0	–
Liabilities	348.5	348.0	0.5	24.3	321.1	3.1
Financial Liabilities – Amortised Cost	347.7	346.7	1.1	24.3	320.3	3.1
Deposits	300.9	301.1	–0.3	–	300.9	–
Debt securities issued ¹	46.8	45.5	1.3	24.3	19.4	3.1
Value adjustment on portfolio fair value hedges	–	0.5	–0.5	–	–	–
Liabilities of disposal groups	0.8	0.8	–	–	0.8	–
Deposits	0.8	0.8	–	–	0.8	–
Debt securities issued	–	–	–	–	–	–

¹ Adjusted values

The methodology for classification within the level hierarchy was amended for debt securities and debt securities

issued in the amortised cost category. This resulted in a reclassification from level 2 to level 1.

(29) Information on netting of financial instruments

Below we present the reconciliation of gross amounts before netting to net amounts after netting, as well as the amounts for existing netting rights that do not meet the accounting criteria for netting – separately for all financial assets and liabilities carried on the balance sheet that

- are already netted in accordance with IAS- 32.42 (financial instruments I), and are
- subject to an enforceable, bilateral master netting agreement or a similar agreement but are not netted in the balance sheet (financial instruments II).

For the netting agreements, we conclude master agreements with our counterparties, e.g. 1992 ISDA Master Agreement (Mul-

ticurrency – Cross Border) and German Master Agreement for Financial Futures. By means of such netting agreements, the positive and negative fair values of the derivatives contracts included under a master agreement can be offset against one another. This netting process reduces the credit risk to a single net claim on the party to the contract (close-out netting).

We apply netting to receivables and liabilities from genuine repurchase agreements (reverse repos and repos) with central and bilateral counterparties, provided they have the same term. OTC derivatives with customers and cleared own portfolios are likewise netted.

Assets €m	30.6.2019		31.12.2018	
	Reverse repos	Positive fair values of derivative financial instruments	Reverse repos	Positive fair values of derivative financial instruments
Gross amount of financial instruments	67,355	130,844	49,781	93,485
Book values not eligible for netting	19,903	4,469	7,997	5,018
a) Gross amount of financial instruments I and II	47,452	126,376	41,784	88,467
b) Amount netted in the balance sheet for financial instruments I ¹	28,065	83,312	24,565	51,657
c) Net amount of financial instruments I and II = a) – b)	19,388	43,063	17,219	36,810
d) Master agreements not already accounted for in b)				
Amount of financial instruments II which do not fulfil or only partially fulfil the criteria under IAS 32.42 ²	2,613	28,050	4,345	24,928
Fair value of financial collateral relating to financial instruments I and II not already accounted for in b) ³				
Non-cash collateral ⁴	15,087	18	9,709	58
Cash collateral	5	10,440	2	7,790
e) Net amount of financial instruments I and II = c) – d)	1,684	4,556	3,163	4,033
f) Fair value of financial collateral of central counterparties relating to financial instruments	115	–	1,258	147
g) Net amount of financial instruments I and II = e) – f)	1,568	4,556	1,904	3,887

¹ Of which for positive fair values €4,710m (previous year: €2,708m) is attributable to margins.

² Lesser amount of assets and liabilities.

³ Excluding rights or obligations to return arising from the transfer of securities.

⁴ Including financial instruments not reported on the balance sheet (e.g. securities provided as collateral in repo transactions).

Liabilities €m	30.6.2019		31.12.2018	
	Repos	Negative fair values of derivative financial instruments	Repos	Negative fair values of derivative financial instruments
Gross amount of financial instruments	63,879	130,168	43,793	95,193
Book values not eligible for netting	14,699	3,734	2,505	4,324
a) Gross amount of financial instruments I and II	49,181	126,434	41,288	90,869
b) Amount netted in the balance sheet for financial instruments I ¹	28,065	80,712	24,565	49,754
c) Net amount of financial instruments I and II = a) – b)	21,116	45,722	16,723	41,115
d) Master agreements not already accounted for in b)				
Amount of financial instruments II which do not fulfil or only partially fulfil the criteria under IAS 32.42 ²	2,613	28,050	4,345	24,928
Fair value of financial collateral relating to financial instruments I and II not already accounted for in b) ³				
Non-cash collateral ⁴	5,517	429	10,780	730
Cash collateral	7,123	14,919	1,445	12,161
e) Net amount of financial instruments I and II = c) – d)	5,863	2,324	153	3,296
f) Fair value of financial collateral of central counterparties relating to financial instruments I	5,681	–	114	568
g) Net amount of financial instruments I and II = e) – f)	182	2,324	38	2,728

¹ Of which for negative fair values €7,309m (previous year: €4,611m) is attributable to margins.

² Lesser amount of assets and liabilities.

³ Excluding rights or obligations to return arising from the transfer of securities.

⁴ Including financial instruments not reported on the balance sheet (e.g. securities provided as collateral in repo transactions).

(30) Derivatives

The total effect of netting amounted to €88,021m as at 30 June 2019 (previous year: €54,365m). On the assets side, €83,311m of this was attributable to positive fair values (previous year: €51,657m) and €4,710m to claims for variation margins (previous

year: €2,708m). Netting on the liabilities side involved negative fair values of €80,712m (previous year: €49,754m) and liabilities for variation margins payable of €7,309m (previous year: €4,611m).

Notes to the balance sheet (non-financial instruments)

(31) Intangible assets

€m	30.6.2019	31.12.2018	Change in %
Goodwill	1,511	1,507	0.3
Other intangible assets	1,630	1,739	–6.3
Customer relationships	139	159	–12.8
In-house developed software	1,102	1,163	–5.2
Purchased software and other intangible assets	389	417	–6.7
Total	3,141	3,246	–3.2

(32) Fixed assets

€m	30.6.2019	31.12.2018	Change in %
Land and buildings	321	322	-0.4
Rights of use (leases)	2,153	n/a	
Land and buildings	2,120	n/a	
Office furniture and equipment	33	n/a	
Office furniture and equipment	439	458	-4.3
Leased equipment	729	766	-4.8
Total	3,643	1,547	.

(33) Discontinued business division

At the end of 2018, Commerzbank Aktiengesellschaft, Frankfurt and Société Générale Group, Paris, France concluded a purchase agreement for the Equity Markets & Commodities (EMC) division of the Business Segment Corporate Clients. This transaction is a further milestone in the implementation of the “Commerzbank 4.0” strategy, which aims to reduce the Bank’s complexity and free up capital for Commerzbank’s core business areas.

The transaction will be executed in several stages. Major parts of the discontinued operation were already transferred by 30 June 2019 or will be transferred before the end of 2019. Due to the scope of the transactions and the employees to be transferred as well as the complexity of the individual transfer processes, however, it will not be possible to complete all the transfers in 2019 or by 30 June 2020. The transfer process was started according to plan in the first quarter and continued in the second quarter of 2019 with the complete transfer of the asset management business. Major parts of the development and issuing of structured financial products business have also already been transferred, with the opportunities and risks arising from the associated assets and liabilities initially being transferred “synthetically” to Société Générale Group through the conclusion of corresponding derivative transactions. The legal transfer of the relevant assets and liabilities, which also requires their derecognition from the balance sheet, will only take place at later stages in the transaction from 2019 onwards and is expected to be completed in 2021. The economic transfer to the purchaser will be largely completed within a year. Only legal transfers will then still follow.

As at 30 June 2019, the assets and liabilities of the discontinued operation amounted to €13.6bn (previous year: €13.0bn) and €12.8bn (previous year: €12.4bn) respectively. The assets and liabilities are mostly measured at fair value.

As a result, the assets and liabilities of the EMC division were reclassified in the Group financial statements in accordance with the requirements IFRS 5. EMC is a discontinued operation because EMC’s areas of business, namely the development and issuing of structured financial products and asset management, are characterised by particularly complex products and hedging transactions. These are not comparable with the other business activities of the Corporate Clients segment and of the Bank as a whole and have therefore been isolated for internal management and reporting purposes and prepared for spin-off. The earnings of this business division are therefore presented separately in the income statement. In order to achieve an economically appropriate presentation of the discontinued operation, intragroup services between continuing operations and the discontinued business division are eliminated under continuing operations. The prior-year figures were restated accordingly.

The income is mainly attributable to net remeasurement gains or losses and realised profit or loss from the portfolios to be transferred and thus to the original net income from financial assets and liabilities measured at fair value through profit or loss. The expenses relate to the corresponding operating expenses.

Detailed information on the discontinued business division is provided below.

€m	1.1.–30.6.2019	1.1.–30.6.2018 ¹	Change in %
Income	106	138	-23.4
Expenses	105	108	-2.3
Pre-tax net income	0	30	-99.1
Taxes on income	-12	7	.
Consolidated profit or loss from discontinued operations	12	23	-46.2
Consolidated profit or loss on discontinued operations attributable to Commerzbank shareholders	12	23	-46.2

¹ Prior-year figures adjusted due to restatements (see Note 3).

The profit attributable to Commerzbank shareholders from continuing operations amounted to €378m (previous year: €510m).

€	1.1.–30.6.2019	1.1.–30.6.2018 ¹	Change in %
Earnings per share for discontinued operations	0.01	0.02	-46.2

¹ Prior-year figures adjusted due to restatements (see Note 3).

€m	2019	2018 ¹	Change in %
Net cash from operating activities	12	23	-46.2
Net cash from investing activities	-	-	
Net cash from financing activities	-	-	

(34) Non-current assets held for sale and disposal groups

€m	30.6.2019	31.12.2018	Change in %
Financial Assets – Amortised Cost	1,120	665	68.5
Loans and advances	1,093	642	70.4
Debt securities	27	23	15.3
Financial Assets – Fair Value OCI	-	-	.
Loans and advances	-	-	.
Debt securities	-	-	.
Equity instruments	-	-	.
Financial Assets – Mandatorily Fair Value P&L	142	325	-56.4
Loans and advances	67	241	-72.2
Debt securities	74	83	-10.8
Equity instruments	0	0	-
Financial Assets – Held for Trading	12,902	12,444	3.7
Loans and advances	-	-	
Debt securities	2,037	2,294	-11.2
Equity instruments	6,345	7,847	-19.1
Derivatives	4,521	2,304	96.2
Intangible assets	20	13	53.1
Fixed assets	34	23	43.8
Other assets	-60	-38	58.1
Total	14,158	13,433	5.4

Assets from disposal groups mainly relate to the discontinuation of the EMC business division (see Note 33) and the sale of ebase GmbH. The sale of ebase GmbH has now been completed (see Note 4).

(35) Liabilities from disposal groups

€m	30.6.2019	31.12.2018	Change in %
Financial Liabilities – Amortised Cost	1,107	815	35.9
Deposits	1,107	815	35.9
Debt securities issued	–	–	.
Financial Liabilities – Fair Value Option	3,217	3,267	–1.5
Deposits	3,217	3,267	–1.5
Debt securities issued	–	–	.
Financial Liabilities – Held for Trading	8,950	8,726	2.6
Certificates and other issued bonds	4,035	4,543	–11.2
Delivery commitments arising from short sales of securities	433	470	–7.8
Derivatives	4,481	3,713	20.7
Other liability items	91	105	–13.6
Total	13,365	12,914	3.5

Liabilities from disposal groups relate to the discontinuation of the EMC business division (see Note 33) and the sale of ebase GmbH. The sale of ebase GmbH has now been completed (see Note 4).

(36) Other assets

€m	30.6.2019	31.12.2018	Change in %
Precious metals	34	26	30.1
Accrued and deferred items	317	220	43.9
Defined benefit assets recognised	102	377	–73.0
Other assets	1,394	1,496	–6.8
Total	1,847	2,119	–12.9

(37) Other liabilities

€m	30.6.2019	31.12.2018	Change in %
Liabilities attributable to film funds	313	313	–
Liabilities attributable to non-controlling interests	61	66	–7.4
Accrued and deferred items	333	312	6.5
Lease liabilities	2,197	n/a	
Other liabilities	1,574	1,692	–7.0
Total	4,478	2,384	87.8

(38) Provisions

€m	30.6.2019	31.12.2018	Change in %
Provisions for pensions and similar commitments	982	1,084	-9.4
Other provisions	1,918	2,069	-7.3
Total	2,900	3,153	-8.0

The provisions for pensions and similar commitments relate primarily to direct pension commitments in Germany (see page 254 ff. of the Annual Report 2018). The actuarial assumptions underlying these obligations at 30 June 2019 were: a discount rate of 1.2% (previous year: 1.9%) and, an expected adjustment to pensions of 1.4% (previous year: 1.6%). The reduction in the expected adjustment to pensions resulted in a one-off effect of €183m before taxes, which was recognised directly in equity

In the first quarter of 2019, binding agreements were concluded with an insurance company for a UK pension plan to cover a major portion of the claims from defined benefit pension obligations by concluding insurance contracts, whereby the legal obligation remains with Commerzbank (“buy-in”). This transaction involved assets equivalent to €1,123m being transferred to the insurance company. As a result, around 86% of our defined benefit pension obligations in the UK will in future be covered by insurance contracts. The transaction resulted in an overall reduction equivalent to €260m in the existing pension plan surplus cover recognised in the statement of comprehensive income under other net income.

Other provisions consisted primarily of restructuring provisions and provisions for personnel-related matters. We expect the restructuring provisions of €444m (previous year: €572m) to be utilised in the period from 2019 to 2020.

Legal disputes

With respect to legal proceedings and potential recourse claims for which provisions of €216m (previous year: €233m) were recognised and which are contained in the other provisions, neither the duration of the proceedings nor the level of utilisation of the provision can be predicted with certainty at the date the provision is recognised. The provisions cover the future costs expected according to our judgement, discounted as at the balance sheet date. We have not set out the provision amounts individually to avoid influencing the outcome of the various proceedings.

- Commerzbank and its subsidiaries operate in a large number of jurisdictions subject to different legal and regulatory requirements. In isolated cases in the past, infringements of legal and regulatory provisions have come to light and have been prosecuted by government agencies and institutions. Some companies within the Group are currently still involved in a number of such cases.
- Commerzbank and its subsidiaries are especially active in the area of investment advisory within the Private and Small-

Business Customers segment. The legal requirements for investor- and investment-oriented advisory services have been made more rigorous, especially in recent years. Commerzbank and its subsidiaries have consequently been involved in a number of legal disputes, some of which are still pending, with investors who claim to have received poor or inadequate investment advice and who demand compensation for damages or the reversal of investment transactions where information regarding commission fees was lacking (e.g. for closed-end funds).

- Following a ruling by the German Federal Court of Justice in October 2014 declaring that non-term-related processing fees in preformulated contractual terms and conditions for consumer loans were invalid, a large number of customers have lodged claims with Commerzbank for repayment of the processing fees. The corresponding repayment requests are mostly completed. In its ruling given at the beginning of July 2017, the German Federal Court of Justice extended the principles on the invalidity of non-term-related processing fees in preformulated contractual terms and conditions to loan agreements concluded between banks and entrepreneurs. To date, only a few corporate customers have submitted claims for the recovery of fees paid in the past. Commerzbank does not currently anticipate any further significant recovery claims in the future.
- Commerzbank is exposed to claims from customers owing to “cancellation joker” (“Widerrufsjoker”) issues. Following a change in the law, according to which any right to cancel loan agreements concluded between 2002 and 2010 could lapse no later than on 21 June 2016, many borrowers cancelled their agreements and asserted that the information given to them about cancellation when they concluded the agreement had been deficient. Some of them took legal action against the Bank when it refused to accept their cancellation, intending to immediately pay back the loan prior to the expiry of the fixed interest term without having to compensate the Bank for the loss incurred as a consequence of the early repayment. The Bank contested these actions.
- A subsidiary of Commerzbank was involved in two South American banks which in the meantime have gone into liquidation. A number of investors and creditors of these banks have launched various legal actions in Uruguay and Argentina against the subsidiary, and, in some cases, Commerzbank as well, alleging liability as shareholders of the bankrupt companies as well as

breaches of duty by the persons nominated by the subsidiary for the banks' supervisory boards. In addition, the subsidiary was involved in two funds which raised money from investors and were managed by third parties. The liquidators of these funds have launched court proceedings in the USA demanding the repayment of amounts received by the subsidiary from the funds.

- Investors in a fund managed by a Commerzbank subsidiary active in asset management have sued this subsidiary for compensation arising from a lending commitment allegedly made by the subsidiary in the course of a joint venture project. The court of first instance upheld the suit against the subsidiary of Commerzbank, which is now appealing the decision. In February 2019, the Court of Appeal confirmed the first-instance ruling against the Commerzbank subsidiary issued in March 2018. Commerzbank is currently in settlement talks with the claimants.
- A subsidiary of Commerzbank was sued by a customer in May 2014 for compensation due to alleged fraudulent mis-selling of derivative transactions. The subsidiary has defended itself against the claim.
- In May 2017, a Polish court admitted a class action lawsuit against a subsidiary of Commerzbank alleging the ineffective-

ness of index clauses in loan agreements denominated in foreign currency. In October 2018, the class action suit was dismissed in its entirety by the court of first instance. The claimants are appealing against this judgement. Irrespective thereof, numerous borrowers have additionally filed individual lawsuits against the Commerzbank subsidiary for the same reasons. The subsidiary has defended itself against each of the claims.

- During the insolvency proceedings of a customer, the customer's insolvency administrator raised claims against Commerzbank. As the Bank and the insolvency administrator were not able to reach a settlement, the insolvency administrator filed a lawsuit against the Bank in June 2018. At the end of January 2019, the Bank reached an agreement with the insolvency administrator to settle the legal dispute. The complaint was withdrawn upon payment of the settlement amount.
- A Commerzbank subsidiary together with another bank was sued for damages in May 2018 due to alleged unfair price collusion in connection with the levying of settlement fees. The subsidiary will defend itself against the action

(39) Contingent liabilities and lending commitments

This item mainly shows contingent liabilities arising from guarantees and indemnity agreements as well as irrevocable lending commitments at their nominal value.

Provisions for risks in respect of contingent liabilities and lending commitments are included in provisions for loan losses.

The contingent liabilities include the irrevocable payment obligation provided by the Federal Republic of Germany – Finanzagentur GmbH (Deutsche Finanzagentur) after approval of the Bank's request for security for payment of part of the banking levy.

The figures listed in the table below do not take account of any collateral and would only have to be written off if all customers utilised their facilities completely and then defaulted (and there was no collateral). In practice, the majority of these facilities expire without ever being utilised. Consequently, these amounts are unrepresentative in terms of assessing risk, the actual future loan exposure or resulting liquidity requirements.

€m	30.6.2019	31.12.2018	Change in %
Contingent liabilities	40,806	38,439	6.2
Banks	7,262	6,274	15.7
Corporate clients	30,538	28,681	6.5
Private customers	226	256	-11.6
Other financial corporations	2,699	3,145	-14.2
General governments	80	84	-4.8
Lending commitments	81,242	78,387	3.6
Banks	1,461	1,337	9.3
Corporate clients	61,101	58,239	4.9
Private customers	10,986	9,969	10.2
Other financial corporations	7,457	8,657	-13.9
General governments	237	185	27.8
Total	122,047	116,826	4.5

In addition to the credit facilities listed above, the Commerzbank Group may also sustain losses from legal and tax risks the occurrence of which is not very probable and for which reason no provisions have been recognised. However, since there is some probability of their occurrence, they are presented under contingent liabilities. It is impossible to reliably estimate the date on which such risk may materialise or any potential reimbursements. Depending on the outcome of the legal and fiscal proceedings, the estimate of our risk of loss may prove to be either too low or too high. However, in a large majority of cases the contingent liabilities for legal risks do not ever materialise and, therefore, the amounts are not representative of the actual future losses. As at 30 June 2019, the contingent liability for legal risks amounted to €1,060m (previous year: €1,038m) and related to the following material issues:

- Several actions have been taken against a subsidiary of Commerzbank by customers of a former, now bankrupt, corporate customer which held its bank accounts with the subsidiary. The aim of the action is to obtain claims for damages from the subsidiary for allegedly assisting the management of the bankrupt corporate customer in its fraudulent dealings in relation to the management of its accounts. The claims of various customers were subsequently acquired by a company, which is now asserting a collective claim. These claims for damages were dismissed by the court of first instance. The claimant has lodged an appeal. A further eight claims for damages were also filed against this subsidiary, seven of which were dismissed. The claimants withdrew all eight claims.
- The former Dresdner Bank had an equity holding in a US company that was sold by way of a leveraged buyout. During the insolvency proceedings of this company a number of lawsuits were brought in the USA against several banks, including Commerzbank as the legal successor of Dresdner Bank, for repayment of the proceeds it received from the sale of its stake. The lawsuits brought by bondholders, pensioners and

the company's insolvency administrator were each dismissed in the first instance in favour of the Bank. Requests to review the rulings by the court of first instance are currently pending before the relevant courts of appeal and have not yet been decided.

- Commerzbank was sued for damages by a former borrower in Hungary in April 2016. After the borrower failed to remedy multiple breaches of the loan contract, Commerzbank terminated the contract and ceased any further loan disbursements. The plaintiff was liquidated in January 2019. As a result, in February 2019 the court dismissed the claims for intangible damages and suspended the rest of the proceedings. In February 2019, a group company of the Hungarian borrower filed a petition for a continuation of the proceedings on the basis of an (allegedly) assigned right of 75% of the claim. In addition to the claim described above, a group company of the Hungarian borrower sued the Bank for damages in November 2017. The court of first instance dismissed this action in full in March 2019. The claims of various customers were subsequently acquired by a company, which is now asserting a collective claim. These claims for damages were dismissed by the court of first instance. The claimant has lodged an appeal. A further eight claims for damages were also filed against this subsidiary, seven of which were dismissed. The claimants withdrew all eight claims.
- A customer sued Commerzbank for recovery of monies in April 2016. The claimant is demanding, among other things, the repayment of interest which in its view was wrongly paid to Commerzbank and is also demanding the release of collateral which is being held as security for a claim by Commerzbank against the claimant. Commerzbank and the claimant are in dispute about the legal validity of Commerzbank's secured claim. Commerzbank will defend itself against the action.
- In a lawsuit filed in May 2019, a Commerzbank customer sought a ruling that the Bank must compensate the claimant for

material damages caused by alleged false advice in connection with derivatives in the form of swap contracts. Commerzbank considers the lawsuit to be unfounded and has defended itself against the claim.

- In connection with the index clauses of loans denominated in Swiss francs (CHF) to Polish private customers, a court in Warsaw in a proceeding against another bank has submitted a request for a preliminary ruling to the European Court of Justice (ECJ). The question relates to the consequences under Polish law that an abusive indexing clause of a foreign currency loan would have in individual cases. In May 2019, the ECJ Advocate-General stated that a GBC indexing clause that was unlawful under Polish law must be declared void at the consumer's request if this is more favourable for the consumer. In effect, under Polish law this could mean that foreign currency loans would be converted into PLN and charged interest at LIBOR. A ruling is expected in September 2019. Depending on the ECJ's ruling, this could lead to negative financial impacts for the affected banks in Poland and therefore also to adverse consequences for Commerzbank. These consequences cannot be determined reliably at this time.

The contingent liabilities for tax risks relate to the following material issues:

In the circular of the German Federal Ministry of Finance (BMF) dated 17 July 2017, the tax authorities addressed the treatment of cum-cum transactions, declaring their intention to critically examine past transactions for indications of abuse of law.

According to the view put forward in the BMF circular, abuse of law pursuant to Article 42 of the German Tax Code (Abgabenordnung, AO) is indicated if there are no economically reasonable grounds for the transaction in question and the structure of the transaction appears to be largely tax-induced (tax arbitrage). The circular provides a non-exhaustive list of cases which the BMF will assess for tax purposes.

In a letter dated 18 July 2017, the Bundesbank asked Commerzbank to assess the financial repercussions of the potential application of the BMF circular by means of a survey form. Based on the analyses conducted for cum-cum transactions, the Bank recognised precautionary provisions of €12m as at the end of 2017 for potentially refundable own investment income taxes.

With respect to cum-cum securities lending transactions, Commerzbank is exposed to compensation claims from third parties for credit entitlements that have been denied. Based on the analyses performed, Commerzbank considers it rather unlikely that such claims could be enforced. However, it cannot be ruled out. Under these circumstances, Commerzbank estimates the potential financial impact in the upper double-digit million range, plus interest on arrears.

For the other cum-cum-relevant transactions, Commerzbank has concluded that the legal structuring it adopted was appropriate under Article 42 of the German Tax Code.

The possibility that this conclusion could alter as developments unfold, for example in connection with assessments made by the tax authorities and fiscal/civil courts, cannot be completely ruled out.

Segment reporting

(40) Segment reporting

Segment reporting reflects the results of the operating segments within the Commerzbank Group. The following segment information is based on IFRS 8 Operating Segments, which applies the management approach. The segment information is prepared on the basis of internal management reporting, which the chief operating decision maker draws on in assessing the performance of the operating segments and determining the allocation of resources to the operating segments. Within the Commerzbank Group, the function of chief operating decision maker is exercised by the Board of Managing Directors.

Our segment reporting addresses the segment structure, comprising Private and Small-Business Customers, Corporate Clients, Asset & Capital Recovery and the Others and Consolidation segment. This reflects the Commerzbank Group's organisational structure and forms the basis for internal management reporting. The business segments are defined by differences in their products, services and/or customer target groups.

The Asset & Capital Recovery segment was dissolved on 1 July 2019 and the remaining portfolios transferred to the Private and Small-Business Customers segment and mainly to Others and Consolidation. The segment reporting will be adjusted accordingly in the third quarter of 2019.

Owing to changes in customer relationship management associated with the Commerzbank 4.0 strategy, retroactive customer transfers between the Corporate Clients and the Private and Small-Business Customers segments occurred in the third quarter of 2018. The income and expenses of the Corporate Clients segment and of the Group are presented without the discontinued business division (see Note 33). From the first quarter of 2019 onwards, the compulsory contributions for the European bank levy, bank tax and deposit insurance will no longer be shown under operating expenses but as a separate item. A portfolio of securitisations and corporate bonds was transferred out of the Corporate Clients segment and into Group Treasury in the Others and Consolidation segment in the first quarter of 2019. The prior-year figures have been restated accordingly.

In addition, in the first quarter of 2019, as part of the wind-down strategy of the Asset & Capital Recovery segment, transfers of these receivables from local authorities and public-sector or quasi-public-sector institutions in North America and the UK were made to Group Treasury in the Others and Consolidation segment. No adjustment was made to the prior-year values due to the specific features of a wind-down portfolio.

As at 30 June 2019, the carrying amount of the receivables transferred from the Asset & Capital Recovery segment to the Others and Consolidation segment in the first quarter 2019 was €4.4bn. The main related earnings drivers were as follows: €26m

net interest income, €15m risk result, €-31m net income from financial assets and liabilities at fair value through profit or loss, €-5m net income from hedge accounting, €2m other net income from financial instruments, €1m other net income, €-7m income before risk result, €8m income after the risk result, €2m operating expenses and €6m earnings before taxes.

Further information on the segments is provided in the management report section of this interim report. The operating segments' capital requirement for risk-weighted assets based on the fully phased-in application of Basel 3 regulations has been 12% since 2018, as the capital adequacy requirements have increased. A capital requirement of 15% of risk-weighted assets on a fully phased-in basis under Basel 3 continues to be applied to the Asset & Capital Recovery segment.

The performance of each segment is measured in terms of operating profit or loss and pre-tax profit or loss, as well as operating return on equity and the cost/income ratio. Operating profit or loss is defined as the sum of net interest income, dividend income, risk result, net commission income, net income from financial assets and liabilities measured at fair value through profit or loss, net income from hedge accounting, other net income from financial instruments, current net income from companies accounted for using the equity method and other net income less operating expenses and compulsory contributions. The operating profit does not include any impairments of goodwill or other intangible assets or restructuring expenses. As we report pre-tax profits, non-controlling interests are included in the figures for both profit and loss and average capital employed. All the revenue for which a segment is responsible is thus reflected in the pre-tax profit. When showing the elimination of intragroup profits from intragroup transactions in segment reporting, the transferring segment is treated as if the transaction had taken place outside the Group. Intragroup profits and losses are therefore eliminated in Others and Consolidation.

The operating return on equity is calculated as the ratio of operating profit to average capital employed. It shows the return on the capital employed in a given segment. The cost/income ratio in operating business reflects the cost efficiency of the various segments. It is calculated from the ratio of the sum of operating expenses and compulsory contributions to income before the risk result. We also report a cost/income ratio in operating business that excludes compulsory contributions, to take account of the fact that this item cannot be influenced in terms of either amount or periodicity.

Income and expenses are reported within the segments by originating unit and at market prices, with the market interest rate method being used for interest operations. The actual funding

costs for the business-specific equity holdings of the segments are shown in net interest income. The Group's return on capital employed is allocated to the net interest income of the various segments in proportion to the average capital employed in the segment. The interest rate used is the long-term risk-free rate on the capital market. Net interest income also contains liquidity costs. These costs include both externally paid funding costs as well as the complete allocation of liquidity costs to the businesses and segments based on our transfer price system for liquidity costs. This system is used to allocate the interest expenses resulting from the Bank's external funding to the individual transactions and portfolios of the segments. This allocation is based on a central liquidity price curve in accordance with cost causation. The average capital employed in the segments is calculated based on the average segmented risk-weighted assets. For the Corporate Clients segment, the average capital employed in the segment is calculated without the discontinued business division. At Group level, Common Equity Tier 1 (CET1) capital is shown, which is used to calculate the operating return on equity. The calculations for the segments and the Group are both based on a fully phased-in

application of Basel 3 regulations. The reconciliation of average capital employed in the segments to the Group's CET1 capital is carried out in Others and Consolidation. We also report the assets and liabilities for the individual segments and the carrying amounts of companies accounted for using the equity method. Due to our business model, the segment balance sheet only balances out at Group level.

The operating expenses reported under operating profit or loss contain personnel expenses, administrative expenses (excluding compulsory contributions) as well as amortisation, depreciation and write-downs on fixed assets and other intangible assets. Restructuring expenses and impairments of both goodwill and other intangible assets are reported below the operating profit line in pre-tax profit or loss. Operating expenses and compulsory contributions are attributed to the individual segments on the basis of cost causation. The indirect expenses arising in connection with internal services are charged to the user of the service and credited to the segment performing the service. The provision of intragroup services is charged at market prices or at full cost.

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1.1.-30.6.2019 €m	Private and Small Business Customers	Corporate Clients	Asset & Capital Recovery	Others and Consolidation	Group
Net interest income	1,356	920	-23	253	2,505
Dividend income	5	3	-	3	11
Risk result	-100	-155	-24	23	-256
Net commission income	928	594	0	-16	1,507
Net income from financial assets and liabilities at fair value through profit or loss	105	97	111	-200	113
Net income from hedge accounting	1	12	10	72	96
Other net income from financial instruments	12	2	-19	15	11
Current net income from companies accounted for using the equity method	3	4	-0	-	7
Other net income	13	4	-0	19	36
<i>Income before risk result</i>	<i>2,424</i>	<i>1,636</i>	<i>79</i>	<i>147</i>	<i>4,285</i>
<i>Income after risk result</i>	<i>2,324</i>	<i>1,481</i>	<i>55</i>	<i>170</i>	<i>4,029</i>
Operating expenses	1,743	1,238	15	154	3,150
Compulsory contributions	188	101	9	39	337
Operating profit or loss	392	142	31	-23	542
Pre-tax profit or loss from continuing operations	392	142	31	-23	542
Assets	144,551	197,534	11,226	164,719	518,030
of which discontinued assets	-	13,613	-	-	13,613
Liabilities	180,840	199,677	10,130	127,383	518,030
of which discontinued liabilities	-	12,832	-	-	12,832
Carrying amount of companies accounted for using the equity method	29	148	1	-	178
Average capital employed (from continuing operations) (based on CET1)¹	5,175	11,798	1,620	5,042	23,635
Operating return on equity (%)²	15.2	2.4	3.8		4.6
Cost/income ratio in operating business (excl. compulsory contributions) (%)	71.9	75.6	19.3		73.5
Cost/income ratio in operating business (incl. compulsory contributions) (%)	79.7	81.8	30.7		81.4

¹ Average CET1 capital with full implementation of Basel 3. Reconciliation carried out in Others and Consolidation.

² Annualised.

1.1.-30.6.2018 ¹ €m	Private and Small Business Customers	Corporate Clients	Asset & Capital Recovery	Others and Consolidation	Group
Net interest income	1,260	855	31	142	2,288
Dividend income	4	6	–	10	21
Risk result	–115	–60	14	2	–160
Net commission income	978	598	1	–12	1,565
Net income from financial assets and liabilities at fair value through profit or loss	85	301	119	–102	403
Net income from hedge accounting	–1	2	–2	22	20
Other net income from financial instruments	31	–1	–54	8	–15
Current net income from companies accounted for using the equity method	1	8	–0	–	9
Other net income	78	–4	12	20	105
<i>Income before risk result</i>	<i>2,436</i>	<i>1,765</i>	<i>106</i>	<i>87</i>	<i>4,395</i>
<i>Income after risk result</i>	<i>2,321</i>	<i>1,705</i>	<i>120</i>	<i>89</i>	<i>4,235</i>
Operating expenses	1,800	1,282	34	158	3,274
Compulsory contributions	145	108	10	39	302
Operating profit or loss	377	315	76	–108	659
Pre-tax profit or loss from continuing operations	377	315	76	–108	659
Assets	131,769	183,203	19,285	153,261	487,518
of which discontinued assets	–	–	–	–	–
Liabilities	160,727	196,041	17,007	113,743	487,518
of which discontinued liabilities	–	–	–	–	–
Carrying amount of companies accounted for using the equity method	22	148	1	–	171
Average capital employed (from continuing operations) (based on CET1)²	4,654	10,450	2,367	5,084	22,556
Operating return on equity (%)³	16.2	6.0	6.4		5.8
Cost/income ratio in operating business (excl. compulsory contributions) (%)	73.9	72.6	31.7		74.5
Cost/income ratio in operating business (incl. compulsory contributions) (%)	79.8	78.8	41.2		81.4

¹ Prior-year figures adjusted due to restatements (see Note 3).

² Average CET1 capital with full implementation of Basel 3. Reconciliation carried out in Others and Consolidation.

³ Annualised.

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Details for Others and Consolidation:

€m	1.1.-30.6.2019		
	Others	Consolidation	Others and Consolidation
Net interest income	243	10	253
Dividend income	2	2	3
Risk result	23	–	23
Net commission income	–14	–2	–16
Net income from financial assets and liabilities at fair value through profit or loss	–223	24	–200
Net income from hedge accounting	72	–	72
Other net income from financial instruments	17	–3	15
Current net income from companies accounted for using the equity method	–	–	–
Other net income	27	–8	19
Operating expenses	163	–9	154
	39	0	39
Operating profit or loss	–55	32	–23
Assets	164,345	374	164,719
Liabilities	127,083	299	127,383

€m	1.1.-30.6.2018 ¹		
	Others	Consolidation	Others and Consolidation
Net interest income	119	23	142
Dividend income	8	3	10
Risk result	2	0	2
Net commission income	–10	–2	–12
Net income from financial assets and liabilities at fair value through profit or loss	–108	6	–102
Net income from hedge accounting	22	–	22
Other net income from financial instruments	9	–1	8
Current net income from companies accounted for using the equity method	–	–	–
Other net income	27	–8	20
Operating expenses	167	–9	158
	39	0	39
Operating profit or loss	–137	29	–108
Assets	152,807	454	153,261
Liabilities	113,453	290	113,743

¹ Prior-year figures adjusted due to restatements (see Note 3).

Under “Consolidation” we report consolidation and reconciliation items from the results of the segments and “Others” affecting the Group financial statements. This includes the following items, among others:

- Elimination of the net measurement gains or losses on own bonds incurred in the segments;
- Effects from the consolidation of intragroup-transactions between segments
- Effects from the consolidation of expenses and income
- Income and operating expenses of staff and management functions, which are charged to the segments and Others.

The regional breakdown contained in the segment reporting was adjusted compared with the previous presentation. We now report in this item only income before risk result and credit-risk-weighted assets with transitional provisions. The breakdown within segment

reporting by geographical region, which is essentially based on the location of the branch or group entity, was as follows:

1.1.-30.6.2019 €m	Germany	Europe without Germany	Americas	Asia	Others	Total
Income before risk result	3,021	1,074	67	122	0	4,285
Risk assets for credit risks (with transitional provisions)	93,826	48,378	5,456	4,429	–	152,089

In the prior-year period we achieved the following results in the various geographical regions:

1.1.-30.6.2018¹ €m	Germany	Europe without Germany	Americas	Asia	Others	Total
Income before risk result	2,900	1,302	48	145	0	4,395
Risk assets for credit risks (with transitional provisions)	85,877	46,668	4,574	5,477	–	142,596

¹ Prior-year figures adjusted due to restatements (see Note 3).

Credit-risk-weighted assets are shown for the geographical segments rather than non-current assets. In accordance with IFRS 8.32 Commerzbank has decided not to provide a breakdown of the Commerzbank Group's total profits by products and services.

We decided not to collect this data for efficiency reasons, as it is used neither for internal management activities nor management reporting.

Other notes

(41) Regulatory capital requirements

The overview below of the composition of the Commerzbank Group's capital shows the figures on a basis with transitional provisions (currently used) and a fully loaded basis. The reconciliation

of equity reported in the balance sheet with regulatory capital is already integrated in these figures.

Position €m	30.6.2019 with transitional provisions	31.12.2018 with transitional provisions	30.6.2019 fully loaded	31.12.2018 fully loaded
Equity as shown in balance sheet	29,417	29,411	29,417	29,411
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	-112	-159	-112	-159
Cumulative gains and losses due to changes in own credit risk on fair valued liabilities	-16	-61	-16	-61
Correction to non-controlling interests (minorities)	-509	-440	-509	-440
Goodwill	-1,511	-1,507	-1,511	-1,507
Intangible assets	-1,249	-1,328	-1,249	-1,328
Surplus in plan assets	-80	-307	-80	-307
Deferred tax assets from loss carryforwards	-781	-784	-781	-784
Shortfall due to expected loss	-192	-205	-192	-205
Prudential valuation	-272	-459	-272	-459
First loss positions from securitisations	-164	-199	-164	-199
Deferred tax assets from temporary differences which exceed the 10% threshold	-326	-453	-326	-453
Dividend accrued	-113	-250	-113	-250
Others and rounding	-68	-53	-68	-53
Common Equity Tier 1 ¹	24,023	23,206	24,023	23,206
Additional Equity Tier 1 ²	807	904	129	-
Tier 1 capital	24,830	24,110	24,153	23,206
Tier 2 capital	5,073	5,389	5,261	5,564
Equity	29,903	29,499	29,413	28,770
Risk-weighted assets	186,797	180,498	186,797	180,498
of which credit risk	152,089	146,710	152,089	146,710
of which market risk ³	11,875	12,395	11,875	12,395
of which operational risk	22,833	21,393	22,833	21,393
Common Equity Tier 1 ratio (%)	12.9%	12.9%	12.9%	12.9%
Equity Tier 1 ratio (%)	13.3%	13.4%	12.9%	12.9%
Total capital ratio (%)	16.0%	16.3%	15.7%	15.9%

¹ This information includes the consolidated profit attributable to Commerzbank shareholders for regulatory purposes.

² Under the transitional provisions for the eligible former balance of additional Tier 1 capital.

³ Includes credit valuation adjustment risk.

The table reconciles reported equity to Common Equity Tier 1 (CET1) and the other components of core capital and regulatory capital. The main changes in Tier 1 capital compared with 31 December 2018 result from the recognition of regulatory profit and from a reduction in regulatory deductions. The capital ratios compared with the previous year-end remained unchanged. This holds true despite a rise in CET1 is primarily the result of an

(42) Leverage ratio

The CRD IV/CRR has introduced the leverage ratio as a tool and indicator for quantifying the risk of excessive leverage. The leverage ratio shows the ratio of Tier 1 capital to leverage exposure, consisting of the non risk-weighted assets plus off-balance sheet positions. The way in which exposure to derivatives, securities financing transactions and off-balance sheet positions is calculated is laid down by regulators. The leverage ratio at the end of the first half-year of 2019 was calculated on the basis of the CRR as revised in January 2015. As a non risk-sensitive figure the leverage ratio is intended to supplement risk-based measures of capital adequacy.

Avoiding the risk of excessive leverage is an integral part of Commerzbank's management of its balance sheet. Commerzbank has set up a quantitative and qualitative framework to calculate, monitor and manage the leverage ratio.

Group Finance is responsible for quantifying the leverage ratio on the basis of regulatory requirements and provides regulators with quarterly reports.

Commerzbank has set an internal target for the leverage ratio which supplements the targets for the risk-based capital ratios.

increase in risk-weighted assets. The increase in risk-weighted assets mainly reflects credit growth in the core segments and the effects of the introduction of the international accounting standard IFRS 16 at the turn of the year and is only slightly mitigated by reductions in risk-weighted assets as a result of the new securitisation activities.

Segments actively get involved in the steering of the leverage ratio by segment-specific targets for their leverage ratio exposure.

Developments in the segment-specific leverage ratio exposures relative to the guidelines are monitored monthly. Group Finance reports regularly to the Central Asset Liability Committee (ALCO) and the Board of Managing Directors on the Group's leverage ratio, the segments' leverage exposures and the main factors influencing them.

The future development of the leverage ratio exposure and the leverage ratio continues to be forecast in the Bank's internal multi-year planning process. They are also reviewed regularly between the annual review dates in the forecasting for the current year. The development of the leverage ratio is also analysed under adverse macroeconomic scenarios as part of the recovery planning process.

Key decisions on management and monitoring of the leverage ratio are taken by ALCO, subject to confirmation by the Board of Managing Directors.

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Summary reconciliation of accounting assets and leverage ratio exposures	Applicable amounts
€m	30.6.2019
Total assets as per published group financial statements	518,030
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-140
(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No. 575/2013)	-
Adjustments for derivative financial instruments	-34,023
Adjustment for securities financing transactions (SFTs)	2,952
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	53,295
(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429 (7) of Regulation (EU) No. 575/2013)	-
(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No. 575/2013)	-
Other adjustments	
with transitional provisions	408
fully loaded	408
Leverage ratio total exposure measure	
with transitional provisions	540,521
fully loaded	540,521
Leverage ratio common disclosure	CRR leverage ratio exposures
€m	30.6.2019
On-balance sheet exposures (excluding derivatives and SFTs)	
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	432,519
(Asset amounts deducted in determining Tier 1 capital)	
with transitional provisions	-4,301
fully loaded	-4,301
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	
with transitional provisions	428,218
fully loaded	428,218
Derivative exposures	
Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	8,763
Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	23,696
Exposure determined under Original Exposure Method	-
Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-
(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-18,789
(Exempted CCP leg of client-cleared trade exposures)	-2,616
Adjusted effective notional amount of written credit derivatives	10,007
(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-7,553
Total derivative exposures	13,508

Leverage ratio common disclosure (continuation)	CRR leverage ratio exposures
€m	30.6.2019
Securities financing transaction (SFTs) exposures	
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	70,613
(Netted amounts of cash payables and cash receivables of gross SFT assets)	–28,065
Counterparty credit risk exposure for SFT assets	2,952
Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b (4) and 222 of Regulation (EU) No. 575/2013	–
Agent transaction exposures	–
(Exempted CCP leg of client-cleared SFT exposure)	–
Total securities financing transaction exposures (SFTs)	45,500
Other off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	176,909
(Adjustments for conversion to credit equivalent amounts)	–123,614
Total other off-balance sheet exposures	53,295
(Exempted exposures in accordance with Article 429 (7) and (14) of Regulation (EU) No 575/2013 (on- and off-balance sheet))	
(Intragroup exposures (solo basis) exempted in accordance with Article 429 (7) of Regulation (EU) No. 575/2013 (on- and off-balance sheet))	–
(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No. 575/2013 (on- and off-balance sheet))	–
Capital and total exposure measure	
Tier 1 capital	
with transitional provisions	24,830
fully loaded	24,153
Leverage ratio total exposure measure	
with transitional provisions	540,521
fully loaded	540,521
Leverage ratio	
with transitional provisions (%)	4.6
fully loaded (%)	4.5
Choice on transitional (phase-in) arrangements and amount of derecognised fiduciary items	
	with transitional provisions / fully loaded
Choice on transitional (phase-in) arrangements for the definition of the capital measure	
with transitional provisions	–
fully loaded	–
Amount of derecognised fiduciary items in accordance with Article 429 (13) of Regulation (EU) No. 575/2013	–

Split-up of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	CRR leverage ratio exposures
€m	30.6.2019
Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:	432,519
Trading book exposures	35,273
Banking book exposures, of which:	397,246
Covered bonds	6,310
Exposures treated as sovereigns	97,182
Exposures to regional governments, MDBs, international organisations and PSE not treated as sovereigns	11,314
Institutions	26,879
Secured by mortgages of immovable properties	68,389
Retail exposures	51,287
Corporate	91,611
Exposures in default	1,740
Other exposures (e.g. equity, securitisations and other non-credit obligation assets)	42,534

The leverage ratio based on the CRR with transitional provisions was 4.6% as at 30 June 2019 (31 March 2019: 4.6%). The leverage ratio fully loaded stood at 4.5%, compared with 4.5% as at 31 March 2019.

Both leverage ratio fully loaded and leverage ratio with transitional provisions were unchanged due to slightly increased leverage ratio exposure, nearly compensated by increased regulatory Tier 1 capital under fully loaded and transitional rules. As at the

reporting date, the leverage ratio exposure was €540.5bn; as at 31 March 2019 it was €527.1bn.

Leverage ratio exposure with transitional provisions and leverage ratio exposure fully loaded have been identical since 2018 due to the expiry of the transition period for the leverage ratio exposure relevant capital deductions. However, transitional rules still apply to the numerator of the leverage ratio, i.e. the Tier 1 capital. Therefore, a ratio with transitional provisions is still to be declared.

(43) Liquidity coverage ratio

The liquidity coverage ratio (LCR) is the regulatory minimum liquidity ratio. It is a measure of the near-term solvency of the Bank under a predetermined stress scenario. Based on the requirements of the Basel Committee, the European Commission set out the legal foundation for the LCR in the Capital Requirements Regulation (CRR) and in Regulation (EU) No. 575/2013, in conjunction with Delegated Regulation EU/2015/61 (D-REG).

The ratio itself is defined as the relationship between high quality liquid assets (HQLA) and net liquidity outflows (NLOs) within a 30-day period. The CRR stipulates that the LCR at least 100% from 2018 onwards. Commerzbank has integrated the LCR into its internal liquidity risk model as a binding secondary condition, and the change in the LCR is monitored regularly.

The Bank has established internal early warning indicators for the purpose of managing liquidity risk. These ensure that appropriate steps can be taken in good time to secure long-term financial solidity. Risk concentrations can lead to increased outflows of liquidity, particularly in a stress situation. They can, for example, occur with regard to maturities, large individual creditors or currencies. By means of ongoing monitoring and reporting, emerging

risk concentrations in funding can be recognised in a timely manner and mitigated through suitable measures. This also applies to payment obligations in foreign currencies. The Bank also mitigates concentrations through the continuous use of the broadly diversified sources of funding available to it, particularly in the form of diverse customer deposits and capital market instruments.

Commerzbank manages its global liquidity centrally using cash pooling. This approach ensures liquidity resources are used efficiently across all time zones, as Commerzbank Treasury units are located in Frankfurt, London, New York and Singapore.

For further information about the responsibilities for managing liquidity risk and the corresponding internal models, please refer to the liquidity risk section of the Risk Report in this document.

The calculation of the LCR for the past four quarters is shown below. The averages of the respective previous twelve month-end values are calculated for each quarter of the reporting year. The resulting values are shown in the table below. The values are rounded to a full-million amount in euros and are presented on a consolidated basis for the Commerzbank Group.

		Total unweighted value (average)			
€m		30.9.2018	31.12.2018	31.3.2019	30.6.2019
	Number of data points used in the calculation of averages	12	12	12	12
HIGH-QUALITY LIQUID ASSETS					
1	Total high-quality liquid assets (HQLA)				
CASH OUTFLOWS					
2	Retail deposits and deposits from small business customers, of which:	110,251	113,826	117,594	121,225
3	Stable deposits	76,609	78,787	80,958	83,030
4	Less stable deposits	33,641	35,039	36,635	38,194
5	Unsecured wholesale funding	105,164	104,841	104,951	105,354
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	35,397	35,028	35,105	34,885
7	Non-operational deposits (all counterparties)	68,279	68,341	68,259	69,061
8	Unsecured debt	1,489	1,472	1,587	1,408
9	Secured wholesale funding				
10	Additional requirements	85,296	85,202	84,900	84,785
11	Outflows related to derivative exposures and other collateral requirements	9,349	9,046	8,642	8,161
12	Outflows related to loss of funding on debt products	210	199	272	325
13	Credit and liquidity facilities	75,737	75,957	75,985	76,299
14	Other contractual funding obligations	2,489	3,271	4,080	4,412
15	Other contingent funding obligations	108,923	110,193	109,418	108,364
16	TOTAL CASH OUTFLOWS				
CASH INFLOWS					
17	Secured lending (e.g. reverse repos)	64,627	65,818	65,868	65,431
18	Inflows from fully performing exposures	27,553	26,519	25,954	25,239
19	Other cash inflows	3,542	4,557	5,740	6,545
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies.)				
EU-19b	(Excess inflows from a related specialised credit institution)				
20	TOTAL CASH INFLOWS	95,722	96,893	97,561	97,216
EU-20a	Fully exempt inflows	0	0	0	0
EU-20b	Inflows subject to 90% cap	0	0	0	0
EU-20c	Inflows subject to 75% cap	89,590	90,724	91,424	90,868
21	LIQUIDITY BUFFER				
22	TOTAL NET CASH OUTFLOWS				
23	LIQUIDITY COVERAGE RATIO				

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		Total weighted value (average)			
€m		30.9.2018	31.12.2018	31.3.2019	30.6.2019
	Number of data points used in the calculation of averages	12	12	12	12
HIGH-QUALITY LIQUID ASSETS					
1	Total high-quality liquid assets (HQLA)	87,797	85,627	85,524	86,071
CASH OUTFLOWS					
2	Retail deposits and deposits from small business customers, of which:	7,466	7,727	8,007	8,280
3	Stable deposits	3,830	3,939	4,048	4,152
4	Less stable deposits	3,635	3,788	3,959	4,128
5	Unsecured wholesale funding	52,252	52,300	52,665	52,760
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	8,826	8,732	8,747	8,690
7	Non-operational deposits (all counterparties)	41,938	42,096	42,330	42,662
8	Unsecured debt	1,489	1,472	1,587	1,408
9	Secured wholesale funding	4,877	5,262	5,614	5,808
10	Additional requirements	23,730	23,401	23,123	22,612
11	Outflows related to derivative exposures and other collateral requirements	8,569	8,272	7,885	7,442
12	Outflows related to loss of funding on debt products	210	199	272	325
13	Credit and liquidity facilities	14,951	14,930	14,966	14,845
14	Other contractual funding obligations	1,668	2,337	3,026	3,384
15	Other contingent funding obligations	674	675	680	1,063
16	TOTAL CASH OUTFLOWS	90,667	91,702	93,115	93,906
CASH INFLOWS					
17	Secured lending (e.g. reverse repos)	3,974	4,921	5,551	6,208
18	Inflows from fully performing exposures	20,100	19,306	18,699	18,070
19	Other cash inflows	3,424	4,369	5,528	6,323
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies.)	0	0	0	0
EU-19b	(Excess inflows from a related specialised credit institution)	0	0	0	0
20	TOTAL CASH INFLOWS	27,498	28,595	29,778	30,600
EU-20a	Fully exempt inflows	0	0	0	0
EU-20b	Inflows subject to 90% cap	0	0	0	0
EU-20c	Inflows subject to 75% cap	27,498	28,595	29,778	30,600
21	LIQUIDITY BUFFER	87,797	85,627	85,524	86,071
22	TOTAL NET CASH OUTFLOWS	63,169	63,107	63,338	63,306
23	LIQUIDITY COVERAGE RATIO	139.13%	135.66%	135.02%	136.02%

The average quarterly LCR values have been consistently high. As at each of the reporting dates, Commerzbank has considerably surpassed the required minimum ratio of 100%. The composition

of the highly liquid assets available to cover the liquidity outflows in the reporting period is set out below:

Highly liquid assets in accordance with EU/2015/61 (average of the last 12 month-end values) €m	Q3/2018	Q4/2018	Q1/2019	Q2/2019
Total:	87,797	85,627	85,524	86,071
thereof Level 1	80,834	77,695	76,663	76,851
thereof Level 2A	6,103	7,075	7,805	7,938
thereof Level 2B	860	857	1,056	1,283

Commerzbank additionally reports the LCR in US dollars, because under the CRR the US dollar is deemed to be an important foreign currency. In addition, the Bank ensures that foreign-exchange risk is monitored as well as limited and managed using an internal model.

When calculating the LCR, the Bank takes into account the liquidity inflows and outflows for derivatives over the next 30 days. When standardised master agreements are involved, the liquidity inflows and outflows are calculated on a net basis. Commerzbank

also takes into account further items that could lead to additional outflows of liquidity. These items include variation margins for changes in the value of securities pledged as collateral and a possible deterioration in credit rating, as well as additional collateral furnished because of adverse market scenarios for derivatives transactions.

For other contingent liabilities, as of June 2019 Commerzbank uses additional outflows in accordance with Article 23 of Commission Delegated Regulation (EU) 2015/61.

(44) Related party transactions

As part of its normal business, Commerzbank Aktiengesellschaft and/or its consolidated companies engage in transactions with related entities and persons. These include:

- subsidiaries that are controlled but not consolidated for reasons of materiality;
- joint ventures;
- associated companies;
- equity holdings;
- external providers of occupational pensions for employees of Commerzbank Aktiengesellschaft;
- key management personnel and members of their families; and
- companies controlled by these persons/entities.

Banking transactions with related parties are carried out at normal market terms and conditions.

Key management personnel refers exclusively to members of Commerzbank Aktiengesellschaft's Board of Managing Directors and Supervisory Board who were active during the reporting period.

Besides the stake held by the German federal government, other factors (including membership of the supervisory board) that could potentially allow a significant influence to be exerted on Commerzbank Aktiengesellschaft also need to be taken into account. Accordingly, the German federal government and entities controlled by it are classified as related entities and persons in accordance with IAS 24.

Transactions with non-consolidated subsidiaries

The assets relating to non-consolidated subsidiaries in the amount of €459m (previous year: €284m) as at 30 June 2019 included primarily loans and receivables. Liabilities in the amount of €289m (previous year: €231m) comprised mostly deposits.

The income of €13m (prior-year period: €14m) comprised interest income and expenses of €35m (prior-year period: €41m), mostly from administrative expenses.

In the course of its ordinary banking activities, the Bank granted guarantees and collateral totalling €83m (previous year: €2m).

Transactions with associated companies

The assets relating to associated companies in the amount of €10m (previous year: €5m) as at 30 June 2019 included primarily loans and receivables. Liabilities in the amount of €39m (previous year: €31m) comprised mostly deposits.

The income of €10m (prior-year period: €9m) resulted primarily from commission income and current net income from companies accounted for using the equity method. The decline on the previous year is attributable to transactions with Commerz Finanz GmbH, which has since been fully consolidated.

In the course of its ordinary banking activities, the Bank granted guarantees and collateral totalling €42m (previous year: €41m).

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Transactions with other related entities/persons

The assets pertaining to other related entities/persons as at 30 June 2019 in the amount of €36m (previous year: €30m) included primarily loans and receivables as well as debt securities. The liabilities of €235m (previous year: €208m) were primarily deposits. The deposits were mostly attributable to external providers of occupational pensions.

As at 30 June 2019, income was €1m (prior-year period: €1m), the expenses amounted to €4m (prior-year period: €4m).

In the course of its ordinary banking activities, no guarantees and no collaterals were granted by the Bank.

Transactions with key management personnel

As at 30 June 2019, there were no significant assets or liabilities relating to key management personnel.

The expenses represent personnel expenses in the amount of €7m (prior-year period: €8m) and include remuneration for key

management personnel, salaries of the employee representatives on the Supervisory Board who are employed by the Commerzbank Group and value added tax reimbursed to members of the Supervisory Board.

Transactions with entities controlled by the German federal government

The assets relating to entities controlled by the German federal government as at 30 June 2019 in the amount of €50,710m (previous year: €25,065m) comprised primarily deposits with Deutsche Bundesbank totalling €46,127m (previous year: €20,891m). Of the liabilities related to entities controlled by the German federal government in the amount of €14,007m (previous year: €12,718m), €13,975m were deposits (previous year: €12,624m).

As at 30 June 2019, the Bank had granted guarantees and collateral totalling €301m to entities controlled by the German federal government (previous year: €70m).

Boards of Commerzbank Aktiengesellschaft

Supervisory Board

Dr. Stefan Schmittmann
Chairman

Uwe Tschäge¹
Deputy Chairman

Heike Anscheit¹

Alexander Boursanoff¹

Gunnar de Buhr¹

Stefan Burghardt¹

Sabine U. Dietrich

Monika Fink¹

Dr. Tobias Guldemann

Dr. Rainer Hillebrand

Christian Höhn¹

Kerstin Jerchel¹

Dr. Markus Kerber

Alexandra Krieger¹

Anja Mikus

Dr. Victoria Ossadnik

Robin J. Stalker

Nicholas Teller

Dr. Gertrude Tumpel-Gugerell

Stefan Wittmann¹

Klaus-Peter Müller
Honorary Chairman

¹ Elected by the Bank's employees.

Board of Managing Directors

Martin Zielke
Chairman

Stephan Engels

Dr. Bettina Orlopp

Frank Annuscheit
(until 28.02.2019)

Jörg Hessenmüller
(since 15.01.2019)

Michael Reuther

Dr. Marcus Chromik

Michael Mandel

Responsibility statement by the Board of Managing Directors

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, we confirm that the consolidated interim Group financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and that the interim Group management

report provides a true and 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 rest of the financial year.

Frankfurt/Main, 5 August 2019

The Board of Managing Directors



Martin Zielke



Marcus Chromik



Stephan Engels



Jörg Hessenmüller



Michael Mandel



Bettina Orlopp



Michael Reuther

Translation from the German language of the review report

To COMMERZBANK Aktiengesellschaft, Frankfurt am Main

We have reviewed the interim condensed consolidated financial statements, which comprise the statement of comprehensive income, balance sheet, statement of changes in equity, condensed cash flow statement and selected explanatory notes, and the interim group management report of COMMERZBANK Aktiengesellschaft, Frankfurt am Main, for the period from 1 January to 30 June 2019, which are part of the half-year financial report pursuant to Sec. 115 WpHG [“Wertpapierhandelsgesetz”: German Securities Trading Act]. The executive directors are responsible for the preparation of the interim condensed consolidated financial statements in accordance with IFRSs [International Financial Reporting Standards] on interim financial reporting as adopted by the EU and of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports. Our responsibility is to issue a report on the interim condensed consolidated financial statements and the interim group management report based on our review.

We conducted our review of the interim condensed consolidated financial statements and of the interim group management report in compliance with German Generally Accepted Standards for the Review of Financial Statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW) and in supplementary compliance with the International Standard on Review Engagements “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” (ISRE 2410). Those standards require that we plan and perform the review to obtain a certain level of assurance in our critical appraisal to preclude that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IFRSs on interim financial reporting as adopted by the EU and that

the interim group management report is not prepared, in all material respects, in accordance with the requirements of the WpHG applicable to interim group management reports. A review is limited primarily to making inquiries of the Company’s employees and analytical assessments, and therefore does not provide the assurance obtainable from an audit of financial statements. Since, in accordance with our engagement, we have not performed an audit of financial statements, we cannot issue an auditor’s report.

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IFRSs on interim financial reporting as adopted by the EU or that the interim group management report is not prepared, in all material respects, in accordance with the provisions of the WpHG applicable to interim group management reports.

Eschborn/Frankfurt am Main, 6 August 2019

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

signed
Claus-Peter Wagner
Wirtschaftsprüfer
(German Public Auditor)

signed
Marcus Binder
Wirtschaftsprüfer
(German Public Auditor)

Significant Group companies

Germany

comdirect bank AG, Quickborn

Commerz Real AG, Wiesbaden

Abroad

Commerzbank Brasil S.A. – Banco Múltiplo, São Paulo

Commerzbank (Eurasija) AO, Moscow

Commerzbank Finance & Covered Bond S.A., Luxembourg

Commerzbank Zrt., Budapest

Commerz Markets LLC, New York

mBank S.A., Warsaw

Operative foreign branches

Amsterdam, Barcelona, Bratislava, Beijing, Brno (office), Brussels, Dubai, Hong Kong, London, Luxembourg, Madrid, Milan, New York, Paris, Prague, Shanghai, Singapore, Tokyo, Vienna, Zurich

Representative Offices and Financial Institutions Desks

Abidjan, Addis Ababa, Almaty, Ashgabat, Baghdad, Baku, Bangkok, Beijing (FI Desk), Beirut, Belgrade, Brussels (Liaison Office to the European Union), Bucharest, Buenos Aires, Cairo, Caracas, Dhaka, Dubai (FI Desk), Ho Chi Minh City, Hong Kong (FI Desk), Istanbul, Jakarta, Johannesburg, Kiev, Kuala Lumpur, Lagos, Luanda, Melbourne, Milan (FI Desk), Minsk, Moscow (FI Desk), Mumbai, New York (FI Desk), Panama City, São Paulo (FI Desk), Seoul, Shanghai (FI Desk), Singapore (FI Desk), Taipei, Tashkent, Tblisi, Tokyo (FI Desk), Zagreb

The German version of this Interim Report is the authoritative version.

Disclaimer

Reservation regarding forward-looking statements

This interim report contains forward-looking statements on Commerzbank's business and earnings performance, which are based upon our current plans, estimates, forecasts and expectations. The statements entail risks and uncertainties, as there are a variety of factors which influence our business and to a great extent lie beyond our sphere of influence. Above all, these include the economic situation, the state of the financial markets worldwide and possible loan losses. Actual results and developments may, therefore, diverge considerably from our current assumptions, which, for this reason, are valid only at the time of publication. We undertake no obligation to revise our forward-looking statements in the light of either new information or unexpected events.

2019/2020 Financial calendar

7 November 2019	Interim Report as at 30 September 2019
13 February 2020	Annual Results Press Conference
End-March 2020	Annual Report 2019
6 May 2020	Annual General Meeting
13 May 2020	Interim Report as at 31 March 2020
5 August 2020	Interim Report as at 30 June 2020
5 November 2020	Interim Report as at 30 September 2020

Commerzbank AG

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