COMMERZBANK

The bank at your side

Interim Report as at 30 September

2018

Key figures

Income statement	1.1.–30.9.2018	1.1.–30.9.2017[1]
Operating profit (€m)	1,020	1,128
Operating profit per share (€)	0.81	0.90
Pre-tax profit or loss (€m)	1,020	321
Consolidated profit or loss[2] (€m)	751	53
Earnings per share (€)	0.60	0.04
Operating return on equity based on CET1[3,4] (%)	6.0	6.4
Return on equity of consolidated profit or loss[7] (%)	4.0	0.3
Cost/income ratio in operating business (%)	80.5	76.2

Balance sheet	30.9.2018	31.12.2017
Total assets (€bn)	493.2	452.5
Risk-weighted assets (€bn)	178.4	171.4
Equity as shown in balance sheet (€bn)	29.6	30.0
Total capital as shown in balance sheet (€bn)	38.3	40.1

Regulatory key figures	30.9.2018	31.12.2017
Tier 1 capital ratio (%)	13.7	15.2
Common Equity Tier 1 ratio[5] (%)	13.2	14.9
Common Equity Tier 1 ratio[5] (fully phased-in; %)	13.2	14.1
Total capital ratio (%)	16.8	18.3
Leverage ratio (%)	4.7	5.5
Leverage ratio (fully phased-in, %)	4.5	5.1

Staff	30.9.2018	30.6.2018
Germany	36,431	36,266
Abroad	12,743	12,513
Total	49,174	48,779

Ratings[6]	30.9.2018	30.6.2018
Moody's Investors Service, New York[8]	A1/A1/P-1	A1/A1//P-1
S&P Global, New York[9]	A/A-/A-2	A/A-/A-2
Fitch Ratings, New York/London[8]	A-/BBB+/F2	A-/BBB+/F2
Scope Ratings, Berlin[8]	–/A/S-1	–/A/S-1

[1] Prior-year figures restated.
[2] Insofar as attributable to Commerzbank shareholders.
[3] Average Common Equity Tier 1 (CET1) capital with full application of Basel 3.
[4] Annualised.
[5] The Common Equity Tier 1 ratio is the ratio of Common Equity Tier 1 (CET1) capital (mainly subscribed capital, reserves and deduction items) to risk-weighted assets. The fully phased-in basis anticipates full application of the new regulations.
[6] Deposit rating/issuer credit rating/short-term liabilities (further information can be found online at www.commerzbank.com).
[7] Ratio of net income attributable to Commerzbank shareholders and average IFRS equity before minority after deduction of goodwill and other intangible assets.
[8] Counterparty rating and deposit rating/issuer credit rating/short-term liabilities. Upgrade Moody's of 3 August 2018 already included in the interim report as of 30 June 2018.
[9] Counterparty rating/deposit rating and issuer credit rating/short-term liabilities.

Due to rounding, numbers and percentages in this report may not add up precisely to the totals provided.

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Performance highlights 1 January to 30 September 2018

Key statements

- In the first nine months of 2018 Commerzbank continued its growth path and increased income adjusted for special effects. In the Private and Small-Business Customers segment the Bank gained around 117,000 net new customers in Germany in the third quarter. With over 900,000 net new customers since October 2016, it is well on the way to achieving its goal of one million net new clients by the end of 2018. In terms of new clients and lending volume, the Corporate Clients segment is well ahead of its targets for 2018. The Bank is making further progress in implementing its strategy. Other events in the third quarter included the migration of small-business customers from the Corporate Clients segment to the Private and Small-Business Customers segment and the establishment of the new advisory model for corporate clients.

- An operating result of €1,020m was recorded in the first nine months of 2018, compared with €1,128m in the prior-year period. Consolidated profit attributable to Commerzbank shareholders was €751m, compared with €53m in the prior-year period.

- The Group risk result was €–295m, with the quality of the credit portfolio continuing to make a positive impact; the non-performing loans (NPL) ratio was 0.9%. Operating expenses increased, especially owing to higher investment in digitalisation and growth, and also due to higher costs for regulatory projects and levies, such as the Deposit Protection Fund and Polish banking tax.

- The Common Equity Tier 1 ratio was 13.2%; the leverage ratio was 4.5% (fully phased-in).

- The operating return on equity was 6.0%, compared with 6.4% in the prior-year period. The return on equity based on consolidated profit or loss (less intangible assets; return on tangible equity) was 4.0%, compared with 0.3% the year before. The cost/income ratio was 80.5%.

- For the financial year 2018, Commerzbank is planning to distribute a dividend as announced.

Development of Commerzbank shares

Events on international stock markets were defined by a host of geopolitical events in the first nine months of 2018, including the escalating trade tensions between the USA and China and Europe, political elections in Italy and Turkey, the slow progress in the Brexit negotiations between the UK and the EU and ongoing political tensions in the Middle East. Although the sharp rise in volatility seen in February normalised again (to a degree) as the year progressed, the reciprocal announcement of trade tariffs weighed on the German equity market. The uncertainties were also apparent in the major currencies, with the US dollar stronger against the euro. Falling rate expectations led to price falls in European banks and cyclical stocks in particular. German Bunds profited from rising risk aversion in connection with the debt problem in Italy; this weighed mainly on bank stocks, including Commerzbank. In the first nine months of 2018, the EURO-STOXX Banks Index fell by –18.4%, while the Commerzbank share lost –29.1% compared with its level at the start of the year. This trend is largely due to the fact that general expectations of a rate hike have weakened since year-end, an aspect to which investors attach greater-than-average significance for the profitability of Commerzbank. Since 24 September 2018 Commerz-

bank has been listed in the MDAX. The removal from the DAX at the regular review date in September had been widely anticipated. The actual event therefore had little impact on performance.

Highlights of the Commerzbank share	1.1.–30.9.2018	1.1.–30.9.2017
Shares issued in million units (30.9.)	1,252.4	1,252.4
Xetra intraday prices in €		
High	13.82	11.73
Low	7.92	6.97
Closing price (30.9.)	8.98	11.51
Daily trading volume[1] in million units		
High	32.2	46.0
Low	3.7	3.3
Average	9.9	12.6
Index weighting in % (30.9.)		
MDAX	3.7	.
EURO STOXX Banks	1.1	1.7
Earnings per share in €	0.60	0.04
Book value per share[2] in € (30.9.)	22.66	22.82
Net asset value per share[3] in € (30.9.)	21.48	21.66
Market value/Net asset value (30.9.)	0.42	0.53

[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 third quarter

Commerzbank issues inaugural green bond for €500m

In mid-October Commerzbank issued its inaugural green bond in the capital market. The issue raised €500m. Commerzbank will use the proceeds to refinance renewable energy projects. With the inaugural green bond the Bank is sending an important signal about the growing significance of this asset class. The non-preferred senior bond attracted keen investor interest. The final order book at re-offer was above €1.1bn. The bond has a term of 5 years with an annual coupon of 1.25%. Commerzbank already has wide experience in the green bond market. For years Commerzbank has been successfully supporting their corporate clients to prepare their sustainable bond issues and place them in the international capital market. The bond is structured in accordance with the Green Bond Principles. This market standard provides investors with a high degree of transparency as regards how the funds are actually used. Commerzbank has earmarked the bond proceeds for loans for onshore and offshore wind projects and solar projects in Germany, other European countries, and North and South America. Commerzbank is committed to the objective set at the UN Climate Change Conference in Paris in 2015 to limit global warming to less than 2 degrees Celsius versus pre-industrial levels. The associated energy revolution and reduction in CO_2 emissions are creating a need for new technologies and products requiring large investments.

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Economic conditions

Overall economic situation

Overall economic performance in the reporting period did not differ significantly from the assessment given in the interim report as at 30 June 2018.

Earnings performance, assets and financial position

Commerzbank Group has applied IFRS 9 "Financial Instruments" since 1 January 2018. The application of IFRS 9 has resulted in changes to the Group's accounting and measurement methods. In accordance with the transitional provisions of IFRS 9, the comparable figures were not restated. Explanations regarding changes to the accounting and measurement methods and the effects arising from the initial adoption of IFRS 9 can found be on page 46 ff or on page 48 ff of the interim financial statements.

Income statement of the Commerzbank Group

Commerzbank posted an operating profit of €1,020m in the first nine months of 2018, after €1,128m in the prior-year period.

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

At €3,405m, net interest income in the period under review was 10.2% above the prior-year level. In the Private and Small-Business Customers segment, net interest income – adjusted for one-off effects – increased significantly, primarily due to higher total lending. The consumer lending business in Germany in particular had a positive effect. Besides interest income from the portfolio acquired from the joint venture partner, Commerzbank generated interest income from new business via the Bank's own instalment loan platform that has been developed since mid-2017. In the domestic market the growth in residential mortgage loans and a further rise in interest income from the deposit business also contributed to the rise in net interest income. mBank posted higher interest income in both the lending and deposit business, benefiting from increased margins and further volume growth. The negative impact from the interest rate environment, subdued demand for capital market and hedging products as well as stiff price competition suppressed earnings growth in the Business Segment Corporate Clients. 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 3.1% year on year to €2,329m. The slight decline in net commission income in the Private and Small-Business Customers segment related in particular to the termination of the Commerz Finanz GmbH joint venture. In 2017 Commerzbank was still operating its consumer lending business solely via the joint venture until the sale was completed. The resultant commission income was lost completely when the joint venture was discontinued, but has been more than offset since then by interest income generated through the Bank's own instalment loan platform and from the portfolio acquired from the joint venture partner. Regulatory changes following the introduction of MiFID II at the start of the year also had a negative impact on customer activity in the securities business and the commission income generated here. Net commission income at mBank was stable year on year, despite the absence of income from the group insurance business sold.

The gain from financial assets and liabilities measured at fair value through profit and loss was €791m in the reporting period, after €914m in the prior-year period. The decline is largely attributable to remeasurement effects in the Others and Consolidation segment.

Other net gain or loss from financial instruments was €–6m, €180m lower than the prior-year figure, which included gains on the disposal of a stake in payment services provider Concardis.

Other net income was €144m for the reporting period, compared with €422m a year earlier. The result for the period includes income from the sale of the group insurance business of the mBank subsidiary mFinanse in the Private and Small-Business Customers segment, and an investment in the Corporate Clients segment. Interest for tax refund claims also had a positive effect on earnings. The prior-year period included income from the takeover of the instalment loan portfolio and non-recurring income from a sale of real estate.

The risk result in the period under review came to €–295m. In the Private and Small-Business Customers segment, this was due to the Bank taking the domestic instalment loan business onto its own books and to the higher provisioning in the lending business with corporate clients at mBank. Despite the considerable increase, the overall risk result remained unremarkable by historical standards and in relation to overall income. The risk result in the Corporate Clients segment continued to benefit from the high quality of the loan portfolio, with the first two quarters of the current year in particular including reversals of valuation allowances on specific positions.

Operating expenses in the period under review came to €5,412m, an increase of 2.2% on the prior-year period. The increase was primarily owing to higher investment in digitalisation and growth, and also due to increased costs for regulatory projects and levies, such as the Deposit Protection Fund and Polish banking tax. While personnel expenses were 3.4% below the prior-year level at €2,639m, largely due to the headcount reduction under way, operating expenses, including depreciation on fixed assets and amortisation of other intangible assets, rose by 8.1% to €2,773m. The rise was largely the result of higher investments in IT, increased premises costs and mandatory contributions (including the Polish banking tax) and amortisation of intangible assets.

As a result of the developments described above, the Commerzbank Group generated an operating profit of €1,020m in the first nine months of 2018, compared with €1,128m in the prior-year period. This included measurement effects from counterparty risks of €–34m in the period under review, compared with €41m in the prior-year period.

Pre-tax profit came to €1,020m, compared with €321m in the prior-year period. The prior-year figure included restructuring expenses of €807m relating to the implementation of the "Commerzbank 4.0" strategy. Tax expense for the period under review was €187m, after €202m the previous year. The tax rate was reduced in particular by non-recurring effects resulting from the ongoing domestic tax on-site inspection, and by lower tax rates at foreign locations on the operating profit realised there.

Consolidated profit after tax was €832m, compared with €120m in the prior-year period. Net of non-controlling interests, a consolidated profit of €751m was attributable to Commerzbank shareholders for the first three quarters of 2018.

Operating profit per share came to €0.81 and earnings per share to €0.60. The comparable figures in the prior-year period were €0.90 and €0.04 respectively.

Balance sheet of the Commerzbank Group

The application of International Financial Reporting Standard 9 (IFRS 9) led to changes in the classification and measurement of financial assets, as well as to the impairment of financial assets. In the comments on the balance sheet items, we refer to the comparison figures of 1 January 2018. The reconciliation from 31 December 2017 (pursuant to IAS 39) to 1 January 2018 (pursuant to IFRS 9) can be found on page 48 ff of the interim financial statements.

Total assets of the Commerzbank Group as at 30 September 2018 were €493.2bn. This represented an increase of 9.3% or €42.0bn over the start of 2018.

The cash reserve and demand deposits increased by €2.7bn to €57.9bn. This increase from 1 January 2018 was due in particular to the reallocation of demand deposits held with central banks to the cash reserve in accordance with the applicable terms and conditions.

Financial assets at amortised cost increased by €16.4bn to €281.7bn against 1 January 2018. The increase compared to the IFRS 9 opening balance sheet was largely the result of a rise in residential mortgage business in the Private and Small-Business Customers segment and growth in loans and advances to banks.

At €53.6bn, financial assets mandatorily measured at fair value through profit or loss were €21.3bn higher than on 1 January 2018. The marked increase was primarily due to a rise in secured money market transactions in the form of reverse repos and cash collateral.

Financial assets held for trading were €60.2bn at the reporting date, in line with the figure on 1 January 2018. Although positive fair values from interest rate derivatives and from currency derivatives fell by €7.1bn overall, equities, bonds and other derivatives increased by a total of €5.7bn as portfolios were expanded.

At €347m, non-current assets held for sale and disposal groups were €268m higher than at 1 January 2018. The main reason for the sharp rise was the sale of ebase GmbH agreed between comdirect bank AG and FNZ Group.

On the liabilities side, financial liabilities at amortised cost were up €19.5bn from 1 January 2018 at €355.5bn. Both the volume of bonds and notes issued and deposits increased sharply compared with 1 January 2018.

Financial liabilities under the fair value option increased by €28.4bn from the start of 2018 to €48.7bn. The marked increase was largely due to the seasonal rise in secured money market transactions with banks and financial services providers.

Financial liabilities held for trading were €51.6bn, €5.0bn lower than at 1 January 2018. While negative fair values from interest rate derivatives and from currency derivatives fell by €6.2bn overall, negative fair values from currency derivatives increased by €0.9bn.

Equity

The equity capital (before non-controlling interests) reported in the balance sheet on 30 September 2018 was €28.4bn and therefore 2.5% above the level on 1 January 2018.

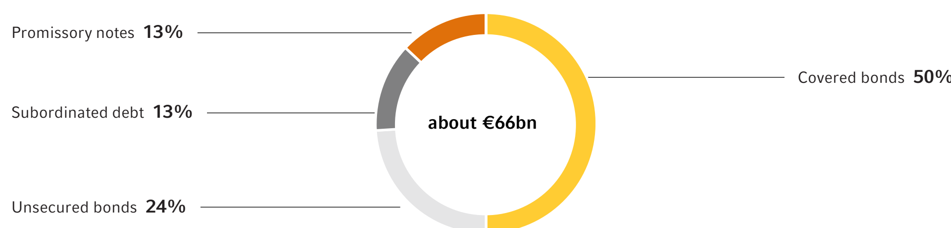
Risk-weighted assets (fully phased-in) were €178.4bn as at 30 September 2018, therefore €7.3bn above the year-end 2017 level. The increase was caused by a growth-driven rise in risk-weighted assets from credit risks, which was only partly offset by reductions from IFRS 9 adjustments and a further reduction of wind-down portfolios. The small fall in risk assets from market risk was offset by a slight rise in risk assets from operational risk. Regulatory Tier 1 capital (on a "phased in" basis) fell by around €1.6bn to €24.4bn compared with year-end 2017, chiefly as a result of the next stage in the Basel 3 phase-in and the conversion to IFRS 9, although this was partly compensated by the regulatory eligible profit and lower regulatory deductions. The corresponding Tier 1 ratio thus fell to 13.7%. Common Equity Tier 1 capital was €23.5bn and the corresponding Common Equity Tier 1 ratio 13.2%. The total capital ratio was 16.8% as at the reporting date. The leverage ratio based on the CRD IV/CRR rules applicable on that date, which equal to Tier 1 capital divided by leverage exposure, was 4.7% (phase-in) or 4.5% (fully phased-in).

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 structure[1]
As at 30 September 2018



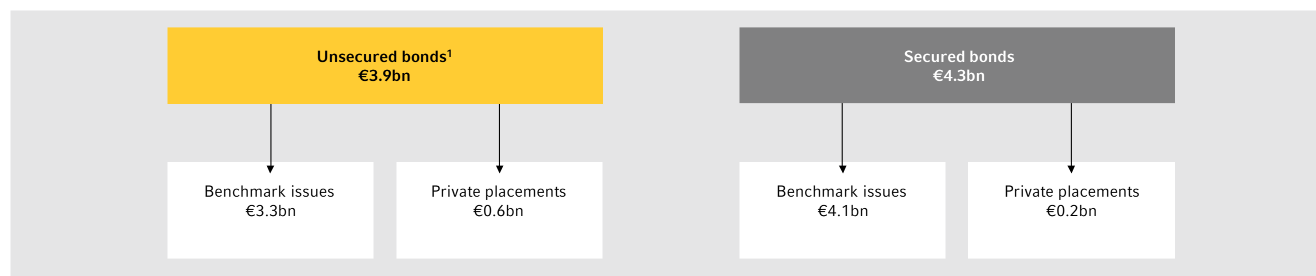
[1] Based on reported figures.

The Commerzbank Group raised a total of €8.2bn in long-term funding on the capital market in the first three quarters of 2018. The focus has been on the long end, so the average term of securities issued in 2018 so far has been over seven years.

In the unsecured area Commerzbank Aktiengesellschaft issued preferred senior bonds for the first time in August. An amendment to section 46f of the German Banking Act (KWG) in July of this year has made it possible to issue this asset class. The transaction saw the parallel issue of two bonds: one with a term of five years and a volume of €1.25bn and one with a term of ten years and €500m. A senior non-preferred benchmark bond with a volume of €500m and a ten-year term had already been issued in the first half of the year. A further €0.5bn was raised via private placements. mBank placed the equivalent of €0.7bn in unsecured bonds.

In the collateralised area, mortgage Pfandbriefe with a total volume of €3.9bn were issued. Of this benchmark issuance, €500m featured a maturity of four years, €1bn five years, €1.5bn seven years and €750m ten years. With a share of over 40%, all Pfandbrief issues met with great interest from foreign investors too. mBank issued the equivalent of around €0.4bn of euro covered bonds under Polish law.

Group capital market funding in the first nine months of 2018
Volume €8.2bn



[1] Preferred senior unsecured debt and non-preferred senior unsecured debt, subordinated capital.

As at the reporting date, the Bank had a liquidity reserve of €84.2bn 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 liquidity risk appetite in order 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 quarter the total value of this portfolio was €10.8bn.

At 139.13% (average of the respective 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 48.

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 nine months of 2018 are based on the segment structure described on pages 55 and 233 ff. of the Annual Report 2017. More information and explanations regarding adjustments of prior-year figures can be found on page 96 ff. of the interim financial statements.

Private and Small Business Customers

€m	1.1.–30.9.2018	1.1.–30.9.2017[1]	Change in %/%-points
Income before risk result	3,642	3,636	0.2
Risk result	–184	n/a	.
Loan loss provisions	n/a	–130	.
Operating expenses	2,893	2,794	3.6
Operating profit/loss	**564**	**712**	**–20.8**
Average capital employed	4,701	4,451	5.6
Operating return on equity (%)	16.0	21.3	–5.3
Cost/income ratio in operating business (%)	79.5	76.8	2.6

[1] Figures restated (see page 96 f. of the interim financial statements).

In the first nine months of financial year 2018 the Private and Small-Business Customers segment reported pleasing volume growth both in Germany and at Polish subsidiary mBank, significantly increasing operating profit adjusted for special effects. Operating profit for the segment was lower than in the first three quarters of 2017 at €564m. Excluding two non-recurring income items from the prior year and a special factor in the current year, however, it would have risen significantly, in line with the growth

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in income. The risk result and operating expenses also grew year on year.

Income before risk result for the period was virtually unchanged compared with the first nine of months of 2017 at €3,642m. Income for the period includes the €52m gain on the sale of the group insurance business of mBank subsidiary mFinanse recognised in the first quarter of the current year. This was offset by purchase price allocation (PPA) amortization of €75m taken through income in Germany. The PPA amortization included in net interest income allocates measurement differences in the course of the takeover of the instalment loan portfolio from the former joint venture partner over the residual maturity of the consumer financings transferred in August of the previous year. Special effects taken through income, mainly from the transfer of the instalment loan portfolio in the third quarter and the gain on disposal from the stake in payment services provider Concardis, came to a total of €238m in the prior year.

Net interest income rose by €186m to €1,910m. In the domestic market the growth in consumer loans and retail mortgage financing and a further rise in interest income from deposits contributed to this. mBank posted higher interest income in both the lending and deposit business, benefiting from increased margins and further volume growth. Net commission income fell slightly, down €–21m year on year to €1,462m. In Germany, following the ending of the Commerz Finanz GmbH joint venture in Q3 2017 all commission income from selling instalment loans has ceased. As the additional interest income on a year-on-year basis in both reporting periods more than made up for the missing commission income, on balance the instalment loan business as currently structured contributed a clearly positive effect on income. Regulatory changes following the introduction of MiFID II at the start of the year also had a negative impact on customer activity in the securities business and the commission income generated here. Net commission at mBank was stable year on year, despite the absence of income from the group insurance business sold.

The risk result of €–184m, compared with €–130m of loan loss provisions in the previous year, largely reflected the return of domestic instalment loan business to the Bank's own books. mBank had to recognise higher provisioning, especially in lending to corporate customers. Despite the considerable increase, the overall risk result remained unremarkable by historical standards and in relation to overall income.

Operating expenses increased by €99m year on year to €2,893m. While personnel expenses were unchanged year on year, operating expenses and indirect operating expenses rose by 5.4% to €1,905m. Along with a further increase in regulatory costs investment in future earnings power was maintained at a high level in line with strategy.

Overall, the Private and Small-Business Customers segment posted a pre-tax profit of €564m in the period under review after €712m in the prior-year period.

Corporate Clients

€m	1.1.–30.9.2018	1.1.–30.9.2017[1]	Change in %/%-points
Income before risk result	2,836	3,015	–5.9
Risk result	–124	n/a	.
Loan loss provisions	n/a	–123	.
Operating expenses	2,189	2,148	1.9
Operating profit/loss	**523**	**743**	**–29.6**
Average capital employed	10,966	11,596	–5.4
Operating return on equity (%)	6.4	8.5	–2.2
Cost/income ratio in operating business (%)	77.2	71.3	5.9

[1] Figures restated (see page 96 f. of the interim financial statements).

The first nine months of 2018 brought a few challenges for the Corporate Clients segment. The persistently low level of interest rates, intense competition in the German market and the regulatory environment weighed on the earnings performance.

In addition, rising geopolitical uncertainty factors (including a deterioration of international trade relations, growing concerns about the sustainability of Italian debt and increased political risk in Turkey) led to lower customer activity.

This was also reflected in its earnings performance, with the segment posting an operating profit of €523m in the first nine months after €743m in the previous-year period. The decline in earnings is attributable mainly to the competitive environment, which put pressure on margins and clearly weakened demand for structured products.

The Mittelstand division benefited from the segment's solid market position, which is reflected in an increasing total lending volume. However, the negative impact of the interest rate environment, along with subdued demand for capital market and hedging products and the stiff price competition, suppressed earnings. In the International Corporates division, while earnings performance was likewise affected by intense competition in lending and by lower client activity in capital markets business, income remained stable year on year. The refocusing of Financial Institutions resulted in a positive trend in business in the first nine months of 2018. The contribution to earnings was solid despite a smaller client base year on year. Earnings performance in Equity Markets & Commodities was impacted by a challenging market environment, reflected in a perceptible fall in income year on year. By contrast, the Others segment benefited in particular from a positive restructuring result.

In the period under review, income before risk result was down €179m or 5.9% year on year at €2,836m. Net interest income was €1,229m, down €76m. The decrease was mainly due to a lower contribution from the lending business. Net commission income was €886m. This was €58m lower than the previous year, mainly due to a lower contribution from capital market products.

The risk result continued to profit from the high quality of the loan portfolio. The risk result for the period was €–124m, with the first two quarters of the current year in particular including reversals of valuation allowances on individual exposures.

Operating expenses were €2,189m, up €40m or 1.9% on the prior-year figure. This includes increasing investments in strategic development and higher regulatory requirements.

Overall, the segment posted a pre-tax profit of €523m compared with €743m in the prior-year period.

Asset & Capital Recovery

€m	1.1.–30.9.2018	1.1.–30.9.2017[1]	Change in %/%-points
Income before risk result	135	146	–7.7
Risk result	15	n/a	.
Loan loss provisions	n/a	–277	.
Operating expenses	60	79	–24.4
Operating profit/loss	**90**	**–210**	**.**
Average capital employed	2,263	3,063	–26.1
Operating return on equity (%)	5.3	–9.1	14.4
Cost/income ratio in operating business (%)	44.3	54.2	–9.8

Over the reporting period the Asset & Capital Recovery (ACR) segment has continued to press ahead with the existing wind-down mandate. As at the end of September 2018, it reported a total volume (exposure at default, EaD, including non-performing loans and fair value positions with default indicators) of €9.2bn in assets that no longer form part of the core business of Commerzbank. The riskier sub-portfolios in Commercial Real Estate Finance and shipping loans accounted for a volume of €1.7bn. Operating profit in the first three quarters of 2018 was €90m, a significant improvement compared with the loss of €–210m posted in the prior-year period.

Income before risk result fell by €11m to €135m. Compared with the prior-year period, the segment benefited from one-off income of €68m, resulting from the write-up of a counterparty risk position that had been written off. Following the introduction of the IFRS 9 accounting standard on 1 January 2018, the loans and securities held in the ACR segment will be recognised at their fair value to a greater extent than before. The prompt measurement of fair values generally makes it easier to achieve the strategic objective of further reducing the residual portfolio in a value-preserving manner, e.g. by sales.

However, fluctuations in assets and liabilities, depending on the situation of the underlying market segments, affect earnings on a quarterly basis to a considerable extent. The increased earnings volatility is such that reporting periods with negative net income cannot therefore be ruled out in future.

Since the start of the year, the ship financing portfolio has been measured at fair value through profit or loss. Fluctuations in the market values of the shipping loans therefore no longer impact on the risk result. Loan loss provisions of €–277m in the previous year almost exclusively reflected valuation allowances on the portfolio, which was significantly larger in the previous year. Since the start of 2018 the risk result has essentially reflected reversals of loan loss provisions on the remaining commercial real estate portfolio.

In line with strategy, operating expenses were reduced as the portfolio was run down. The operating cost base fell considerably, by €19m to €60m.

Overall, the ACR segment posted a pre-tax profit of €90m in the period under review. This represents a €299m improvement compared with the same period of the previous year.

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 in the division centrally.

The Others and Consolidation segment reported an operating result of €–157m for the first nine months of 2018, compared with €–117m in the prior-year period. This decline of €40m was largely the result of one-off income from a property sale recognised last year. This was counterbalanced by the declining negative impact from the effects of the purchase price allocation associated with the acquisition of Dresdner Bank and a decrease in the external funding costs allocated to the Others and Consolidation segment. Others and Consolidation likewise recorded a pre-tax loss of €–157m for the first nine months of 2018, representing an improvement of €767m compared with the prior-year period.

In the first nine months of the previous year, restructuring expenses of €807m were recorded in connection with the implementation of the headcount reduction as part of the Commerzbank 4.0 strategy.

Outlook and opportunities report

Future economic situation

Our assessment of the overall economic picture anticipated for the current financial year has changed from the forecasts we made in the interim report as at 30 June 2018 in that the risk of a trade war between the USA and China, which would have a massive impact on the global economy and financial markets, has risen further. So too has the risk that the UK might leave the European Union in March 2019 without an agreement.

Future situation in the banking sector

Our views regarding the expected development of the banking sector structurally and over the medium term have not changed significantly since the statements published in the interim report as at 30 June 2018. However, the risks to short-term prospects for the banking environment have risen further in recent months.

In particular, the escalating trade conflict between the USA and China and the growing danger that the dispute might become ideological could place a further burden on trade flows which are already being affected. This is without mentioning turbulence in some emerging markets (partly as a result of rising US benchmark interest rates and a stronger dollar), the lack of progress in Brexit negotiations, the loss of spending power due to higher energy prices and the persistent latent risk that investors will lose confidence in the stability of Italian government finances.

The downside risks have risen in the period under review and a sharper awareness of them means there is a risk that the private sector will review its consumption and investment decisions and hence the corporate and retail customer business will experience stronger headwinds from the real economy and financial environment at interest-earnings and commission business level than previously assumed.

Financial outlook for the Commerzbank Group

Planned funding measures

Commerzbank anticipates a capital market funding requirement of less than €10bn over the coming years. 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 capital), when refinancing Commerzbank can also issue secured funding instruments, in particular mortgage Pfandbriefe and public-sector Pfandbriefe. These give Commerzbank stable access to long-term funding with cost advantages compared with unsecured sources of funding. As such, Pfandbriefe are a key element of Commerzbank's funding mix. 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 have not changed significantly in the first nine months of the current year from the plans set out on pages 91 to 93 of the Annual Report 2017. Commerzbank's current and planned investment activity relates to measures under the "Commerzbank 4.0" strategy. We will be spending the coming years making our business model consistently more focused, implementing digital transformation and boosting efficiency.

Anticipated liquidity trends

In the third quarter of 2018, events on the eurozone money and capital markets were still largely dictated by the monetary policy measures implemented by the European Central Bank (ECB) to support the economic recovery in the eurozone.

The ECB continues to provide additional liquidity through its securities purchase programme. At its meeting in mid-June the ECB decided to continue the purchasing programme at a monthly rate of €30bn until the end of September 2018. The programme will be reduced from €30bn to €15bn between October and December 2018. The ECB has not yet taken any decision on ending the purchase programme from 2019. The benchmark rate is to remain unchanged if necessary until beyond the summer of 2019. Excess liquidity was around €1,867bn as at the end of September 2018. The ECB will remain a major market investor as it reinvests the proceeds of maturing securities and continues the purchasing programme for the time being.

The restrictive regulatory framework and the ECB's interest rate policy are continuing to limit transaction in the repo market, although the ECB and the national central banks are providing the market with additional collateral through various securities lending programmes, which has a counteracting positive impact. 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 2019. Owing to the high excess liquidity in the market, the volume of longer-term securities repo transactions is restricted. Liquidity trends on the bond markets are still dictated largely by the ECB's activities. Secondary market liquidity, which has already been significantly reduced, will remain modest due to the ECB's activities. We still assume that German government bond yields in the range of up to five years will be negative and anticipate persistently high demand from investors for high-quality securities. In view of this, we believe credit spreads will remain tight. Moderate widening of spreads has been seen in specific markets such as German Pfandbriefe, but the trend for the market as a whole is expected to be sideways.

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 stable business model in private 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 and the changes we made in the interim report on the first half of 2018 regarding the anticipated performance of the Commerzbank Group. Overall, given the conditions and risk factors described, we still expect consolidated net profit to increase substantially in 2018 compared with the previous year.

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 Board of Managing Directors and the Risk Committee of the Supervisory Board 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. In all segments except for Asset & Capital Recovery (ACR), credit risk management is separated into a performing loan area and Intensive Care, while in ACR it has been merged into a single unit across all rating classes. All divisions have a direct reporting line to the CRO.

It is Group Compliance's responsibility to establish 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 2017.

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 purpose is to ensure that sufficient capital is held at all times.

Commerzbank monitors risk-bearing capacity (RBC) using a gone concern approach which seeks primarily to protect unsubordinated lenders. This objective should be achieved even in the event of extraordinarily high losses from an unlikely extreme event. The gone concern analysis is supplemented here by elements aimed at ensuring the institution's continuing existence (going concern perspective).

In addition, risk-bearing capacity is assessed using macroeconomic stress scenarios. The Group Risk Report 2017 provides further details on the methodology used.

The monitoring and management by means of risk-bearing capacity is carried out monthly at Group level. Risk-bearing capacity is deemed to be assured as long as the RBC ratio is higher than 100%. In the year to date, the RBC ratio has consistently been above 100% and stood at 194% as at 30 September 2018. The RBC ratio has fallen since December 2017 but remains at a high level. The decline in the RBC ratio is the result of the risk coverage potential, which fell in the first three quarters of 2018, mainly due to the introduction of IFRS 9, time-to-maturity effects of subordinated capital and the market-related developments in the Public Finance portfolio.

Risk-bearing capacity Group | €bn	30.9.2018	31.12.2017
Economic risk coverage potential[1]	**28**	**30**
Economically required capital[2]	**14**	**14**
thereof for default risk	**10**	10
thereof for market risk[3]	**3**	3
thereof for operational risk	**2**	2
thereof diversification effects	**−2**	−2
RBC ratio (%)[4]	**194**	**217**

[1] Including deductible amounts for business risk.
[2] Including property value change risk, risk of unlisted investments and reserve risk.
[3] Including deposit model risk.
[4] RBC ratio = economic risk coverage potential/economically required capital (including risk buffer).

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 segment, the Bank has bundled the activities of the Commercial Real Estate and Ship Finance areas

and complex financings from the Public Finance area. The intention is that all the portfolios in this segment should be completely wound down over time.

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 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 99.91% 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 were as follows as at 30 September 2018:

Credit risk parameters as at 30.9.2018	Exposure at default €bn	Expected loss €m	Risk density bp	CVaR €m
Private and Small-Business Customers	163	403	25	2 485
Corporate Clients	193	454	24	5 710
Others and Consolidation[1]	66	26	4	1 645
Asset & Capital Recovery	9	87	101	656
Group	**431**	**970**	**22**	**10 496**

[1] Mainly Treasury liquidity portfolios.

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 constitute the investment-grade area.

Rating breakdown as at 30.9.2018 EaD | %	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	32	51	13	3	1
Corporate Clients	20	60	16	3	1
Others and Consolidation	58	40	2	0	0
Asset & Capital Recovery	10	67	10	8	6
Group	**30**	**54**	**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, 7% to North America and 6% to Asia, respectively. 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. A main driver of the expected loss in the region "Other" is ship financing.

Group portfolio by region as at 30.9.2018	Exposure at default €bn	Expected loss €m	Risk density bp
Germany	229	452	20
Western Europe	89	139	16
Central and Eastern Europe	41	196	48
North America	32	54	17
Asia	27	46	17
Other	13	84	64
Group	**431**	**970**	**22**

In view of current geopolitical developments, national economies such as Russia, Turkey and China are closely monitored. As at the end of the third quarter of 2018, exposure to Russia was €2.6bn, exposure to Turkey was €2.2bn and exposure to China was €7.3bn.

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 third quarter of 2018, Commerzbank's Italian sovereign exposure was €8.4bn, while its Spanish sovereign exposure was €1.3bn.

Risk result The risk result relating to the Group's lending business in the first three quarters of 2018 was €295m. The risk result in the Corporate Clients segment benefited mainly from a reversal associated with a single exposure.

Compared with the previous year the calculation of the risk result showed substantial changes due to the conversion to IFRS 9. The following table shows the breakdown of the risk result by stage according to IFRS 9. In Note (5) of the Interim Financial Statements (changes in accounting and measurement policies) details regarding the stages can be found; in Note (10) (risk result) the definition of the risk result can be found.

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

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	Q3 2018				Q2 2018				Q1 2018			
Risk result[1] €m	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Private and Small-Business Customers	3	21	45	69	14	–12	63	66	–30	42	36	49
Corporate Clients	14	–5	53	62	9	37	–9	37	0	4	21	25
Others and Consolidation	–1	4	2	4	2	–1	–5	–3	2	–2	0	0
Asset & Capital Recovery	2	–1	–2	–1	–7	–3	–6	–16	–1	3	0	2
Group	**18**	**18**	**98**	**134**	**19**	**22**	**44**	**84**	**–28**	**48**	**57**	**77**

[1] Stage 3 including POCI (POCI – Purchased or Originated Credit-impaired).

	Q1-Q3 2018				Q1-Q3 2017[1]
Risk result[2] €m	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Private and Small-Business Customers	–13	52	145	184	130
Corporate Clients	24	36	65	124	123
Others and Consolidation	4	1	–3	1	0
Asset & Capital Recovery	–6	–1	–8	–15	277
Group	**9**	**87**	**199**	**295**	**530**

[1] Loan loss provisions 2017 according to IAS 39.
[2] Stage 3 including POCI (POCI – Purchased or Originated Credit-impaired).

In light of the currently very good risk profile of the credit portfolio, we are confirming our expectations regarding the risk result for the 2018 financial year of less than €500m – subject to effects that may possibly arise from the current geopolitical environment or further escalation of trade disputes.

Default portfolio The Group's default portfolio stood at €3,787m as at 30 September 2018.

	30.9.2018			31.12.2017[1]
Default portfolio Group €m	**Loans**	**Securities**	**Total**	**Total**
Default portfolio	3 716	70	3 787	5 569
LLP[2]	1 586	15	1 601	2 770
Coverage ratio excluding collateral (%)[3]	43	21	42	50
Collateral	919	0	919	1 578
Coverage ratio including collateral (%)[3]	67	21	67	78
NPL ratio (%)[4]			0,9	1,3

[1] Until 31 December 2017 only loans.
[2] Loan loss provisions.
[3] Coverage ratio: LLP (and collateral) as a proportion of the default portfolio.
[4] NPL ratio: default portfolio (non-performing loans – NPL) as a proportion of total exposure (EaD including NPL).

The 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 decrease in the parameters is mainly due to the reclassification of the shipping portfolio as part of the conversion to IFRS 9 at the beginning of 2018.

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 (residential mortgage loans and investment properties with a total EaD of €80bn). We provide our business and small-business customers with credit in the form of individual loans with a volume of €20bn. 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 €14bn). The portfolio's expansion in the first nine months was largely due to residential mortgage loans.

Compared with year-end 2017, risk density decreased by one basis point to 25 basis points.

Credit risk parameters as at 30.9.2018	Exposure at default €bn	Expected loss €m	Risk density bp
Private Customers	96	171	18
Business Customers	29	61	21
comdirect bank	4	6	15
Commerz Real	1	2	31
mBank	34	162	48
Private and Small-Business Customers	**163**	**403**	**25**

In the Private and Small-Business Customers segment, the risk result in the first three quarters of 2018 was €184m and therefore remained at a low level.

The default portfolio in the segment stood at €1,822m as at 30 September 2018.

	30.9.2018			31.12.2017
Default portfolio PSBC | €m	Loans	Securities	Total	Total
Default portfolio	1 822	0	1 822	1 864
LLP	908	0	908	951
Coverage ratio excluding collateral (%)	50	0	50	51
Collateral	554	0	554	564
Coverage ratio including collateral (%)	80	0	80	81
NPL ratio (%)			1,1	1,2

Corporate Clients segment

This segment 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 as at 30.9.2018	Exposure at default €bn	Expected loss €m	Risk density bp
Mittelstand	76	184	24
International Corporates	68	136	20
Financial Institutions	26	77	30
Equity Markets & Commodities	4	4	10
Other	20	53	27
Corporate Clients	**193**	**454**	**24**

The EaD of the Corporate Clients segment increased from €180bn to €193bn compared with 31 December of the previous year. Risk density increased slightly from 23 basis points to 24 basis points.

For details of developments in the Financial Institutions portfolio, please see page 22.

Supported by continuing robustness in the overall economy, the risk result in the Corporate Clients segment was again at a low level in the first three quarters of 2018, at €124m.

The default portfolio in the segment stood at €1,748m as at 30 September 2018.

	30.9.2018			31.12.2017
Default portfolio CC €m	Loans	Securities	Total	Total
Default portfolio	1 681	67	1 748	2 592
LLP	588	15	603	1 243
Coverage ratio excluding collateral (%)	35	22	34	48
Collateral	274	0	274	543
Coverage ratio including collateral (%)	51	22	50	69
NPL ratio (%)			0,9	1,4

Asset & Capital Recovery segment

The Asset & Capital Recovery (ACR) segment comprises positions of the portfolios in the areas of Commercial Real Estate (CRE) and Ship Finance (SF) and complex financings from the Public Finance area. The intention is that all the portfolios in this segment should be completely wound down over time.

EaD for the ACR segment in the performing loan book totalled €9bn as at September 2018, which is a decrease of €4bn compared with the end of the previous year, mainly due to the conversion to IFRS 9 and the ongoing wind-down of the portfolio.

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Credit risk parameters as at 30.9.2018	Exposure at Default €bn	Expected loss €m	Risk density bp
Commercial Real Estate	1	7	115
Ship Finance	0	40	859
Public Finance	8	40	53
Asset & Capital Recovery	**9**	**87**	**101**

Commercial Real Estate The portfolio further decreased due to redemptions and repayments. Compared with 31 December 2017, risk density decreased from 185 basis points to 115 basis points.

Ship Finance Since the start of the year, ship finance exposure in the performing loan book has been reduced by more than €1bn and expected loss by more than €200m, primarily as a result of the conversion to IFRS 9 compared with 31 December 2017. The decrease is mainly attributable to the introduction of the fair value approach according to IFRS 9.

Overall our portfolio is mainly made up of three standard types of ship: container ships (€0.4bn), tankers (€0.2bn) and bulkers (€0.2bn). The rest of the portfolio consists of various special tonnages, which are well diversified across the various ship segments.

We expect charter rates on the shipping markets in 2018 to be slightly higher for bulkers and some container classes compared to the previous year's levels. Charter rates for tankers continued to fall in the first half of this year due to ongoing high deliveries and have only started to move sideways or rise slightly since the third quarter. Although excess supply of tonnage should continue to decrease, a significant overhang will remain. The positive trend, which started in 2017, will receive support from the global economic and trade growth forecast by the International Monetary Fund (IMF).

The Bank will continue to reduce problem and non-performing loan exposures as part of its ongoing effort to run down the portfolio.

Public Finance The Public Finance sub-portfolio in the ACR segment is largely made up of exposures with credit quality ranging from satisfactory to good, some of them with very long maturities and complex structures, to local authorities in the UK (€2.8bn EaD), a private finance initiative (PFI) portfolio (€3.5bn EaD) with a regional focus on the UK and further Public Finance debtors, predominantly in the USA (€1.3bn EaD).

The risk result in the ACR segment was €–15m in the first three quarters of 2018.

The default portfolio in the segment stood at €217m as at 30 September 2018. The decrease in the parameters is mainly due to the reclassification of the shipping portfolio as part of the conversion to IFRS 9 at the beginning of 2018. The exposure of fair value P&L credit positions with default criterion stood at €417m. The default portfolio of the sub-portfolio Ship Finance stood at €729m as at 31 December 2017.

	30.9.2018			31.12.2017
Default portfolio ACR €m	Loans	Securities	Total	Total
Default portfolio	213	4	217	1 113
LLP	92	0	92	571
Coverage ratio excluding collateral (%)	43	0	42	51
Collateral	91	0	91	471
Coverage ratio including collateral (%)	86	0	84	94
NPL ratio (%)			2,5	7,9

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 as at 30.9.2018	Exposure at default €bn	Expected loss €m	Risk density bp
Energy supply/Waste management	18	47	26
Consumption	15	48	33
Wholesale	13	43	34
Technology/Electrical industry	12	32	26
Transport/Tourism	11	25	23
Basic materials/Metals	11	45	42
Services/Media	10	27	26
Automotive	10	25	25
Chemicals/Plastics	10	37	38
Mechanical engineering	9	26	29
Construction	6	15	25
Pharmaceutical/Healthcare	4	10	24
Other	5	6	10
Total	**134**	**385**	**29**

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 are entering 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 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.

	30.9.2018			31.12.2017		
FI portfolio by region	**Exposure at default** €bn	**Expected loss** €m	**Risk density** bp	**Exposure at default** €bn	**Expected loss** €m	**Risk density** bp
Germany	6	6	11	5	5	11
Western Europe	16	15	10	13	9	7
Central and Eastern Europe	4	19	55	4	16	42
North America	2	1	3	2	1	9
Asia	14	30	22	11	27	25
Other	6	23	36	5	19	40
Total	**47**	**94**	**20**	**38**	**77**	**20**

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.

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	30.9.2018			31.12.2017		
NBFI portfolio by region	**Exposure at default** €bn	**Expected loss** €m	**Risk density** bp	**Exposure at default** €bn	**Expected loss** €m	**Risk density** bp
Germany	18	24	13	17	25	15
Western Europe	12	19	16	12	20	16
Central and Eastern Europe	1	8	80	1	5	56
North America	8	26	32	7	41	58
Asia	1	2	12	1	1	10
Other	1	4	35	1	1	16
Total	**42**	**82**	**19**	**40**	**94**	**24**

Originator positions

Commerzbank has in recent years securitised receivables from loans to the Bank's customers with a current volume of €6.9bn, primarily for capital management purposes.

As at the reporting date 30 September 2018, risk exposures with a value of €5.7bn were retained. By far the largest portion of these positions is accounted for by €5.5bn of senior tranches, which are nearly all rated good or very good.

		Commerzbank volume[1]				
Securitisation pool €bn	**Maturity**	**Senior**	**Mezzanine**	**First loss piece**	**Total volume[1] 30.9.2018**	**Total volume[1] 31.12.2017**
Corporates	2025 – 2036	5.5	<0.1	0.1	6.9	7.6
Total		5.5	<0.1	0.1	6.9	**7.6**

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). Volumes and risk values[1] in the Silver Tower conduit fell slightly in the first three quarters of 2018, reaching €3.8bn as at 30 September 2018, around €0.2bn below the figure as at 31 December 2017.

Liquidity risks from securitisations are modelled conservatively in the internal liquidity risk model. 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 applying conservative discounts.

The other asset-backed exposures mainly comprise government-guaranteed ABSs held by Commerzbank Finance & Covered Bond S.A. and Commerzbank AG in Germany. The volume fell to €4.4bn year-to-date in 2018 (December 2017: €4.5bn), while risk values fell to €4.3bn (December 2017: €4.4bn).

There are also investments in the Structured Credit area. The volume of new investments entered into since 2014 stood at €4.0bn (December 2017: €2.9bn). 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. Remaining structured credit positions with a volume of €1.3bn were already in the portfolio prior to 2014 (December 2017: €1.6bn), while risk values stood at €0.4bn (December 2017: €0.7bn).

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.

[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.

Risk management

A standardised value at risk model (historical simulation) incurporating all positions that are relevant for market risk is used for the internal management of market risk. For smaller entities of the Commerzbank Group we 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 2017. 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.

Over the course of 2018, the VaR for the overall book has fallen by €21m to €33m. This was primarily caused by bringing VaR into line with IFRS 9 accounting.

VaR contribution I €m	30.9.2018	31.12.2017
Overall book	**33**	**54**
thereof trading book	7	9

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.

By the end of the third quarter of 2018, VaR had fallen from €9m to €7m, primarily due to changes in positions in the Corporate Clients segment and to a lesser extent in the Asset & Capital Recovery (ACR) segment. VaR in the trading book is at a historical low.

VaR of portfolios in the trading book I €m	Q1-Q3 2018	2017
Minimum	6	9
Mean	9	15
Maximum	12	25
VaR at end of reporting period	**7**	**9**

The market risk profile is diversified across all asset classes; only commodity risk plays a less significant role in relation to VaR results.

VaR contribution by risk type in the trading book I €m	30.9.2018	31.12.2017
Credit spreads	2	1
Interest rates	1	3
Equities	2	2
FX	2	3
Commodities	0	1
Total	**7**	**9**

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 nine months of 2018. Stressed VaR climbed marginally from €31m at end-2017 to €32m at the end of the third quarter of 2018. This was due primarily to changes in positions in Corporate Clients.

The market risk profile in stressed VaR is also diversified across all asset classes; here again, commodities are of only minor importance.

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Stressed VaR contribution by risk type in the trading book | €m	30.9.2018	31.12.2017
Credit spreads	8	8
Interest rates	11	8
Equities	8	5
FX	4	8
Commodities	1	1
Total	**32**	**31**

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. Over the course of 2018, the incremental risk charge has fallen by €14m to €29m. The decline is almost solely attributable to 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. So far in 2018 we have seen no negative clean or dirty P&L outliers. As such, the results are in line with statistical expectations and 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 could be exposed, based on unlikely but not impossible 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. Scenarios for changes in inflation are also taken into account. 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.

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 down slightly as at the end of the third quarter of 2018, at €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) has 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 calculation methodology has been changed from BaFin rules to ECB methodology with effect from 30 June 2018. The changes versus year-end 2017 are largely attributable to the changed calculation methodology.

The outcome of the +200 basis points scenario would be a potential loss of €1,336m, while the –200 basis points scenario would result in a potential profit of €317m, both as at 30 September 2018. Commerzbank does not therefore need to be classified as a bank with higher interest rate risk as the negative changes in present value account for less than 20% of regulatory capital.

As at 30 September 2018, the interest rate sensitivity of the entire banking book was €5.4m per basis point of interest rate reduction.

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 between 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

In measuring economic capital adequacy, Commerzbank also takes account of market liquidity risk. This 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.

The first step is to create a realistic downsizing profile for each portfolio on the basis of its product and risk strategies and an assessment of the market. This enables portfolios to be classified in terms of their convertibility into cash using a "market liquidity factor". The market liquidity factor takes into account the heightened volatility of portfolio value resulting from the extended holding period for risk positions in line with the portfolio's downsizing profile. The market risk of every portfolio is then evaluated based on a one-year view with a confidence level of 99.91% and weighted with the market liquidity factor.

As at the end of the third quarter of 2018, Commerzbank had earmarked €0.1bn in economic capital to cover market liquidity risk in the trading and banking books. Asset-backed securities and structured products in particular have a higher market liquidity risk.

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.

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.

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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 stricter requirements of the Minimum Requirements for Risk Management (MaRisk), the revised version of which has been in place since end-2017. 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 subprime crisis and simulates a 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, extensions 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 third quarter. Significantly more liquidity flows out in a combined scenario compared with the individual scenarios. As at the end of the third quarter of 2018, in the one-month and three-month periods, the combined stress scenario leaves net liquidity of €14.3bn and €19.1bn, respectively. The liquidity position of Commerzbank stays comfortable.

Net liquidity in the stress scenario | €bn		**30.9.2018**
Idiosyncratic scenario	1 month	20.1
	3 months	26.7
Market-wide scenario	1 month	23.3
	3 months	28.1
Combined scenario	1 month	14.3
	3 months	19.1

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 €84.2bn 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 €10.8bn as at the reporting date.

Liquidity reserves from highly liquid assets | €bn	30.9.2018
Highly liquid assets	84.2
of which level 1	75.6
of which level 2A	7.5
of which level 2B	1.0

Liquidity ratios

Throughout 2018, Commerzbank's internal liquidity ratios, including the regulatory liquidity coverage ratio (LCR), have at all times been 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. As of 1 January 2018, the Bank must maintain a ratio of at least 100%.

Commerzbank has significantly exceeded the stipulated minimum ratio of 100% on every reporting date in the current financial year. As at the end of September 2018, the average month-end value of the LCR over the last twelve months was 139.13%.

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 (48) of the Interim Financial Statements (liquidity coverage ratio).

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 its raised economic significance, compliance risk is managed as a separate risk type. Given the increasing digitisation 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 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 €21.7bn at the end of the third quarter of 2018 (31 December 2017: €21.0bn, 99.9% quantile), while economically required capital was €1.8bn (31 December 2017: €1.7bn, 99.91% quantile).

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. Where loss events involve ≥ €1m, lessons learned activities are carried out. External OpRisk events at competitors are also systematically evaluated.

The total charge at the end of the third quarter of 2018 for OpRisk events was around €15m (full-year 2017: €38m). The events mainly related to losses in the "Process related" and "External fraud" categories.

OpRisk events[1] | €m	30.9.2018	31.12.2017
Internal fraud	4	4
External fraud	6	7
Damage and IT failure	5	0
Products and business practices	–9	2
Process related	10	24
HR related	0	1
Group	**15**	**38**

[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 nine months of 2018 compared with the position reported in the Group Risk Report 2017.

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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. They have also brought one case. Commerzbank is cooperating fully with these bodies and is also looking into the relevant matters on the basis of its own comprehensive investigations. The possibility of financial consequences arising from some of these matters cannot be ruled out; however, it is not yet possible to make more precise statements in that regard.

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 no inappropriate legal structuring is present under Article 42 AO.

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.

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 43 regarding provisions and Note 44 regarding contingent liabilities and lending commitments in the Interim Financial Statements.

Compliance risk In March 2015, Commerzbank reached settlements with various US authorities regarding violations of US sanctions and anti-money laundering provisions and undertook to implement additional measures to improve compliance-relevant processes. In addition, a three-year period of good conduct was agreed with the public prosecutors concerned; this was lifted in March 2018 and May 2018, respectively, following consultation with the relevant public prosecutors. Based on the settlements, the Bank has engaged an independent monitor, selected by the New York State Department of Financial Services (DFS) at its sole discretion. The monitor's mandate is to conduct a comprehensive review of Commerzbank's compliance standards, as measured against the requirements of the Office of Foreign Assets Control (OFAC), the Bank Secrecy Act (BSA) and anti-money laundering laws, where these pertain to or affect the activities of its New York branch. The Bank is cooperating fully with the monitor. This includes but is not limited to granting it immediate access to relevant bank data, documents and employees and supporting its work to the best of its abilities.

According to the requirements of the UK Financial Services and Markets Act 2000 (FSMA), Commerzbank London mandated a consulting company as a "skilled person" in June 2017. The consulting company carried out a review of existing structures and processes (especially with regard to money laundering, financing of terrorism and sanctions/embargoes) and prepared a report for the UK Financial Conduct Authority (FCA). The Bank has drafted an action plan, and the consulting company sent the FCA the first scheduled report on the plan's implementation in August 2018.

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 control 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.-30.9.2018	1.1.-30.9.2017[1]	Change in %
Interest income accounted for using the effective interest method	(8)	5,454	5,694	–4.2
Interest income accounted for not using the effective interest method	(8)	986	590	67.1
Interest income	(8)	6,441	6,284	2.5
Interest expenses	(8)	3,036	3,193	–4.9
Net interest income	(8)	3,405	3,091	10.2
Dividend income	(9)	30	72	–59.0
Valuation result	(10)	–295	n/a	
Realisation result from financial assets at Amortised Cost	(10)	0	n/a	
Risk result	(10)	–295	n/a	
Loan loss provisions	(11)	n/a	–530	
Other realised profit or loss and net remeasurement gain or loss	(12)	n/a	–46	
Commission income	(13)	2,864	2,963	–3.3
Commission expenses	(13)	535	560	–4.3
Net commission income	(13)	2,329	2,404	–3.1
Net income from financial assets and liabilities at fair value through profit or loss	(14)	791	914	–13.5
Net income from hedge accounting	(15)	26	–97	.
Other profit or loss from financial instruments	(16)	–6	174	.
Current net income from companies accounted for using the equity method		9	21	–54.7
Other net income	(17)	144	422	–65.8
Operating expenses	(18)	5,412	5,297	2.2
Restructuring expenses	(19)	–	807	.
Pre-tax profit or loss		**1,020**	**321**	**.**
Taxes on income	(20)	187	202	–7.0
Consolidated profit or loss		**832**	**120**	**.**
Consolidated profit or loss attributable to non-controlling interests		81	67	21.8
Consolidated profit or loss attributable to Commerzbank shareholders		751	53	.

[1] Prior-year figures adjusted due to restatements (see note 3).

€		1.1.-30.9.2018	1.1.-30.9.2017[1]	Change in %
Earnings per share	(21)	0.60	0.04	.

[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.-30.9.2018	1.1.-30.9.2017[1]	Change in %
Consolidated profit or loss	832	120	.
Change from remeasurement of defined benefit plans not recognised in income statement	–86	127	.
Change from the remeasurement of equity instruments (FVOCIoR)	1	n/a	
Change from remeasurement of own credit risk not recognised in the income statement	88	–105	.
Items not recyclable through profit or loss	**2**	**22**	**–91.1**
Change in revaluation reserve (FVOCImR)			
Reclassified to income statement	–3	n/a	
Change in value not recognised in income statement	–31	n/a	
Change in revaluation reserve (AFS)			
Reclassified to income statement	n/a	–103	
Change in value not recognised in income statement	n/a	239	
Change in cash flow hedge reserve			
Reclassified to income statement	17	25	–31.1
Change in value not recognised in income statement	13	8	57.5
Change in currency translation reserve			
Reclassified to income statement	–2	–	.
Change in value not recognised in income statement	–81	–67	20.5
Change from non-current assets held for sale or disposal groups			
Reclassified to income statement	–	–66	.
Change in value not recognised in income statement	–	–3	.
Change in companies accounted for using the equity method	1	–9	.
Items recyclable through profit or loss	**–86**	**24**	**.**
Other comprehensive income	–84	46	.
Total comprehensive income	**748**	**166**	**.**
Comprehensive income attributable to non-controlling interests	57	98	–41.3
Comprehensive income attributable to Commerzbank shareholders	691	68	.

[1] Prior-year figures adjusted due to restatements (see note 3).

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€m	1.7.-30.9.2018	1.7.-30.9.2017[1]	Change in %
Consolidated profit or loss	242	489	–50.5
Change from remeasurement of defined benefit plans not recognised in income statement	79	–51	.
Change from the remeasurement of equity instruments (FVOCIoR)	0	n/a	
Change from remeasurement of own credit risk not recognised in the income statement	36	–24	.
Items not recyclable through profit or loss	**115**	**–75**	**.**
Change in revaluation reserve (FVOCImR)			
Reclassified to income statement	1	n/a	
Change in value not recognised in income statement	–3	n/a	
Change in revaluation reserve (AFS)			
Reclassified to income statement	n/a	–34	
Change in value not recognised in income statement	n/a	95	
Change in cash flow hedge reserve			
Reclassified to income statement	2	8	–73.4
Change in value not recognised in income statement	1	2	–60.4
Change in currency translation reserve			
Reclassified to income statement	–	–	.
Change in value not recognised in income statement	71	–89	.
Change from non-current assets held for sale or disposal groups			
Reclassified to income statement	–	–66	.
Change in value not recognised in income statement	–	–1	.
Change in companies accounted for using the equity method	–0	–7	–99.4
Items recyclable through profit or loss	**72**	**–92**	**.**
Other comprehensive income	187	–167	.
Total comprehensive income	**429**	**322**	**33.4**
Comprehensive income attributable to non-controlling interests	46	6	.
Comprehensive income attributable to Commerzbank shareholders	383	316	21.3

[1] Prior-year figures adjusted due to restatements (see note 3).

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

Other comprehensive income | €m	1.1.-30.9.2018			1.1.-30.9.2017		
	Before taxes	Taxes	After taxes	Before taxes	Taxes	After taxes
Change from remeasurement of own credit risk	83	4	88	–112	7	–105
Change from the remeasurement of equity instruments (FVOCIoR)	1	0	1	n/a	n/a	n/a
Change from remeasurement of defined benefit plans	–125	39	–86	182	–55	127
Change in revaluation reserve (FVOCImR)	–45	11	–34	n/a	n/a	n/a
Change in revaluation reserve(AFS)	n/a	n/a	n/a	160	–24	136
Change in cash flow hedge reserve	35	–6	30	45	–12	33
Change in currency translation reserve	–83	0	–83	–68	1	–67
Change from non-current assets held for sale and disposal groups	–	–	–	–70	1	–69
Change in companies accounted for using the equity method	1	–	1	–9	–	–9
Other comprehensive income	**–132**	**49**	**–84**	**128**	**–82**	**46**

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

Other comprehensive income | €m	1.7.-30.9.2018			1.7.-30.9.2017		
	Before taxes	Taxes	After taxes	Before taxes	Taxes	After taxes
Change from remeasurement of own credit risk	37	–1	36	–28	4	–24
Change from the remeasurement of equity instruments (FVOCIoR)	0	0	0	n/a	n/a	n/a
Change from remeasurement of defined benefit plans	118	–39	79	–73	22	–51
Change in revaluation reserve (FVOCImR)	–2	0	–2	n/a	n/a	n/a
Change in revaluation reserve (AFS)	n/a	n/a	n/a	74	–14	61
Change in cash flow hedge reserve	4	–1	3	13	–3	10
Change in currency translation reserve	71	–	71	–89	–	–89
Change from non-current assets held for sale and disposal groups	–	–	–	–68	1	–67
Change in companies accounted for using the equity method	–0	–	–0	–7	–	–7
Other comprehensive income	**229**	**–42**	**187**	**–178**	**10**	**–167**

Income statement (by quarter)

€m	2018			2017[2]			
	3rd quarter	2nd quarter	1st quarter[1,2]	4th quarter	3rd quarter	2nd quarter	1st quarter
Interest income accounted for using the effective interest method	1,866	1,827	1,761	n/a	n/a	n/a	n/a
Interest income accounted for not using the effective interest method	335	336	316	n/a	n/a	n/a	n/a
Interest income	2,201	2,163	2,077	2,139	2,054	2,093	2,137
Interest expenses	1,003	1,001	1,031	1,038	1,016	1,089	1,088
Net interest income	1,198	1,162	1,045	1,101	1,038	1,004	1,049
Dividend income	9	6	14	34	17	27	28
Valuation result	–132	–83	–80	n/a	n/a	n/a	n/a
Realisation result from financial assets at Amortised Cost	–2	–1	4	n/a	n/a	n/a	n/a
Risk result	–134	–84	–77	n/a	n/a	n/a	n/a
Loan loss provisions	n/a	n/a	n/a	–251	–168	–167	–195
Other realised profit or loss and net remeasurement gain or loss	n/a	n/a	n/a	–29	–29	–14	–3
Commission income	940	948	975	960	925	983	1,056
Commission expenses	174	184	178	186	187	204	169
Net commission income	767	765	797	774	738	779	887
Net income from financial assets and liabilities at fair value through profit or loss	166	268	356	168	222	294	399
Net income from hedge accounting	6	36	–16	10	–8	–55	–34
Other profit or loss from financial instruments	8	5	–19	85	105	19	50
Current net income from companies accounted for using the equity method	1	3	6	2	5	9	7
Other net income	39	–24	129	44	417	2	3
Operating expenses	1,728	1,748	1,936	1,782	1,714	1,718	1,865
Restructuring expenses	–	–	–	0	–0	807	–
Pre-tax profit or loss	**331**	**389**	**301**	**156**	**623**	**–628**	**326**
Taxes on income	89	94	5	41	134	–13	81
Consolidated profit or loss	**242**	**295**	**296**	**115**	**489**	**–615**	**246**
Consolidated profit or loss attributable to non-controlling interests	24	23	34	27	21	25	20
Consolidated profit or loss attributable to Commerzbank shareholders	218	272	262	88	467	–640	226

[1] The Bank has restated the presentation as at 31 March 2018. Prepayment penalty fees of €24m are now included in the line item Interest income accounted for using the effective interest method.
[2] Prior-year and prior-quarter figures adjusted due to restatements (see note 3).

Balance sheet

Assets | €m	**Notes**	**30.9.2018**	**1.1.2018**[1]	**Change in %**	**31.12.2017**[2]
Cash on hand and cash on demand		57,904	55,222	4.9	55,733
Financial Assets – Amortised Cost	(22,32)	281,670	265,241	6.2	n/a
of which pledged as collateral		2,891	n/a		n/a
Financial Assets – Loans and Receivables	(22)	n/a	n/a		265,712
of which pledged as collateral		n/a	n/a		2,655
Financial Assets – Fair Value OCI	(24)	27,441	25,205	8.9	n/a
of which pledged as collateral		3,087	n/a		n/a
Financial Assets – Available for Sale	(25)	n/a	n/a		31,155
of which pledged as collateral		n/a	n/a		924
Financial Assets – Fair Value Option	(26)	–	–	.	23,745
of which pledged as collateral		–	n/a		0
Financial Assets – Mandatorily Fair Value P&L	(28)	53,564	32,242	66.1	n/a
of which pledged as collateral		–	n/a		n/a
Financial Assets – Held for Trading	(29)	60,191	60,716	–0.9	63,666
of which pledged as collateral		3,722	n/a		1,072
Value adjustment on portfolio fair value hedges		71	153	–53.3	153
Positive fair values of derivative hedging instruments		1,275	1,463	–12.9	1,464
Holdings in companies accounted for using the equity method		181	181	0.0	181
Intangible assets	(36)	3,256	3,312	–1.7	3,312
Fixed assets	(37)	1,520	1,600	–5.0	1,600
Investment properties		16	16	–0.4	16
Non-current assets held for sale and assets of disposal groups	(38)	347	78	.	78
Current tax assets		817	767	6.5	767
Deferred tax assets		3,067	3,032	1.1	2,970
Other assets	(40)	1,904	1,961	–2.9	1,961
Total		**493,222**	**451,190**	**9.3**	**452,513**

[1] Opening balance according to IFRS 9 with restatements (see note 6).
[2] Prior-year figures adjusted due to restatements (see note 3).

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Liabilities and equity | €m	**Notes**	**30.9.2018**	**1.1.2018**[1]	**Change in %**	**31.12.2017**[2]
Financial Liabilities – Amortised Cost	(24)	355,499	335,978	5.8	341,287
Financial Liabilities – Fair Value Option	(28)	48,746	20,385	.	14,940
Financial Liabilities – Held for Trading	(31)	51,561	56,593	–8.9	56,484
Value adjustment on portfolio fair value hedges		266	451	–41.1	491
Negative fair values of derivative hedging instruments		1,379	1,872	–26.3	2,255
Provisions	(43)	3,086	3,373	–8.5	3,291
Current tax liabilities		508	673	–24.5	673
Deferred tax liabilities		14	9	55.5	34
Liabilities of disposal groups	(40)	448	–	.	–
Other liabilities	(42)	2,159	3,024	–28.6	3,024
Equity		29,556	28,833	2.5	30,035
Subscribed capital		1,252	1,252	.	1,252
Capital reserve		17,192	17,192	.	17,192
Retained earnings		10,159	9,410	8.0	11,243
Other reserves (with recycling)		–224	–161	38.5	–817
Total before non-controlling interests		28,380	27,692	2.5	28,870
Non-controlling interests		1,176	1,141	3.2	1,164
Total		**493,222**	**451,190**	**9.3**	**452,513**

[1] Opening balance according to IFRS 9 with restatements (see note 6).
[2] Prior-year figures adjusted due to restatements (see note 3).

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	Cash flow hedge reserve	Currency translation reserve			
Equity as at 31.12.2016	**1,252**	**17,192**	**11,117**	**–781**	**–97**	**–137**	**28,547**	**1,027**	**29,573**
Change due to retrospective adjustments	–	–	9	–	–	–	9	–	9
Equity as at 1.1.2017	**1,252**	**17,192**	**11,126**	**–781**	**–97**	**–137**	**28,556**	**1,027**	**29,583**
Total comprehensive income	–	–	75	59	33	–99	68	98	165
Consolidated profit or loss			53	–	–	–	53	67	120
Change in Own Credit Spread (OCS) of Liabilities FVO			–105				–105	–	–105
Change from remeasurement of defined benefit plans			127				127	–	127
Change in revaluation reserve (Available for Sale)				127			127	9	136
Change in cash flow hedge reserve					33		33	0	33
Change in currency translation reserve						–89	–89	22	–67
Change from non-current assets held for sale and disposal groups				–68	–	–1	–69	–	–69
Change in companies accounted for using the equity method				–	–	–9	–9	–	–9
Dividend paid on shares			–				–	–10	–10
Changes in ownership interests			–6				–6	–6	–12
Other changes			–43				–43	–4	–47
Equity as at 30.9.2017	**1,252**	**17,192**	**11,152**	**–722**	**–64**	**–236**	**28,574**	**1,104**	**29,678**

[1] Prior-year figures adjusted due to restatements (see note 3).

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€m	Subscribed capital	Capital reserve	Retained earnings[1]	Other reserves			Total before non-controlling interests[1]	Non-controlling interests	Equity[1]
				Revaluation reserve	Cash flow hedge reserve	Currency translation reserve			
Equity as at 31.12.2017	**1,252**	**17,192**	**11,249**	**–571**	**–54**	**–192**	**28,877**	**1,164**	**30,041**
Change due to retrospective adjustments	–	–	–6	–	–	–	–6	–	–6
Equity as at 31.12.2017 (after restatements)	**1,252**	**17,192**	**11,243**	**–571**	**–54**	**–192**	**28,870**	**1,164**	**30,035**
Change from first time application IFRS 9	–	–	–1,833	657	–2	–	–1,178	–24	–1,202
Equity as at 1.1.2018	**1,252**	**17,192**	**9,410**	**86**	**–55**	**–192**	**27,692**	**1,141**	**28,833**
Total comprehensive income			754	–34	30	–58	691	57	749
Consolidated profit or loss			751				751	81	832
Change in Own Credit Spread (OCS) of Liabilities FVO			88				88	–	88
Change from remeasurement of defined benefit plans			–86				–86	–0	–86
Change in measurement of Equity Instruments (FVOCIoR)			1	–			1	0	1
Change in revaluation of Debt Securities (FVOCImR)				–34			–34	0	–34
Change in cash flow hedge reserve					30		30	–	30
Change in currency translation reserve						–58	–58	–24	–83
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			–1				–1	–	–1
Other changes			–3				–3	1	–2
Equity as at 30.9.2018	**1,252**	**17,192**	**10,159**	**52**	**–26**	**–250**	**28,380**	**1,176**	**29,556**

[1] Prior-year figures adjusted due to restatements (see note 3).

As at 30 September 2018, there was no material impact on “Other reserves” from non-current 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 €–1m in 2018 resulted from the purchase of additional shares in companies that had already been consolidated.

Cashflow statement (condensed version)

€m	2018	2017[1]	Change in %
Cash and cash equivalents as at 1.1.	**55,222**	**36,179**	**52.6**
Net cash from operating activities	2,764	21,201	–87.0
Net cash from investing activities	–323	–161	.
Net cash from financing activities	153	–349	.
Total net cash	**2,594**	**20,692**	**–87.5**
Effect from exchange rate changes	87	–183	.
Cash and cash equivalents as at 30.9.	**57,904**	**56,688**	**2.1**

[1] Prior-year figures adjusted due to restatements (see note 3).

With regard to the Commerzbank Group, the cashflow statement is not very informative. For us, the cashflow statement replaces neither liquidity planning nor financial planning, nor is it employed as a management tool.

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General information

(1) Accounting policies

The Commerzbank Group has its headquarters in Frankfurt am Main, Germany. The parent company is Commerzbank Aktiengesellschaft, which is registered in the Commercial Register at the District Court of Frankfurt am Main under registration no. HRB 32000. Our interim financial statements as at 30 September 2018 were prepared in accordance with Art. 315 e 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 2018 have been applied. We have not applied standards and interpretations that are not required until the 2019 financial year 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 predominantly used financial statements prepared as at 30 September 2018.

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. This can also lead to slight variances compared with the published prior-year figures.

(2) Initially applicable, revised and new standards

Initially applicable standards

The Commerzbank Group has implemented all new and revised standards and interpretations requiring initial mandatory application as at 1 January 2018 and which had already been endorsed into European law, insofar as they were relevant for the Group. All amendments to the standards have been taken into account in accordance with the applicable transitional provisions. The relevant and significant new standards for the Group are presented in the following section.

The IASB published an extensively revised new version of IFRS 9 Financial Instruments in July 2014, which affected not only IFRS 9 but also other standards (particularly IFRS 7 and IAS 1). It was transposed into European law in November 2016. The standard must be applied in the EU for financial years beginning on or after 1 January 2018. The previous standard for the accounting treatment of financial instruments (IAS 39) was largely replaced.

Reported equity declined by €1.2bn as compared with IAS 39. This decrease was the result of two factors: a change in the methodology for risk provisioning versus IAS 39, and the required reclassification of the respective financial instruments. A range of financial assets, such as loans granted primarily for ship financing and loans of British public-sector bodies, are now measured at fair value through profit or loss, leading to a reduction in equity.

Note 6 of this interim report contains the reconciliation tables for the balance sheet, equity and loan loss provisions as at 1 January 2018 in accordance with IFRS 9.

The application of the amendments to IFRS 9 regarding the early repayment of loans, which were endorsed into European law in March 2018, clarifies the SPPI-compliance of these interest and principal payments. These amendments had no effects on our Group Financial Statements.

IFRS 15 Revenue from Contracts with Customers introduced a principles-based five-step model framework dealing with the nature, amount and timing of revenues and cashflows arising from a contract with a customer. It replaces IAS 11 and 18, IFRIC 13, 15 and 18 and SIC-31. The standard also requires extensive qualitative and quantitative disclosures on contracts, performance obligations and significant judgements and estimates. It was transposed into European law in October 2016. The standard must be applied in the EU for financial years beginning on or after 1 January 2018. The initial application of IFRS 15 as at 30 September 2018 did not have a material impact on the Group financial statements.

Revised standards

We do not expect to have any material impacts on the Group financial statements from revised standards or amendments implemented as part of the Annual Improvement Project 2015–2017.

New standards

The new standard IFRS 16 Leases, published in January 2016, will replace IAS 17 and the related interpretations IFRIC 4, SIC-15 and SIC-27. The change was transposed into EU law in the fourth quarter of 2017. Under IFRS 16, all leases with a term of over twelve months must be recognised on the lessee's balance sheet together with the associated contractual obligations. Leases involving low-value assets are an exception. The lessee will in future recognise a right-of-use asset and a lease liability, which represents the obligation to make the lease payments. IFRS 16 adopts the criteria of IAS 17 for the classification of finance and operating leases by the lessor. The standard also contains further provisions on recognition, on the information in the notes and on sale-and-leaseback transactions. IFRS 16 will become effective for financial years beginning on or after 1 January 2019. At the end of last year, the Bank launched a Group-wide project under the responsibility of Group Finance to prepare for the new requirements. The necessary analyses were performed together with experts from the Real Estate Management and Contract Management divisions. The results were included in business specifications and will be incorporated into the group-wide accounting guidelines by 2019. The IT implementation for the correct calculation of the new balance sheet values was concluded in April and is currently being tested. The testing will involve all material entities consolidated in the Group financial statements. Properties leased by the Group account for most of the liabilities and right-of-use assets that must now be recognised. For that reason, the Group will use the SAP IFRS 16module for contract management of properties to measure all relevant leased properties in the Group. Based on our knowledge as of today, the application of IFRS 16 leads to minor reporting changes in the income statement and an increase in total assets by a low single-digit billion amount. However, the effects will only be able to be determined reliably and definitively after the valuation tool is placed into production during the forth quarter of 2018.

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. We are currently analysing the potential effects on the consolidated financial statements.

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. We do not expect it to have any material impacts on the Group financial statements.

(3) Changes

In 2017, interest income and interest expenses in connection with early repayments of liabilities were reported in part on a net basis. This was corrected retrospectively for the first nine months of 2017, resulting in an increase in both interest income and interest expenses of €82 m. Thus, there was no impact on consolidated profit or earnings per share.

In 2018, a retrospective correction was made to the elimination of intercompany balances to remedy an incorrect currency translation for a group-internal issue denominated in Swiss francs. As at 1 January 2017, this correction decreased retained earnings by €2m and increased financial liabilities (amortised cost) by a corresponding amount. For the first nine months of 2017, net income from financial assets and liabilities at fair value through profit and loss decreased by €9m, and financial liabilities (amortised cost) increased by a corresponding amount. Consolidated profit therefore decreased by €9m and earnings per share by €0m. As per 31 December 2017 our equity decreased by €11m and the financial liabilities- (amortised cost) increased by a corresponding amount.

In 2017, interest was incorrectly accrued for two promissory note loans issued in foreign currency. This was corrected retrospectively. Consequently, as at 1 January 2017, retained earnings decreased by €5m, financial liabilities (amortised cost) increased by €7 m and deferred tax assets increased by €2 m. Interest expenses were €7 m higher in the first nine months of 2017, and financial liabilities (amortised cost) rose accordingly. Moreover, taxes on income were €2 m lower, and deferred tax assets increased by the same amount. Consolidated profit therefore decreased by €5 m and earnings per share by less than €0m. As at 31 December 2017, equity decreased by €11m. Deferred income taxes increased by €5 m as well as the financial liabilities (amortised cost) by €16 m.

A mistake made in the calculation of deferred tax assets in prior years was corrected retrospectively. As a result, net deferred tax assets increased by €16 m as at 1 January 2017 as well as at 31 December 2017 and retained earnings by a corresponding amount. Thus, there was no impact on consolidated profit or earnings per share.

In 2017, besides adjusting the structure of the balance sheet and income statement, Commerzbank also implemented changes in the income statement (see Annual Report 2017, Note 3, page 152 ff.). Current income and expenses from derivatives and other trading portfolios in the held-for-trading category, which were previously shown in net interest income, are now reported in the net income from financial assets and liabilities measured at fair value through profit and loss. This reclassification was made because with trading portfolios it is economically inappropriate to differentiate between current income and expenses and remeasurement gains and losses and realisation effects. The revised reporting therefore also better reflects the economic management of the trading portfolios and thus provides more reliable and relevant information.

The reclassifications from net interest income to net income from financial assets and liabilities measured at fair value through profit or loss amounted to €52 m for the first nine months of 2017 (net balance of a €301 m reduction in interest income and a €353 m decrease in interest expense). The restatements had no impact on consolidated profit or loss, or earnings per share.

We have broken down the “interest income” item in the income statement into “interest income calculated using the effective interest method” and “interest income not calculated using the effective interest method”.

The prior-year figures in the cash flow statement have been restated in order to provide a more accurate representation for banks. Securities assigned to the LaR and AfS categories were removed from net cash from investing activities and allocated to net cash fromoperating activities. This reclassification was necessary because the securities in question belong to the operating banking business. As a result, net cash from investing activities for 2017 decreased by €11,4 bn and net cash from operating activities increased by a corresponding amount.

The Bank restated the prior-year figures based on an improvement in the valuation methodology for determining the fair value for loans and claims in the Loans and Receivables category in note 33 (IFRS 13 fair value hierarchies and disclosure requirements). For each individual transaction, the methodology additionally applies a calibration constant including a profit margin (KGM). This ensures that the disbursement amount corresponds to the fair value of a transaction at initial recognition. Furthermore, fair value is now determined using Commerzbank’s actual refinancing costs. A retrospective restatement of €0.6bn was made as at 31 December 2017, which led to an increase in fair value. Based on the previous measurement policy, fair value would have been lower by €3.7bn as at 30 September 2018. The correction pertains only to this note; it had no impact on the balance sheet, the statement of comprehensive income or the earnings per share.

In addition, an error was corrected in Note 36 (Maturities of liabilities). This note now includes delivery commitments arising from short sales and negative fair values of derivative hedging instruments, which was not the case as at 31 December 2017. Moreover, derivatives in the held-for-trading category are now reported in the shortest maturity range, as this is consistent with internal management of the trading portfolios.

(4) Report on events after the reporting period

There have been no other material events since the end of the reporting period.

Accounting and measurement policies

(5) Changes in accounting and measurement policies

The Commerzbank Group has applied IFRS 9 Financial Instruments since 1 January 2018 in the version published by the IASB in July 2014. The standard must be applied in the EU for financial years beginning on or after 1 January 2018. The application of IFRS 9 has resulted in changes to the Group's accounting and measurement methods. As at 30 June 2017, the Commerzbank Group had already applied part of IFRS 9 retrospectively as at 1 January 2017. Remeasurement effects deriving from own credit risk related to the financial liabilities included in the fair value option category are no longer reported through profit and loss, but instead in other comprehensive income.

The application of IFRS 9 led to changes in the classification and measurement of financial assets and liabilities as well as to the impairment of financial assets. The application of IFRS 9 to financial instruments also affects other standards, in particular IFRS 7.

With the exception of the described changes to the accounting policies for financial Instruments, we have applied the same accounting and measurement methods as set out in the Annual Report for 2017.

In accordance with the transitional provisions of IFRS 9, we have not restated the comparable figures. As a result, the comparative information for 2017 pursuant to IAS 39 is reported in compliance with the accounting and measurement methods disclosed in the Annual Report as at 31 December 2017 on page 150 ff. This information is not directly comparable with the information presented for financial year 2018 based on IFRS 9. All changes to the carrying amounts of financial assets and liabilities were reflected in retained earnings and other reserves as at the effective date for the initial application of the new standard. We have utilised the option regarding hedge accounting provided in the standard and have continued to apply the previous IAS 39 regulations.

Classification and measurement of financial instruments

The application of IFRS 9 requires the reporting entity to classify all assets and liabilities defined as financial instruments under IAS 32. This classification aims to enable the user of the financial statements to make a better assessment of the amount, timing and uncertainty of future cashflows. Fundamentally, all financial instruments must be recognised at their fair value on the date of acquisition. This acquisition principle applies regardless of the financial instrument's classification.

IFRS 9 sets out four types of subsequent measurement of financial assets, which depend on the respective business model and the fulfilment of the SPPI criterion (solely payment of principal and interest):

- measurement at amortised cost (AC)
- measurement at fair value OCI with recycling (FVOCImR)
- measurement at fair value OCI without recycling (FVOCIoR)
- measurement at fair value through P&L (FVPL) subdivided into mandatorily fair value through P&L (mFVPL) and held for trading (HfT).

Management allocates the financial assets to one of the following business models based on how the financial assets are managed to generate cashflows:

- "hold to collect" business model – receipt of contractual cashflows with only rare or immaterial sales activities;
- "hold to collect and sell" business model – receipt of cashflows through holding and also through sales;
- residual business model – all portfolios that are not allocated to the "hold to collect" or "hold to collect and sell" business model. These include primarily trading portfolios and portfolios managed on a fair-value basis. The receipt of contractually agreed cashflows is of minor importance; the main objective is instead to maximise cashflows through short-term purchases and sales.

The second criterion for classifying financial assets is the characteristics of their cashflows. When assessing these cashflows, the crucial consideration is whether they are solely unleveraged interest and principal payments on the outstanding capital, i.e. the SPPI criterion. In principle, a financial instrument is SPPI-compliant only if its contractual cashflows are equivalent to those of a simple loan.

The allocation to the business model can be made on a portfolio basis, whereas the SPPI criterion must always be assessed for each individual financial instrument allocated to the "hold to collect" or "hold to collect and sell" business model.

Measurement at amortised cost (AC) requires that the financial asset has cashflows which correspond to the SPPI criterion and that it has been allocated to a portfolio with the "hold to collect" business model. The associated bookings correspond in principle to the previous IAS 39 fair value category of loans and receivables (LaR).

A financial asset is measured at fair value through other comprehensive income with recycling (FVOCImR) if its cashflows also correspond to the SPPI criterion and it has been allocated to a portfolio with the "hold to collect and sell" business model. The associated accounting therefore corresponds fundamentally to the previous IAS 39 fair value category of available for sale (AfS).

The subsequent measurement at fair value with recognition of the value fluctuation in the income statement (FVPL) is required if either the financial asset has not been allocated to a portfolio with one of the aforementioned business models or its cashflows are not SPPI-compliant. This measurement category is therefore sub-

sidiary in nature, i.e. if the asset cannot be clearly allocated to one of the two other measurement categories, it must be measured according to this category. A reporting distinction is made in this measurement category between financial instruments held for trading purposes (HfT) and other financial instruments requiring recognition at fair value with the resulting value fluctuation being recorded in the income statement (mandatorily Fair Value P&L/mFVPL). Besides the fair value option (FVO), there is also the possibility of voluntarily allocating financial assets on acquisition to the mFVPL category if accounting mismatches can be avoided.

The methodology for measuring financial assets is based on the allocation of the asset to one of the following three groups:

- Derivatives:
  Financial instruments for which the allocation criteria have not changed as compared with IAS 39. As derivatives do not have fixed redemption amounts, subsequent measurement at amortised cost is not possible. They must always be measured at fair value, with the fluctuation in value being recorded in the income statement. If derivatives are not used for hedge accounting, they must always be allocated to the trading portfolio (HfT).
  Under IFRS 9, financial assets are assessed in their entirety. As a result, the host contract is not separated from the embedded derivative. Instead, financial assets are classified based on the business model and their contractual terms and conditions. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed as compared with IAS 39.
- Equity instruments:
  Financial instruments which correspond to the definition of equity under IAS 32 for the issuing entity. As equity instruments do not involve fixed redemption amounts and instead represent only a proportional right, the SPPI criterion is not fulfilled and measurement at AC or FVOCImR is precluded. However, an irrevocable decision can be made when the equity instrument is acquired to instead measure the instrument based on the FVOCI-without-recycling method. All value fluctuations are recognised in other comprehensive income and are also not reported in the income statement upon the disposal of the financial instrument (without recycling). We have utilised this option and have assigned a portfolio to this group. This option is not available for financial instruments that have been acquired for trading purposes or as conditional payment for the acquisition of a company. These must be measured at FVPL.
- Debt instruments:
  All financial instruments not considered to be derivatives as defined in IFRS 9 or equity as defined under IAS 32 are measured based on the business model and SPPI criteria described above or, in the case of an accounting mismatch, in accordance with the fair value option.

Debt instruments on the asset side of the balance sheet may thus be accounted for thereafter in one of the following ways.

- Subsequent measurement at amortised cost is required if the financial instrument is held only to realise the contractually agreed cashflows (“hold to collect” business model) and, in addition, the contractually agreed cashflows are exclusively interest and principal payments as defined under IFRS 9 (SPPI compliance).
- Subsequent measurement at fair value with recognition of the change in value in other comprehensive income with recycling (FVOCImR) 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 cashflows are only interest and principal payments. The financial instrument is thus SPPI-compliant. Upon disposal of the financial instrument, the cumulative valuation fluctuations that have been recognised in other comprehensive income are then recognised in the income statement (recycling).
- The subsequent measurement at fair value with recognition of the value fluctuation in the income statement (FVPL) is required if the financial instrument has been allocated to a portfolio with a residual business model. This is also applicable in the case of non-SPPI-compliant cashflows and when exercising the fair value option.

As a rule, financial liabilities must be measured at amortised cost. In addition, the possibility exists of applying the fair value option. The remeasurement effect for financial liabilities designated in the fair value option resulting from own credit risk is recognised in retained earnings without effect on income. Financial liabilities held for trading and all derivatives must be reported in the balance sheet in a separate line item and measured at fair value through profit or loss.

Impairment

The application of IFRS 9 has involved fundamental changes to the regulations regarding the accounting for expected counterparty-specific default risk (risk provisioning). Specifically, the incurred-loss model under IAS 39 has been replaced with the expected-credit-loss model (ECL). IFRS 9 stipulates that an impairment must be recognised in the amount of the ECLs for all loans, off-balance-sheet items and financial guarantees that are not measured at fair value through profit or loss. Unlike in IAS 39, provisions are not recognised only when a specific loss event occurs. For every financial asset (debt instrument) measured at amortised cost or at fair value through other comprehensive income, the loss expected over the next 12 months must be recognised as a provision on initial recognition. If the borrower's credit risk increases significantly, but the borrower is not yet in default, a provision must be recognised for the full lifetime expected credit losses. If an instrument is in default, a provision must be recognised for the lifetime expected loss on the basis of the estimated cashflows that can still be expected.

Fundamentally, the Group determines the expected credit losses by allocating into three stages the financial instruments that are not measured directly at fair value through profit or loss, off-balance sheet lending commitments and financial guarantees. Stage 1 and stage 2 contain the financial instruments that do not display any default criteria. Stage 3 contains the financial instruments that have been identified as being in default. Financial instruments deemed to be in default at initial recognition (purchased or originated credit-impaired financial assets (POCI)) are not allocated to any of the three stages and are instead handled and disclosed separately.

In principle, every financial instrument is allocated to stage 1 upon initial recognition (except for POCI). In addition, stage 1 contains all transactions with only limited credit default risk. Limited credit default risk exists in cases involving an investment-grade internal credit rating (rating 2.8 or better). The provisioning for transactions in stage 1 equals the amount of the 12-month expected credit loss (12-month ECL).

Stage 2 includes financial instruments whose credit default risk has risen significantly since initial recognition and which are not classified as cases with limited credit default risk. The basis for recognising impairments or provisions in stage 2 is the lifetime expected credit loss (LECL).

The LECL based on individual cashflow estimates is also the foundation for recognising impairments or provisions for financial instruments in default in stage 3.

In the case of financial instruments classified as POCI, no impairment or provision is established upon initial recognition. They are measured at fair value. The provisioning recognised in subsequent measurement equals the cumulative change in the LECL since the initial recognition. A financial instrument classified as POCI remains in this classification until it is derecognised. The LECL remains the basis for its measurement, even if its rating improves.

Interest income from financial assets allocated to stage 1 and stage 2 is determined using the effective interest rate method based on the gross carrying amount. Interest income from financial assets in stage 3 is calculated using the effective interest rate method based on the net carrying amount (less the loan loss provision).

For a detailed description, please refer to Note 32.

Hedge accounting

The Commerzbank Group has decided to continue applying the IAS 39 regulations on hedge accounting when adopting IFRS 9 for the first time.

For further details on the reconciliation from 31 December 2017 under IAS 39 to 1 January 2018 pursuant to IFRS 9, please refer to Note 6.

(6) First-time application of IFRS 9

The following tables contain reconciliations of the carrying amounts as at 31 December 2017 based on IAS 39 regulations to the new carrying amounts as at 1 January 2018 in accordance with IFRS 9. In the opening balance as at 1 January 2018, equity was adjusted by €24m as compared with the disclosure in Note 74 of the Annual Report 2017 (of which: €30m relates to an effect from the initial adoption of IFRS 9 and €-6m is due to retrospective restatements; see note 3).

The Group reclassified retrospectively as at 1 January 2018 a holding of €38 m in preferred shares in a credit card provider, which until now had been reported under equity instruments, from the category FVOCI (without recycling) to the category mFVPL. This reclassification was necessary because these shares cannot be classified as equity instruments under IAS 32, and must instead be disclosed as debt instruments. The preferred shares do not fulfil the SPPI criterion and must therefore be assigned to the mFVPL category. As a result, the Group shifted €10 m in the opening balance between retained earnings and other reserves.

a) Reconciliation of financial assets

Assets €m	Presentation IAS 39	Carrying amount IAS 39 31.12.2017[1]	Presentation IFRS 9	Adjustments[2]	Reclassification	Remeasurement	Carrying amount IFRS 9 1.1.2018
Cash on hand and cash on demand		**55,733**		**–**	**55,733**	**–**	**55,733**
	LAR	–	AC	–	55,222	–	55,222
	LAR	–	mFVPL	–	511	–	511
Financial assets – Loans and Receivables		**265,712**		**–**	**265,712**	**– 3**	**265,709**
Loans and advances		241,708		–	241,708	– 293	241,415
	LAR	–	AC	–	233,123	– 202	232,921
	LAR	–	FVOCImR	–	2,027	2	2,029
	LAR	–	mFVPL	–	6,558	– 94	6,464
Debt securities		24,004		–	24,004	290	24,294
	LAR	–	AC	–	22,420	298	22,718
	LAR	–	FVOCImR	–	1,352	3	1,354
	LAR	–	mFVPL	–	232	– 11	221
Financial assets – Available for Sale		**31,155**		**–**	**31,154**	**599**	**31,753**
Debt securities		30,661		196	30,857	599	31,456
	AFS	–	AC	–	9,003	599	9,602
	AFS	–	FVOCImR	–	21,498	–	21,498
	AFS	–	mFVPL	–	356	–	356
Equity instruments		493		– 196	297	–	297
	AFS	–	FVOCIoR	–	30	–	30
	AFS	–	mFVPL	–	267	–	267
Financial assets – Fair Value Option		**23,745**		**–**	**23,745**	**–**	**23,745**
Loans and advances	FVO	23,000	mFVPL	–	23,000	–	23,000
Debt securities		393		352	746	–	746
	FVO	–	FVOCImR	–	293	–	293
	FVO	–	mFVPL	–	452	–	452
Equity instruments		352		– 352	–	–	–
	FVO	–	FVOCIoR	–	–	–	–
	FVO	–	mFVPL	–	–	–	–
Financial assets – Held for Trading		**63,666**		**–**	**63,666**	**– 1,980**	**61,686**
Loans and advances	HFT	1,080	HFT	–	1,080	–	1,080
Debt securities		2,955		2,364	5,319	–	5,319
	HFT	–	mFVPL	–	970	–	970
	HFT	–	HFT	–	4,349	–	4,349
Equity instruments	HFT	11,302	HFT	– 2,364	8,938	–	8,938
Derivatives and other	HFT	48,328	HFT	–	48,328	– 1,980	46,349
Value adjustment on portfolio fair value hedges		153		–	153	– 0	153
Positive fair values of derivative hedging instruments		1,464		–	1,464	– 1	1,463
Holdings in companies accounted for using the equity method		181		–	181	–	181
Intangible assets		3,312		–	3,312	–	3,312
Fixed assets		1,600		–	1,600	–	1,600
Investment properties		16		–	16	–	16
Non-current assets held for sale and disposal groups		78		–	78	0	78
Current tax assets		767		–	767	–	767
Deferred tax assets		2,970		–	2,970	62	3,032
Other assets		1,961		–	1,961	–	1,961
Total		**452,513**		**–**	**452,513**	**– 1,323**	**451,190**

[1] Prior-year figures adjusted due to restatements (see note 3).
[2] The adjustment is necessary because under IFRS 9 the assessment of equity and debt is based on that of the issuer. Investment fund units, profit-sharing certificates and preference shares issued to a credit card provider, which wereall previously reported under equity instruments, were reallocated to securitised debt instruments and assigned to themeasurement categories mFVPL or HfT.

Assets €m		Presentation IAS 39	Carrying amount IAS 39 31.12.2017[1]	Presentation IFRS 9	Reclas-sification	Remeasure-ment	Carrying amount IFRS 9 1.1.2018
Cash on hand and cash on demand							
	to: Debt securities – mFVPL				– 511	–	– 511
Total		**LAR**	**55,733**	**AC**	**– 511**	**– 511**	**55,222**
Financial assets – Amortised Cost							–
	from: Loans and advances – LAR				233,123	– 202	232,921
	from: Debt securities – LAR				22,420	298	22,718
	from: Debt securities – AFS				9,003	599	9,602
Total		**n/a**	**0**	**AC**	**264,546**	**695**	**265,241**
Financial assets – Loans and Receivables							–
	to: Loans and advances – AC				– 233,123		– 233,123
	to: Loans and advances – FVOCImR				– 2,027		– 2,027
	to: Loans and advances – mFVPL				– 6,558		– 6,558
	to: Debt securities – AC				– 22,420		– 22,420
	to: Debt securities – FVOCImR				– 1,352		– 1,352
	to: Debt securities – mFVPL				– 232		– 232
Total		**LAR**	**265,712**	**n/a**	**– 265,712**	**–**	
Financial assets – Fair Value OCI							
	from: Loans and advances – LAR				2,027	2	2,029
	from: Debt securities – LAR				1,352	3	1,354
	from: Debt securities – AFS				21,498	–	21,498
	from: Equity instruments – AFS				30	–	30
	from: Debt securities – FVO				293	–	293
Total		**n/a**	**–**	**FVOCI**	**25,200**	**5**	**25,205**
Financial assets – Available for Sale							
	to: Debt securities – AC				– 9,003		– 9,003
	to: Debt securities – FVOCImR				– 21,498		– 21,498
	to: Debt securities – mFVPL				– 356		– 356
	to: Equity instruments – FVOCIoR				– 30		– 30
	to: Equity instruments – mFVPL				– 267		– 267
Total		**AFS**	**31,155**	**n/a**	**– 31,154**	**–**	
Financial assets – Fair Value Option							
	to: Loans and advances – mFVPL				– 23,000	–	– 23,000
	to: Debt securities – FVOCI				– 293	–	– 293
	to: Debt securities – mFVPL				– 452	–	– 452
Total		**FVO**	**23,745**	**FVO**	**– 23,745**	**–**	**–**
Financial assets – Mandatorily Fair Value P&L							
	from: Cash on hand and cash on demand – LAR				511	–	511
	from: Loans and advances – LAR				6,558	– 94	6,464
	from: Debt securities – LAR				232	– 11	221
	from: Debt securities – AFS				356	–	356
	from: Equity instruments – AFS				267	–	267
	from: Loans and advances – FVO				23,000	–	23,000
	from: Debt securities – FVO				452	–	452
	from: Debt securities – HFT				970	–	970
Total		**n/a**	**0**	**mFVPL**	**32,346**	**– 104**	**32,242**
Financial assets – Held for Trading							
	to: Loans and advances – mFVPL				–	– 1,980	– 1,980
	to: Debt securities – mFVPL				– 970		– 970
Total		**HFT**	**63,666**	**HFT**	**– 970**	**– 1,980**	**60,716**
Value adjustment on portfolio fair value hedges			153		153	– 0	153
Positive fair values of derivative hedging instruments			1,464		1,464	– 1	1,463

[1] Prior-year figures adjusted due to restatements (see note 3).

The following explanations describe the material effects contained in the reconciliation table for financial assets. The respective effect from deferred taxes is taken into account accordingly for all remeasurements. The following disclosures related to equity are each presented before deferred taxes.

We reclassified primarily securities issued by eurozone public-sector bodies totalling €9.0 bn, which were previously measured at fair value without effect on income as required by the IAS 39 AfS category into the AC measurement category (IFRS 9), because the “hold to collect” business model applies to them. As a result, the carrying amount of these assets increased by €0.6 bn and equity was higher by €0.6 bn.

In addition, €22.4 bn in securities issued primarily by public-sector borrowers were assigned to the LaR measurement category (IAS 39). With the adoption of IFRS 9, the “hold to collect” business model is now applicable and, therefore, measurement at amortised cost is required. Although both measurement categories in principle reflect the same accounting methodology, in this case the carrying amounts in the financial statements as at 31 December 2017 and in the opening balance sheet as at 1 January 2018 vary by €0.3 bn. This variance is due to the reclassification of these securities during the financial market crisis from the IAS 39 AfS category to the LaR category. The fair value determined when this reclassification was made was used as the starting point for the measurement at amortised cost. The negative revaluation reserve of €0.3 bn resulting from these financial instruments was derecognised against the carrying amount. As a result, equity increased by €0.3 bn.

Loans with carrying amounts under IAS 39 of €2.7 bn, which were used for ship financing, were allocated to the “other” business model because of the Group’s intention to dispose of these loans if a favourable opportunity were to arise. For that reason, they were reclassified from the LaR measurement category to the mFVPL measurement category under IFRS 9. Their carrying amount decreased as a result by €0.7 bn and equity declined by €0.7 bn. Several loan portfolios used to finance domestic and foreign commercial real estate totalling €0.6 bn were reclassified for the same reason; as a result, the carrying amount decreased by €0.1 bn, with equity declining by €0.1 bn. A portfolio of promissory note loans issued by British public-sector bodies with special call options, which had a carrying amount of €2.5 bn, were also reclassified into the mFVPL measurement category. Derivatives of €1.7 bn that previously required separation under IAS 39 are now measured in this context using the full fair value of the entire instrument and are included in the mFVPL carrying amount. The carrying amount of these promissory note loans decreased as a result by a total of €1.1 bn and equity declined by €1.1 bn.

b) Reconciliation of financial liabilities

Liabilities and equity €m	Presentation IAS 39	Carrying amount IAS 39 31.12.2017[1]	Presentation IFRS 9	Reclas-sification	Remeasure-ment	Carrying amount IFRS 9 1.1.2018
Financial liabilities - Amortised Cost		**341,287**		**341,287**	**135**	**341,422**
Deposits		297,907		297,907	– 34	297,872
	AC	–	AC	297,667	–	297,667
	AC	–	FVO	239	– 34	205
Bonds and notes issued		43,380		43,380	170	43,550
	AC	–	AC	38,317	– 6	38,311
	AC	–	FVO	5,064	176	5,239
Financial liabilities - Fair Value Option		**14,940**		**14,940**	**–**	**14,940**
Deposits	FVO	14,279	FVO	14,279	–	14,279
Bonds and notes issued	FVO	661	FVO	661	–	661
Financial liabilities - Held for Trading		**56,484**		**56,484**	**110**	**56,593**
Bonds and notes issued	HFT	5,565	HFT	5,565	–	5,565
Derivatives and other trading liabilities	HFT	50,919	HFT	50,919	110	51,028
Value adjustment on portfolio fair value hedges		491		491	– 41	451
Negative fair values of derivative hedging instruments		2,255		2,255	– 383	1,872
Provisions		3,291		3,291	82	3,373
Current tax liabilities		673		673	–	673
Deferred tax liabilities		34		34	– 24	9
Liabilities from disposal groups held for sale		–		–	–	–
Other liabilities		3,024		3,024	–	3,024
Equity		**30,035**		**30,035**	**– 1,202**	**28,833**
Subscribed capital		1,252		1,252	–	1,252
Capital reserve		17,192		17,192	–	17,192
Retained earnings		11,243		11,243	– 1,833	9,410
Other reserves		– 817		– 817	655	– 162
Total before non-controlling interests		28,870		28,870	– 1,178	27,692
Non-controlling interests		1,164		1,164	– 24	1,141
Total before non-controlling interests		**452,513**		**452,513**	**– 1,323**	**451,190**

[1] Prior-year figures adjusted due to restatements (see note 3).

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Liabilities and equity €m	**Presentation IAS 39**	**Carrying amount IAS 39 31.12.2017**[1]	**Presentation IFRS 9**	**Reclas-sification**	**Remeasure-ment**	**Carrying amount IFRS 9 1.1.2018**
Financial liabilities - Held for Trading						
			on: Deposits - FVO	– 239		– 239
			on: Bonds and notes issued - FVO	– 5,064		– 5,064
			on: Bonds and notes issued - AC		– 6	– 6
Total	**AC**	**341,287**	**AC**	**– 5,303**	**– 6**	**335,978**
Financial liabilities - Fair Value Option						
			on: Deposits - AC	239	– 34	205
			on: Bonds and notes issued - AC	5,064	176	5,239
Total	**FVO**	**14,940**	**FVO**	**5,303**	**141**	**20,385**
Financial liabilities - Held for Trading						
			on: Derivatives and other trading liabilities		110	110
Total	**HFT**	**56,484**	**HFT**	**–**	**110**	**56,593**
Value adjustment on portfolio fair value hedges		491		491	– 41	451
Negative fair values of derivative hedging instruments		2,255		2,255	– 383	1,872
Provisions		3,291		3,291	82	3,373

[1] Prior-year figures adjusted due to restatements (see note 3).

When applying IFRS 9, the Group exercised for the first time the fair value option for its own structured issues in order to avoid an accounting mismatch between hedging derivatives measured at fair value through profit or loss and the structured issue. This decreased equity by €0.1 bn.

c) Reconciliation of equity

€m	Presentation IAS 39	Presentation IFRS 9	Retained earnings	Revaluation reserve	Cash Flow Hedge reserve
As at 31.12.2017			**11,243[1]**	**– 571**	**– 54**
Financial assets	FVO	FVOCI	– 2	2	–
	AFS	mFVPL	33	– 33	–
	AFS	FVOCImR	– 12	12	–
	AFS	AC	– 8	607	–
	LAR	mFVPL	– 105	0	–
	LAR	FVOCImR	– 5	8	–
	LAR	AC	– 270	367	–
Financial liabilities	AC	AC	– 141	–	–
	AC	FVO	6	–	–
Fair values from derivatives	HFT	HFT	– 1,707	–	–
Value adjustment on portfolio fair value hedges			41	–	–
Provisions for off-balance-sheet loan losses			– 82	–	–
Deferred tax assets/liabilities			402	– 312	– 2
Non-controlling interests (deductions)			18	6	–
As at 1.1.2018 (IFRS 9)			**9,410**	**86**	**– 55**

[1] Prior-year figures adjusted due to restatements (see note 3).

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d) Reconciliation of risk provisioning

€m	Presen tation IAS 39	Presen-tation IFRS 9	Loan losses and Impair-ments on securities IAS 39 31.12.2017	Reclas-sification	Revalu ation	Loan losses IFRS 9 1.1.2018	of which Stage 1	of which Stage 2	of which Stage 3	of which POCI
On- balance-sheet loan losses - Loans and receivables			**3,125**	**– 640**	**– 354**	**2,131**	**245**	**247**	**1,640**	**–**
Financial assets - Loans and Receivables			3,125	– 640	– 354	2,131	245	247	1,640	–
	LAR	AC	2,481	–	– 358	2,124	240	244	1,640	–
	AFS	FVOCI	4	–	4	7	5	3	–	–
	LAR	mFVPL	640	– 640	–	–	–	–	–	–
Cumulative net remeasurement gain or loss - securities[1]			**94**	**– 82**	**87**	**99**	**26**	**71**	**2**	**–**
Financial assets - Loans and Receivables			16	– 1	68	83	13	70	–	–
	LAR	AC	15	–	68	83	13	70	–	–
	LAR	FVOCI	1	–	– 0	0	–	–	–	–
	LAR	mFVPL	1	– 1	–	–	–	–	–	–
Financial assets - Available for Sale			79	– 82	18	15	13	1	2	–
	AFS	AC	–	–	7	7	7	0	–	–
	AFS	FVOCI	– 3	–	11	8	5	1	2	–
	AFS	mFVPL	82	– 82	–	–	–	–	–	–
Finanical assets - Fair Value Option			–	–	1	1	1	–	–	–
	FVO	FVOCI	–	–	1	1	1	–	–	–
Assets held for sale and disposal groups	LAR	mFVPL	9	– 9	–	–	–	–	–	–
Off-balance-sheet loan losses			211	–	82	293	73	103	92	24
Total			**3,440**	**– 732**	**– 185**	**2,523**	**344**	**421**	**1,733**	**24**

[1] Not part of risk provisioning as at 31. December 2017.

The change in the balance resulted primarily from the reclassification of the ship finance portfolio, which the Group included in the fair value measurement amid a derecognition of the loan loss provision. In addition, the remeasurement included a reduction in the balance associated with the derecognition of the risk provision for financial assets that under IFRS 9 were classified as POCI. This new classification therefore required that no initial risk provision balance be taken into account, rather an adjustment entry was made against the carrying amount. In contrast, the balance increased to a lesser extent for financial assets that under IFRS 9 are to be provisioned for with the LECL. Overall, significant portions of the portfolio are classified as investment grade, so that only 17% of the loan loss provisions are attributable to stage 2.

(7) Consolidated companies

In the first quarter of 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 17). No further sales or acquisitions took place in the period under review.

In the first half of 2017, our subsidiary comdirect bank Aktiengesellschaft, Quickborn, acquired a 100% interest in onvista Aktiengesellschaft, Frankfurt am Main, and its affiliated companies from Boursorama S.A.

In addition, Commerz Finanz GmbH, a joint venture with BNP Paribas Personal Finance S.A, was transferred to Commerzbank Aktiengesellschaft in exchange for the return of the interest in Commerz Finanz GmbH.

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.

In Other interest expenses the net of interest income and interest expenses of hedge accounting items is included.

€m	1.1.-30.9.2018	1.1.-30.9.2017[1]	Change in %
Interest income accounted for using the effective interest method	**5,454**	**5,694**	**–4.2**
Interest income – Amortised Cost	5,135	n/a	
Interest income from lending and money market transactions	4,500	n/a	
Interest income from the securities portfolio	635	n/a	
Interest income – Loans and Receivables	n/a	5,083	
Interest income from lending and money market transactions	n/a	4,719	
Interest income from the securities portfolio	n/a	364	
Interest income – Available for Sale	n/a	519	
Interest income from the securities portfolio	n/a	519	
Interest income – Fair Value OCI	233	n/a	
Interest income from lending and money market transactions	18	n/a	
Interest income from the securities portfolio	215	n/a	
Prepayment penalty fees	86	79	8.8
Unwinding	n/a	13	
Interest income accounted for not using the effective interest method	**986**	**590**	**67.1**
Interest income – Fair Value Option	–	244	.
Interest income from lending and money market transactions	–	243	.
Interest income from the securities portfolio	–	1	.
Interest income – Mandatorily Fair Value P&L	567	n/a	
Interest income from lending and money market transactions	559	n/a	
Interest income from the securities portfolio	8	n/a	
Positive interest from financial instruments held as liabilities	419	346	21.1
Interest expenses	**3,036**	**3,193**	**–4.9**
Interest expenses – Amortised Cost	1,997	2,478	–19.4
Deposits	1,226	1,487	–17.6
Debt securities issued	771	991	–22.2
Interest expenses – Fair Value Option	555	259	.
Deposits	435	214	.
Debt securities issued	121	45	.
Negative interest from financial instruments held as assets	469	436	7.5
Other interest expenses	15	20	–25.2
Total	**3,405**	**3,091**	**10.2**

[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.

In the previous year, this income also contained distributions on profit-sharing certificates and participating bonds, plus fund distributions on units classified as equity capital. The adjustment is necessary because under IFRS 9 the assessment of equity and debt is based on that of the issuer. Investment fund units and profit-sharing certificates previously reported under equity instruments were reallocated to securitised debt instruments and assigned to the measurement categories mFVPL or HfT. The resulting income is therefore reported in interest income starting from financial year 2018.

€m	1.1.-30.9.2018	1.1.-30.9.2017	Change in %
Dividends from equity instruments – Available for Sale	n/a	25	
Dividends from equity instruments – Fair Value OCI	1	n/a	
Dividends from equity instruments – Fair Value Option	–	26	.
Dividends from equity instruments – Mandatorily Fair Value P&L	17	n/a	
Current net income from non-consolidated subsidiaries	11	21	–46.5
Total	**30**	**72**	**–59.0**

A portfolio of European standard stocks (blue chips) held by a subsidiary in the Commerzbank Group was classified in the fair value OCI category. Previously this portfolio was assigned to the available-for-sale IAS 39 category. In the first nine months of 2018, dividends of €1m were received from these stocks and recognised in the income statement in dividend income.

(10) Risk result

The risk result contains the net gain or loss resulting from remeasurement and derecognition of Financial Assets –Amortised Cost. The net remeasurement gain or loss 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, it also includes changes to provisions recognised in the income statement for certain off-balance-sheet items that are not financial guarantees as defined in IFRS 9 (some guarantees, letters of credits, see Note 44). The Commerzbank Group has loan portfolios (totalling €284bn 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 corresponding effects on profit and loss are reported in the net remeasurement gain or loss.

The net gain or loss on disposals includes effects of sales of financial assets-(amortised cost), not related to creditworthiness. 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).

Due to the application of IFRS 9, the result cannot be compared with the items loan loss provisions (Note 10) and other realised profit or loss and net remeasurement gain or loss (Note 11) as reported in the Annual Report 2017.

€m	1.1.-30.9.2018	1.1.-30.9.2017
Net remeasurement gain or loss	–295	n/a
Financial Assets – Amortised Cost	–328	n/a
Financial Assets – Fair Value OCI	–0	n/a
Off-balance sheet exposure	33	n/a
Gain or loss on disposal of Financial Assets – Amortised Cost	0	n/a
Gain or loss on substantial modification	2	n/a
Gain or loss on disposal of financial instruments (AC portfolio)	–2	n/a
Total	**–295**	**n/a**

The net gain or loss from the sale of financial instruments (AC portfolio) in the amount of €–2m resulted when the Group sold securities from the liquidity portfolio as part of permitted portfolio measures and repayments of securities.

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) Loan loss provisions

This item in 2017 included the loan loss provisions for both on- and off-balance-sheet lending business. With the application of IFRS 9, the previous item includes only a portion of the risk result. This prevents comparability with the previous year.

€m	1.1.-30.9.2018	1.1.-30.9.2017
Allocations to loan loss provisions[1]	n/a	– 992
Reversals of loan loss provisions[1]	n/a	554
Direct write-downs	n/a	– 249
Write-ups and amounts recovered on claims written down	n/a	158
Total	**n/a**	**– 530**

[1] Gross figures (e.g. migrations between different types of provisions were not netted off).

(12) Other realised profit or loss and net remeasurement gain or loss

Under IAS 39, this item in the previous year included the net gain or loss from the measurement of financial assets – loans and receivables, and financial assets – available for sale.

In the previous year, other realised profit or loss and net remeasurement gain or loss also contained the net realised gain or loss from the sale of claims and securities of the loans and receivables category, irrespective of whether the gain or loss was credit-induced. With the application of IFRS 9, the previous item includes only a portion of the risk result. This prevents comparability with the previous year.

€m	1.1.-30.9.2018	1.1.-30.9.2017
Financial assets - Loans and Receivables	n/a	–60
Net remeasurement gain or loss	n/a	–2
Realised gain or loss	n/a	–58
Financial assets - Available for Sale	n/a	14
Net remeasurement gain or loss	n/a	14
Total	**n/a**	**–46**

(13) 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.-30.9.2018	1.1.-30.9.2017	Change in %
Commission income	**2,864**	**2,963**	**–3.3**
Securities transactions	877	902	–2.8
Asset management	269	257	4.5
Payment transactions and foreign business	1,028	1,045	–1.6
Guarantees	155	156	–0.8
Net income from syndicated business	185	207	–10.5
Intermediary business	152	224	–32.0
Fiduciary transactions	17	16	7.5
Other income	181	156	15.8
Commission expenses	**535**	**560**	**–4.3**
Securities transactions	208	213	–2.3
Asset management	47	43	9.6
Payment transactions and foreign business	115	114	1.6
Guarantees	16	14	10.7
Net income from syndicated business	0	0	37.1
Intermediary business	101	129	–21.5
Fiduciary transactions	11	8	27.4
Other expenses	37	39	–3.7
Net provision income	**2,329**	**2,404**	**–3.1**
Securities transactions	669	689	–2.9
Asset management	221	214	3.5
Payment transactions and foreign business	913	931	–2.0
Guarantees	140	142	–2.0
Net income from syndicated business	185	207	–10.5
Intermediary business	51	96	–46.2
Fiduciary transactions	7	8	–14.1
Other income	144	117	22.2
Total	**2,329**	**2,404**	**–3.1**

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

1.1.-30.9.2018 €m	Private and Small Business Customers	Corporate Clients	Asset & Capital Recovery	Others and Consolidation	Group
Securities transactions	873	37	-	–34	877
Asset management	229	40	-	-	269
Payment transactions and foreign business	468	568	1	–9	1,028
Guarantees	20	145	-	–9	155
Net income from syndicated business	2	183	-	-	185
Intermediary business	153	49	-	–49	152
Fiduciary transactions	12	6	-	-	17
Other income	141	54	1	–15	181
Total	**1,897**	**1,082**	**1**	**–117**	**2,864**

(14) 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 and 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;
- dividends received from financial instruments held for trading;
- 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.-30.9.2018	1.1.-30.9.2017[1]	Change in %
Profit or loss from financial instruments – Held for Trading	631	830	–24.0
Profit or loss from financial instruments – Fair Value Option	163	85	93.0
Profit or loss from financial instruments – Mandatorily Fair Value P&L	–3	n/a	
Total	**791**	**914**	**–13.5**

[1] Prior-year figures adjusted due to restatements (see note 3).

(15) 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 cashflow hedges.

€m	1.1.-30.9.2018	1.1.-30.9.2017	Change in %
Fair Value Hedges			.
Changes in fair value attributable to hedging instruments	333	470	–29.1
Micro fair value hedges	289	373	–22.6
Portfolio fair value hedges	44	97	–54.2
Changes in fair value attributable to hedged items	–307	–565	–45.7
Micro fair value hedges	–265	–495	–46.5
Portfolio fair value hedges	–42	–70	–40.3
Cash Flow Hedges			.
Gain or loss from effectively hedged cash flow hedges (ineffective part only)	–0	–2	–95.1
Total	**26**	**–97**	.

(16) Other net gain or loss 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. In the previous year the gain or loss on disposals of financial assets in the available for sale category were reported here.

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 securitised debt instruments 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.-30.9.2018	1.1.-30.9.2017[1]	Change in %
Realised profit or loss from financial assets – Fair Value OCI (with recycling)	3	n/a	
Realised profit or loss from financial assets – Available for Sale	n/a	169	
Realised profit or loss from financial assets – Amortised Cost	1	5	–86.1
Net remeasurement gain or loss on non-substantial modifications – Amortised Cost	–3	–	.
Changes in uncertainties in estimates – Amortised Cost	–7	–	
Total	**–6**	**174**	.

[1] Prior-year figures adjusted due to restatements (see note 3).

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(17) 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.-30.9.2018	1.1.-30.9.2017	Change in %
Other material items of income	**396**	**645**	**–38.6**
Reversals of provisions	93	94	–0.8
Operating lease income	125	133	–5.6
Income from building and architects' services	0	1	–97.2
Hire-purchase income and sublease income	8	7	19.2
Income from investment properties	1	1	–19.6
Income from non-current assets held for sale	–	240	.
Income from disposal of fixed assets	14	8	67.9
Income from FX rate differences	31	22	43.7
Remaining other income	124	139	–11.2
Other material items of expense	**308**	**365**	**–15.7**
Allocations to provisions	87	77	13.6
Operating lease expenses	93	87	6.5
Expenses arising from building and architects' services	0	15	–99.0
Hire-purchase expenses and sublease expenses	4	4	0.8
Expenses from investment properties	0	0	12.3
Expenses from non-current assets held for sale	–	0	.
Expenses from disposal of fixed assets	1	3	–57.6
Expenses from FX rate differences	34	27	23.7
Remaining other expenses	89	152	–41.3
Balance of remaining other income/expenses	21	–52	.
Realised profit or loss and net remeasurement gain or loss from associated companies and jointly controlled entities (netted)	35	194	–82.1
Other net income	**144**	**422**	**–65.8**

A positive non-recurring effect of €52 m was realised in the first quarter of 2018 in connection with the Group insurance business of the mBank subgroup. This effect was reported under other items in other income (see the interim management report, page 7).

(18) Operating expenses

Personnel expenses | €m	1.1.-30.9.2018	1.1.-30.9.2017	Change in %
Wages and salaries	2,447	2,544	–3.8
Expenses for pensions and similar employee benefits	193	187	2.7
Total	**2,639**	**2,731**	**–3.4**

Operating expenses | €m	1.1.-30.9.2018	1.1.-30.9.2017	Change in %
Occupancy expenses	440	412	6.9
IT expenses	483	420	14.8
Workplace and information expenses	202	189	7.0
Compulsory contributions	364	347	5.1
Advisory, audit and other expenses required to comply with company law	323	349	–7.4
Travel, representation and advertising expenses	208	187	11.2
Personnel-related operating expenses	112	87	28.6
Other operating expenses	142	133	7.4
Total	**2,274**	**2,123**	**7.1**

The compulsory contributions in the current year include bank levies of €186m (previous year: €186m) and Polish bank tax of €70m (previous year: €65m).

Depreciation | €m	1.1.-30.9.2018	1.1.-30.9.2017	Change in %
Office furniture and equipment	93	92	0.4
Land and buildings	8	13	–33.2
Intangible assets	397	337	17.8
Total	**498**	**442**	**12.7**

(19) Restructuring expenses

€m	1.1.-30.9.2018	1.1.-30.9.2017	Change in %
Expenses for restructuring measures in progress	–	807	.
Total	**–**	**807**	**.**

The restructuring expenses in the first nine months of the previous year were connected with the implementation of the Commerzbank 4.0 strategy in Germany and abroad.

(20) Taxes on income

Group tax expense was €187m as at 30 September 2018 (previous year: €202m). With pre-tax profit of €1,020m (previous year: €321m) the Group's effective tax rate was 18% (previous year: 60,5%) (Group income tax rate: 31,5%, previous year: 31,5%). Group tax expense mainly comprises the current tax expenses of the mBank sub-group, comdirect bank Aktiengesellschaft and Commerzbank Aktiengesellschaft outside Germany for the reporting period. The factors that reduce the tax rate include primarily non-recurring effects resulting from the ongoing domestic tax on-site inspection and lower tax rates at foreign locations on the operating profit realised there.

(21) Earnings per share

	1.1.-30.9.2018	1.1.-30.9.2017[1]	Change in %
Operating profit (€m)	1,020	1,128	–9.6
Consolidated profit or loss attributable to Commerzbank shareholders (€m)	751	53	.
Average number of ordinary shares issued	1,252,357,634	1,252,357,634	.
Operating profit per share (€)	0.81	0.90	–9.6
Earnings per share (€)	0.60	0.04	.

[1] Prior-year figures adjusted due to restatements (seenote 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 (Note 45).

Notes to the balance sheet

Financial assets and liabilities

In accordance with IFRS 9 all financial investments and liabilities – which also include derivative financial instruments – must be recognised in the balance sheet. A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. On initial recognition, financial instruments are measured at fair value. For financial instruments that are not measured at fair value through profit and loss, directly attributable transaction costs are included in the fair values as acquisition-related costs, which increase the fair value of financial assets or reduce the fair value of financial liabilities. In accordance with IFRS 13, fair value is defined as the exit price, i.e. the price that the market participant would receive for the sale of an asset or pay to transfer a liability in an orderly transaction. The fair value is a price observed on an active market (mark-to-market) or determined using valuation models (mark-to-model). The relevant inputs for the valuation model are either observed directly on the market or, if not observable on the market, are estimates made by experts.

Depending on their category, financial instruments are recognised in the balance sheet subsequently either at (amortised) cost or fair value.

a) Recognition and derecognition of financial instruments

A financial asset or a financial liability is generally recognised in the balance sheet when the Commerzbank Group becomes a party to the contractual provisions of the financial instrument. For regular-way purchases or sales of financial assets in the cash market the trading and settlement dates normally differ. These regular-way cash market purchases and sales may be recognised using either trade date or settlement date accounting. Within the Commerzbank Group, regular-way purchases and sales of financial assets in the held-for-trading category and for debt instruments in the fair value OCI category are recognised on the trade date on both recognition and derecognition. For all other IFRS 9 categories the Group uses settlement date accounting for all regular-way purchases and sales of financial assets both on recognition and derecognition.

The derecognition rules of IFRS 9 are based both on the concept of risks and rewards and on the concept of control. However, when deciding whether an asset qualifies for derecognition, the evaluation of the transfer of the risks and rewards of ownership takes precedence over the evaluation of the transfer of control. If the risks and rewards are transferred only partially and control over the asset is retained, the continuing involvement approach is used. The financial asset continues to be recognised to the extent of the Group's continuing involvement, and special accounting policies apply. The extent of the continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred asset. A financial liability (or part of a financial liability) is derecognised when it is extinguished, i.e. when the obligations arising from the contract are discharged or cancelled or expire. The repurchase of own debt instruments is also a transfer of financial liabilities that qualifies for derecognition. Any differences between the carrying value of the liability (including discounts and premiums) and the purchase price are recognised in profit or loss; if the asset is sold again at a later date a new financial liability is recognised at cost equal to the price at which the asset was sold. Differences between this cost and the repayment amount are allocated over the term of the debt instrument using the effective interest method.

Some amendments of contractual terms and conditions between borrowers and the Bank, for example as a consequence of forbearance measures or restructuring, can lead to derecognition. A substantive amendment of the contractual terms and conditions of a financial instrument between an existing borrower and the Bank leads to the derecognition of the original financial asset and the recognition of a new financial instrument.

Similarly, a substantial modification of the contractual terms and conditions of an existing debt instrument is to be treated as a repayment of the original financial liability. In quantitative terms, an modification of the contractual terms and conditions is regarded as substantual if the discounted net present value of the cashflows under the new contractual terms and conditions varies by at least 10% from the discounted net present value of the residual cashflows of the original debt instrument.

b) Classification of financial instruments and their measurement

The Commerzbank Group classifies financial assets and financial liabilities in accordance with the applicable IFRS 9 categories:

Financial assets
- amortised cost (AC)
- fair value OCI (FVOCI)
- fair value option (FVO)
- mandatorily fair value P&L (mFVPL)
- held for trading (HfT)

Financial liabilities
- amortised cost
- fair value option
- held for trading

The Group subdivides the IFRS 9 categories into the following classes:

Financial assets
- Loans and receivables
- Securities
- Equity instruments
- Derivatives that do not qualify for hedge accounting (stand alone derivatives)
- Derivatives that qualify for hedge accounting
- Financial guarantees

Financial liabilities
- Deposits
- Debt securities issued
- Derivatives that do not qualify for hedge accounting (stand alone derivatives)
- Derivatives that qualify for hedge accounting
- Financial guarantees

As well as irrevocable lending commitments

c) Net gains or losses

Net gains or losses include fair value measurements recognised in profit or loss, currency translation effects, impairments, impairment reversals, gains realised on disposal, subsequent recoveries on written-down financial instruments and changes recognised in the revaluation reserve classified in the respective IFRS 9 categories. The components are detailed in the condensed statement of comprehensive income and in the notes on net interest income, risk result, gain or loss from financial assets and liabilities measured at fair value through profit and loss and other net gain or loss from financial instruments.

d) Financial guarantees

A financial guarantee is a contract that requires the issuer to make specified payments that reimburse the holder for a loss they incur because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. This may include, for example, bank guarantees. If Commerzbank is the guarantee holder, the financial guarantee is not recorded in the accounts and is only recognised when determining an impairment of a guaranteed asset. As the issuer, the Commerzbank Group recognises the liability arising from a financial guarantee at inception. Initial measurement is at fair value at the time of recognition. In general terms, the fair value of a financial guarantee contract at inception is zero because for fair market contracts the value of the premium agreed normally corresponds to the value of the guarantee obligation (known as the net method"). Subsequent measurement is at the higher of amortised cost or the provision that is required to be recognised if payment of the guarantee becomes probable.

e) Embedded derivatives

Embedded derivatives are derivatives that are integrated into primary financial instruments. These include, for example, reverse convertible bonds (bonds that may be repaid in the form of equities) or bonds with index-linked interest payments.

Under IAS 39, derivatives embedded in financial assets, liabilities and non-financial host contracts were treated as separate derivatives and recognised at fair value if they met the definition of a derivative and their economic characteristics and risks were not closely related to those of the host contract.

In accordance with IFRS, since 1 January 2018 we have separated only those derivatives that are embedded in financial liabilities and non-financial host contracts. Under IFRS 9, financial assets are assessed in their entirety. As a result, the host contract is no longer accounted for separately from the embedded derivative. Instead, financial assets are classified based on the business model and their contractual terms and conditions.

Such a separation must be made for accounting purposes only if the following three conditions are met:
- The economic characteristics and risks of the embedded derivative are not closely related to those of the host contract.
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative under IFRS 9.
- The primary financial liability is not measured at fair value through profit or loss.

In this case, the embedded derivative to be separated is regarded as part of the held-for-trading category and is recognised at fair value. Changes on remeasurement are recognised in the gain or loss from financial assets and liabilities measured at fair value through profit and loss. The host contract is accounted for and measured applying the rules of the category to which the financial instrument is assigned.

If the above three conditions are not cumulatively met, the embedded derivative is not shown separately and the hybrid financial instrument or structured product is measured as a whole in accordance with the general provisions of the category to which the financial liability is assigned.

(22) Financial assets – amortised cost

If the contractually agreed cashflows 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 32 Credit risks and credit losses).

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

€m	30.9.2018	31.12.2017
Loans and advances	250,833	n/a
Central banks	1,624	n/a
Banks	34,517	n/a
Corporate clients	92,540	n/a
Private customers	98,652	n/a
Other financial corporations	11,941	n/a
General governments	11,557	n/a
Debt securities	30,837	n/a
Banks	2,690	n/a
Corporate clients	3,449	n/a
Other financial corporations	4,519	n/a
General governments	20,179	n/a
Total	**281,670**	**n/a**

(23) Financial assets – loans and receivables

Non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market were assigned to this category in the previous year in accordance with IAS 39. This was true regardless of whether they were originated by the Bank or acquired in the secondary market. An active market existed if quoted prices were readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represented actual and regularly occurring market transactions on an arm's length basis. Measurement of these assets was at amortised cost. If there was impairment, this was recognised in profit or loss when determining the amortised cost. Premiums and discounts were recognised in net interest income over the life of the asset using the effective interest rate method.

Impairments on securities were recognised in the same way as for lending business (see Annual Report 2017, page 178 ff.). The impairments for these financial instruments were recognised in other realised profit or loss and net remeasurement gain or loss and directly reduced the corresponding item in the balance sheet. If the indicators for impairment of given securities ceased to apply or no longer suggested an impairment, the impairment of the securities in question was reversed through profit or loss, but to no more than the level of amortised cost. Similarly, an improved risk environment could lead to the reversal of an impairment that was previously recognised at the portfolio level.

€m	30.9.2018	31.12.2017
Loans and advances	n/a	241,708
Central banks	n/a	906
Banks	n/a	29,502
Corporate clients	n/a	90,468
Private customers	n/a	93,476
Other financial corporations	n/a	10,389
General governments	n/a	16,967
Debt securities	n/a	24,004
Banks	n/a	2,256
Corporate clients	n/a	3,799
Other financial corporations	n/a	3,834
General governments	n/a	14,115
Total	**n/a**	**265,712**

(24) Financial liabilities – amortised cost

As a rule, financial liabilities must be subsequently measured at amortised cost. We have explained the exceptions to this fundamental classification in the aforementioned items within Note 6.

Deposits and other financial liabilities 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	30.9.2018	31.3.2017[1]	Change in %
Deposits	311,283	297,907	4.5
Central banks	3,865	4,427	–12.7
Banks	53,994	44,468	21.4
Corporate clients	78,274	86,297	–9.3
Private customers	121,930	114,087	6.9
Other financial corporations	34,226	33,072	3.5
General governments	18,995	15,555	22.1
Debt securities issued	44,216	43,380	1.9
Money market instruments	6,392	4,428	44.4
Covered bonds	18,845	17,237	9.3
Other debt securities issued	18,979	21,716	–12.6
Total	**355,499**	**341,287**	**4.2**

[1] Prior-year figures adjusted due to restatements (see note 3).

New issues with a total volume of €14.6bn were issued in the first nine months of 2018. In the same period, the volume of bonds maturing amounted to €11.2bn and redemptions to €0.5bn.

(25) 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 cashflows are solely interest and principal payments and are thus SPPI-compliant.

The changes in fair value are recognised in other comprehensive income (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 32 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 gain or loss from financial instruments. Interest income from these financial assets is recognised in net interest income using the effective interest rate method.

In addition, "financial assets – fair value OCI" also contain equity instruments which we have opted to measure at fair value in other comprehensive income without recycling if they 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	30.9.2018	31.12.2017
Loans and advances (with recycling)	1,392	n/a
Central banks	–	n/a
Banks	185	n/a
Corporate clients	560	n/a
Private customers	–	n/a
Other financial corporations	40	n/a
General governments	607	n/a
Debt securities (with recycling)	26,001	n/a
Banks	10,385	n/a
Corporate clients	1,287	n/a
Other financial corporations	5,150	n/a
General governments	9,179	n/a
Equity instruments (without recycling)	48	n/a
Corporate clients	46	n/a
Other financial corporations	2	n/a
Total	**27,441**	**n/a**

A portfolio of European standard stocks (blue chips) held by a subsidiary in the Commerzbank Group was classified in the fair value OCI category. Previously this portfolio was assigned to the available-for-sale IAS 39 category. In addition, an equity stake in a credit card provider was allocated to this category.

As at 30 September 2018, the fair value of this holding amounted to €48m and the Group received dividends paid from this holding totalling €1m. This payment was recognised in the income statement in net dividend income. In addition, sales from this portfolio resulted in the realisation of a gain totalling €0m which was recognised in retained earnings without effect on income.

(26) Financial assets – available for sale

In accordance with IAS 39, this category comprised all non-derivative financial assets not assigned to one of the other categories or designated for the category "Financial assets – available for sale". This included interest-bearing securities, equities, profit-sharing certificates and units in investment funds. Available-for-sale assets primarily comprised fixed-income securities that were traded on an active market but which the Bank did not intend to sell in the short term. They were measured at fair value. If the fair value could be established on an active market, items were 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).

€m	30.9.2018	31.12.2017
Debt securities	n/a	30,661
Banks	n/a	8,373
Corporate clients	n/a	1,894
Other financial corporations	n/a	3,585
General governments	n/a	16,809
Equity instruments	n/a	493
Banks	n/a	11
Corporate clients	n/a	269
Other financial corporations	n/a	213
Total	**n/a**	**31,155**

(27) Financial assets – fair value option

If acquired debt instruments are SPPI-compliant and were allocated to the business models "hold to collect" or "hold to collect and sell", the fair value option may be applied to them. As a result, the respective assets are not measured at amortised cost or at fair value through other comprehensive income. Instead, they are measured at fair value through profit or loss.

The option to measure at fair value may be exercised only when initial recognition takes place. The precondition to use this option is that by doing so an accounting mismatch can be eliminated or reduced. Such a mismatch can result, for example, if according to the classification criteria assets are measured at amortised cost, whereas the associated liabilities are measured at fair value.

Under the IFRS 9 classification model, the previous alternatives to apply the fair value option to manage assets on a fair value basis and to avoid the separation of embedded derivatives are no longer possible. The elimination of the separation requirement for embedded derivatives means that structured products are assessed as a whole to determine SPPI compliance. In the case of debt instruments that are managed on a fair value basis as a component of a portfolio, IFRS 9 (in contrast to IAS 39) requires measurement at fair value. As a result, the fair value option is not available.

€m	30.9.2018	31.12.2017	Change in %
Loans and advances	–	23,000	.
Central banks	–	4,113	.
Banks	–	9,181	.
Corporate clients	–	574	.
Private customers	–	3	.
Other financial corporations	–	7,121	.
General governments	–	2,009	.
Debt securities	–	393	.
Banks	–	91	.
Corporate clients	–	151	.
Other financial corporations	–	114	.
General governments	–	38	
Equity instruments	–	352	.
Other financial corporations	–	352	.
Total	**–**	**23,745**	**.**

(28) Financial liabilities – fair value option

The regulations regarding the exercise of the fair value option for financial liabilities are unchanged compared with IAS 39. Besides the existence of an accounting mismatch, an additional precondition requiring application for liabilities can be the management of financial liabilities on a fair value basis and the existence of embedded derivatives requiring separation.

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 risk are not recognised in the income statement, but in other comprehensive income (without recycling) with no effect on income.

€m	30.9.2018	31.12.2017	Change in %
Deposits	44,774	14,279	.
Central banks	5,761	2,445	.
Banks	13,408	5,020	.
Corporate clients	1,213	1,027	18.1
Private customers	156	153	1.7
Other financial corporations	23,563	5,517	.
General governments	673	116	.
Debt securities issued	3,972	661	.
Other debt securities issued	3,972	661	.
Total	**48,746**	**14,940**	**.**

For liabilities to which the fair value option was applied, the change in fair value in the nine months of 2018 due to credit risk reasons was €–83m (previous year: €112m). The cumulative change was €–54m (previous year: €30m).

€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 €1.2bn were issued in the first nine months of 2018. During the same period there were no significant redemptions or maturing issues.

(29) 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 associated 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 25).

€m	30.9.2018	31.12.2017
Loans and advances	50,916	n/a
Central banks	8,283	n/a
Banks	20,035	n/a
Corporate clients	2,472	n/a
Private customers	561	n/a
Other financial corporations	15,244	n/a
General governments	4,321	n/a
Debt securities	2,338	n/a
Banks	81	n/a
Corporate clients	94	n/a
Other financial corporations	1,539	n/a
General governments	624	n/a
Equity instruments	310	n/a
Banks	11	n/a
Corporate clients	227	n/a
Other financial corporations	72	n/a
Total	**53,564**	**n/a**

(30) 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 and 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 and loss.

€m	30.9.2018	31.12.2017	Change in %
Loans and advances	1,066	1,080	–1.3
Banks	594	702	–15.4
Corporate clients	305	310	–1.5
Other financial corporations	–	13	.
General governments	167	55	.
Debt securities	7,528	2,955	.
Banks	1,187	596	99.1
Corporate clients	109	287	–62.1
Other financial corporations	3,721	1,106	.
General governments	2,511	966	.
Equity instruments	10,418	11,302	–7.8
Banks	981	646	51.9
Corporate clients	8,805	7,770	13.3
Other financial corporations	633	2,887	–78.1
Positive fair values of derivative financial instruments	39,790	47,783	–16.7
Interest-rate-related derivative transactions	26,791	33,467	–19.9
Currency-related derivative transactions	7,624	9,992	–23.7
Equity derivatives	3,514	3,145	11.7
Credit derivatives	514	720	–28.5
Other derivative transactions	1,346	459	.
Other trading positions	1,390	546	.
Total	**60,191**	**63,666**	**–5.5**

(31) 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	30.9.2018	31.12.2017	Change in %
Certificates and other issued bonds	5,969	5,565	7.3
Delivery commitments arising from short sales of securities	2,361	2,467	–4.3
Negative fair values of derivative financial instruments	43,230	48,452	–10.8
Interest-rate-related derivative transactions	28,276	33,279	–15.0
Currency-related derivative transactions	8,422	9,514	–11.5
Equity derivatives	4,221	3,927	7.5
Credit derivatives	923	1,102	–16.3
Other derivative transactions	1,388	629	.
Total	**51,561**	**56,484**	**–8.7**

Credit risks and credit losses

(32) 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 instruments measured at amortised cost;
- financial assets in the form of loans and advances as well as debt instruments 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 of 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 twelve 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).

Stage 3 includes financial instruments which are classified as impaired as at the financial reporting date. Commerzbank's criterion for this classification is the definition of a default in accordance with Article 178 of the Capital Requirements Regulation (CRR). The following events can be indicative of a customer default:

- insolvency is imminent (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 cashflows 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.

Determination of the expected credit loss

Commerzbank calculates the LECL as the probability-weighted, unutilised and discounted expected value of future loan losses over the total residual maturity of the respective financial instrument, i.e. the maximum contractual term (including any renewal options) during which Commerzbank is exposed to credit risk. The 12-month ECL used for the recognition of impairments in stage 1 is the portion of the LECL that results from default events which are expected to occur within twelve months following the end of the reporting period.

The ECL for stage 1 and stage 2 as well as for insignificant financial instruments in stage 3 is determined on an individual transaction basis taking into account statistical risk parameters. These parameters have been derived from the Basel IRB approach and modified to meet the requirements of IFRS 9. The significant main parameters used in this determination include the:

- customer-specific probability of default (PD);
- loss given default (LGD); and the
- exposure at default (EaD).

The Group derives the PD by applying an internal ratings procedure, which is based on the respective customer group. The determination includes a wide variety of qualitative and quantitative variables, which are taken into account or weighted based on the respective procedure. The allocation of the PD ranges to the internal rating categories and the reconciliation to external ratings can be found in the master scale contained in the Annual Report 2017, page 112.

The LGD is the forecasted loss given default as a percentage of the exposure at default (EaD), taking into account collateral and the capital recovery potential on the unsecured portion. The Group's estimates, which are made specifically for different types of collateral and customer groups, are determined using both observed historical portfolio data and diverse external information, such as indices and data regarding the development of purchasing power.

The EaD is the expected loan utilisation as at the default date, taking into account a (partial) drawing of open lines.

All risk parameters used from the Bank's internal models have been adjusted to meet the specific requirements of IFRS 9, and the forecast horizon has been extended accordingly to cover the entire term of the financial instruments. For example, the forecast for the development of the exposure over the entire term of the financial instrument therefore also includes, in particular, contractual and statutory termination rights.

In the case of loan products that consist of a utilised loan amount and an open credit line and for which in customary commercial practice the credit risk is not limited to the contractual notice period (in Commerzbank this relates primarily to revolving products without a contractually agreed repayment structure, such as overdrafts and credit card facilities), the LECL must be determined using a behavior maturity, which typically exceeds the maximum contractual period. In order to ensure that the LECL for these products is determined in an empirically sound manner in compliance with IFRS 9 requirements, Commerzbank calculates the LECL directly for these products based on realised historical losses.

As a rule, the Group estimates the risk parameters specific to IFRS 9 based not only on historical default information but also, in particular, on the current economic environment (point-in-time perspective) and forward-looking information. This assessment primarily involves reviewing the effects which the Bank's macroeconomic forecasts will have regarding the amount of the ECL, and including these effects in the determination of the ECL. A baseline scenario is used for this purpose which relies on the respective applicable consensus (forecasts of different banks on significant macroeconomic factors, such as GDP growth and the unemployment rate). This baseline scenario is then supplemented with additional macroeconomic parameters that are relevant for the model. The transformation of the macroeconomic baseline scenario into the effects on the risk parameters is based on statistically derived models. If needed, these models are supplemented with expert-based assumptions. Potential effects from non-linear correlations between different macroeconomic scenarios and the ECL are corrected using a separately determined adjustment factor.

All parameters used when determining the ECL are regularly validated by an independent unit (usually once a year). If needed, they are adjusted accordingly.

Assessment of a significant increase in default risk

Commerzbank's rating systems combine into the PD all available quantitative and qualitative information relevant for forecasting the default risk. This metric is based primarily on a statistical selection and weighting of all available indicators. In addition, the PD adjusted in accordance with IFRS 9 requirements takes into account not only historical information and the current economic environment, but also, in particular, forward-looking information such as the forecast for the development of macroeconomic conditions.

As a consequence, Commerzbank uses the PD only as a frame of reference for assessing whether the default risk of a financial instrument has risen significantly since the date of its initial recognition. By anchoring the review of the relative transfer criterion in the robust processes and procedures of the Bank's Group-wide credit-risk-management framework (in particular, early identification of credit risk, controlling of overdrafts and the re-rating process), the Bank ensures that a significant increase in the default risk is identified in a reliable and timely manner based on objective criteria. For further information on Commerzbank's processes and procedures as well as governance in credit risk management, please refer to the explanatory information in the interim Management Report (page 6 ff.).

The review to determine whether the default risk as at the financial reporting date has risen significantly since the initial recognition of the respective financial instrument is performed as at the end of the reporting period. This review compares the observed probability of default over the residual maturity of the financial instrument (lifetime PD) against the lifetime PD over the same period as expected on the date of initial recognition. In accordance with IFRS requirements, in some sub-portfolios, the original and current PD are compared based on the probability of default over a period of twelve months after the end of the reporting period (12-month PD). In these cases, the Bank uses equivalence analyses to demonstrate that no material variances have occurred compared with an assessment using the lifetime PD.

Thresholds are set using a statistical procedure in order to determine whether an increase in the PD compared with the initial recognition date is "significant". These thresholds, which are differentiated by rating models, represent a critical degree of variance compared with the average development of the PD. In order to ensure an economically sound assignment of the stage, transaction-specific factors are taken into account, including the extent of

the PD at the initial recognition date, the term to date and the remaining term of the transaction.

Financial instruments are retransferred from stage 2 to stage 1 if at the end of the reporting period the default risk is no longer significantly elevated compared with the initial recognition date.

€m	As at 1.1.2018[1]	Net allocations/ reversals	Utilisation	Change in the group of consolidated companies	Exchange rate changes/ reclassification / unwinding	As at 30.9.2018
Loan loss provisions for on-balance-sheet loan losses	2,230	328	389	–	–4	2,165
Financial Assets – Amortised Cost	2,214	328	388	–	–5	2,148
Loans and advances	2,124	319	388	–	–7	2,048
Debt securities	90	9	0	–	2	100
Financial Assets – Fair value OCI	16	0	1	–	1	17
Loans and advances	7	–0	0	–	0	7
Debt securities	9	0	1	–	1	10
Provisions for off-balance-sheet loan losses	293	–33	0	–	0	260
Total	**2,523**	**295**	**389**	**–**	**–4**	**2,426**

[1] Restated values, see note 6.

The breakdown into the stages is as follows:

€m	Stage 1	Stage 2	Stage 3	POCI	Total
Valuation allowances for risks from financial assets	279	397	1,428	61	2,165
Loans and advances	247	321	1,428	59	2,055
Debt securities	33	77	–1	1	110
Provisions for off-balance-sheet loan losses	69	109	50	32	260
Total	**348**	**507**	**1,478**	**93**	**2,426**

Loan loss provisions pursuant to IAS 39 for the 2017 financial year changed as follows:

Development of loan loss provisions | €m	2018	2017
As at 1.1.	**n/a**	**3,934**
Allocations	n/a	992
Disposals	n/a	1,306
of which: Utilisation	n/a	752
of which: Reversals	n/a	554
Changes in consolidated companies	n/a	53
Exchange rate changes/reclassifications/unwinding	n/a	18
As at 30.9.	**n/a**	**3,691**

Loan loss provisions | €m	30.9.2018	31.12.2017
Specific valuation allowances	n/a	2,672
Portfolio valuation allowances	n/a	454
Provisions for on-balance-sheet loan losses	**n/a**	**3,125**
Specific valuation allowances	n/a	112
Portfolio valuation allowances	n/a	99
Provisions for off-balance-sheet loan losses	**n/a**	**211**
Total	**n/a**	**3,336**

Other notes on financial instruments

(33) 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 cashflows, 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

In the following, a distinction is made between:

a) financial instruments measured at fair value (fair value OCI, fair value option, mandatorily fair value P&L and held for trading);
b) 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 information about and reasons and timing for 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

Under 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 risk. 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 (FVA), the funding costs or benefits 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 market values using observable market data (e.g. CDS spreads). The funding curve used to calculate the FVA is approximated by the Commerzbank funding curve. In the reporting period, Commerzbank adapted the calculation of the future market values of the derivative portfolios to be consistent with current developments of the market standards. This adaptation resulted in a conversion effect of €–17m.

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 I €bn		30.9.2018			
		Level 1	**Level 2**	**Level 3**	**Total**
Financial Assets – Fair Value OCI	Debt instruments	16.5	9.5	0.0	26.0
	Equity instruments	0.0	–	–	0.0
	Loans and advances	–	1.4	0.0	1.4
Financial Assets – Fair Value Option	Debt instruments	–	–	–	–
	Equity instruments	–	–	–	–
	Loans and advances	–	–	–	–
Financial Assets – Mandatorily Fair Value P&L	Debt instruments	0.6	0.7	1.0	2.3
	Equity instruments	0.3	0.0	0.1	0.3
	Loans and advances	–	46.2	4.8	50.9
Financial Assets – Held for Trading	Derivatives	–	36.1	3.7	39.8
	Debt instruments	6.2	1.3	0.0	7.5
	Equity instruments	10.4	–	–	10.4
	Loans and advances	0.1	1.0	–	1.1
	Other trading assets	1.4	–	–	1.4
Positive fair values of derivative financial instruments	Hedge accounting	–	1.3	–	1.3
Non-current assets held for sale and disposal groups	Debt instruments	0.0	–	–	0.0
	Equity instruments	–	–	–	–
	Loans and advances	–	–	–	–
Total		**35.5**	**97.3**	**9.6**	**142.5**

Financial assets | €bn		31.12.2017			
		Level 1	Level 2	Level 3	Total
Financial Assets – Available for Sale	Debt instruments	24.1	6.5	0.1	30.7
	Equity instruments	0.4	–	0.0	0.4
Financial Assets – Fair Value Option	Debt instruments	0.0	0.4	0.0	0.4
	Equity instruments	0.4	–	–	0.4
	Loans and advances	–	22.5	0.5	23.0
Financial Assets – Held for Trading	Derivatives	–	43.5	4.3	47.8
	Debt instruments	1.3	0.7	0.9	3.0
	Equity instruments	11.3	–	0.0	11.3
	Loans and advances	–	1.1	–	1.1
	Others	0.5	–	–	0.5
Positive fair values of derivative hedging instruments	Hedge accounting	–	1.5	–	1.5
Non-current assets held for sale and disposal groups	Debt instruments	0.0	–	–	0.0
	Equity instruments	0.1	–	–	0.1
	Loans and advances	–	–	–	–
Total		**38.1**	**76.1**	**5.9**	**120.1**

Financial liabilities | €bn		30.9.2018				31.12.2017			
		Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial liabilities - Fair Value Option	Deposits	–	44.8	–	44.8	–	14.2	0.1	14.3
	Bonds and notes issued	4.0	–	–	4.0	0.7	–	–	0.7
Financial liabilities - Held for Trading	Derivatives	–	39.7	3.5	43.2	–	44.5	3.9	48.5
	Certificates and other notes issued	5.9	0.0	0.0	6.0	5.6	–	–	5.6
	Delivery commitments arising from short sales of securities	2.2	0.1	0.0	2.4	2.2	0.3	–	2.5
Negative fair values of derivative hedging instruments	Hedge accounting	–	1.4	–	1.4	–	2.3	–	2.3
Total		**12.2**	**86.0**	**3.5**	**101.7**	**8.4**	**61.2**	**4.0**	**73.7**

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 2018, the Group reclassified from level 1 to level 2 as there were no listed market prices available. These related to €1.1bn for Debt instruments in the HfT category and €0.3bn debt instruments in them mFVPL categorie. Furthermore debt instruments of €0.7bn in the categorie FVOCI and €0.1bn delivery commitments arising from short sales of securities in the HfT category has been reclassified from level 2 to level 1, as quoted market prices were again available. No further significant reclassifications between level 1 and level 2 were made. The changes in financial instruments in the level 3 category were as follows:

Financial Assets €m	Financial Assets – Fair Value OCI[1]	Financial Assets – Mandatorily Fair Value P&L[1]	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**	**4,183**	**–**	**10,538**
Changes in the group of consolidated companies	–	–	–	–	–
Gains or losses recognised in income statement during the period	–1	–177	–410	–	–588
of which unrealised gains or losses	–1	–175	–405	–	–581
Gains or losses recognised in revaluation reserve	–	–	–	–	–
Purchases	–	889	–9	–	879
Sales	–	–1,319	–48	–	–1,367
Issues	–	–	–	–	–
Redemptions	–	–	–	–	–
Reclassifications to level 3	38	271	109	–	418
Reclassifications from Level 3	–40	–135	–106	–	–281
Reclassifications from/to non-current assets held for sale and assets of disposal groups	–	–	–	–	–
Fair Value as at 30.9.2018	**33**	**5,848**	**3,719**	**–**	**9,600**

[1] Restatements (see note 6).

Financial Assets €m	Financial Assets – Available for Sale	Financial Assets – Fair Value Option	Financial Assets – Held for Trading	Non-current assets held for sale and disposal groups	Total
Fair Value as at 1.1.2017	**140**	**944**	**6,179**	**68**	**7,332**
Changes in the group of consolidated companies	–	–	–	–	–
Gains or losses recognised in income statement during the period	–14	–31	–338	–2	–385
of which unrealised gains or losses	–14	–31	–348	–2	–395
Gains or losses recognised in revaluation reserve	–	–	–	–	–
Purchases	4	413	164	–	581
Sales	–	–158	–751	–66	–975
Issues	–	–	–	–	–
Redemptions	–	–	–16	–	–16
Reclassifications to level 3	12	7	85	–	105
Reclassifications from Level 3	–7	–661	–78	–	–747
Reclassifications from/to non-current assets held for sale and assets of disposal groups	–	–	–	–	–
Fair Value as at 31.12.2017	**135**	**514**	**5,245**	**–**	**5,894**

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 and loss.

€0.1bn of securitised debt instruments in the IFRS 9 mFVPL category were reclassified in 2018 from level 3 back to level 2 because market parameters were again observable. In contrast, €0.3bn of loans and receivables in the mFVPL category 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 reporting period were as follows:

Financial Liabilities €m	Financial Liabilities – Fair Value Option	Financial Liabilities – Held for Trading	Total
Fair Value as at 1.1.2018	**100**	**3,930**	**4,030**
Changes in the group of consolidated companies	–	–	–
Gains or losses recognised in income statement during the period	–0	–350	–350
of which unrealised gains or losses	–0	–328	–328
Purchases	0	120	120
Sales	–100	0	–100
Issues	–	–	–
Redemptions	–	–13	–13
Reclassifications to level 3	–	49	49
Reclassifications from Level 3	–	–232	–232
Reclassification from/to liabilities of disposal groups	–	–	–
Fair Value as at 30.9.2018	**–**	**3,504**	**3,504**

Financial Liabilities €m	Financial Liabilities – Fair Value Option	Financial Liabilities – Held for Trading	Total
Fair Value as at 1.1.2017	**–**	**4,171**	**4,171**
Changes in the group of consolidated companies	–	–	–
Gains or losses recognised in income statement during the period	–	–97	–97
of which unrealised gains or losses	–	–76	–76
Purchases	100	154	255
Sales	–	–65	–65
Issues	–	–	–
Redemptions	–	–33	–33
Reclassifications to level 3	–	63	63
Reclassifications from Level 3	–	–263	–263
Reclassification from/to liabilities of disposal groups	–	–	–
Fair Value as at 31.12.2017	**100**	**3,930**	**4,030**

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 and loss.

In 2018 derivatives with a negative fair value of €0.1bn from level 3 to level 2 were reclassified as there were listed market prices available again. Furthermore there were no 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 balance sheet 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 information 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 cashflows 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 cashflows 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.

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

€m		30.9.2018			30.9.2018	
	Valuation techniques	Assets	Liabilities	Significant unobservable input parameters	Range	
Loans and advances		**4,782**	**–**		–	–
Repos	Discounted cash flow model	939	–	Repo-curve (bps)	126	257
Ship financing	Discounted cash flow model	1,022	–	Credit spread (bps)	600	1,200
Other loans	Discounted cash flow model	2,821	–	Credit spread (bps)	70	700
Debt instruments		**1,046**	**–**		–	–
Interest-rate-related transactions	Spread based model	1,046	–	Credit spread (bps)	100	500
of which ABS	Spread based model	5	–	Credit spread (bps)	100	500
Equity instruments		**54**	**–**		–	–
Equity-related transactions	Discounted cash flow model	54	–	Price (%)	90%	110%
Derivatives		**3,718**	**3,504**			
Equity-related transactions	Discounted cash flow model	119	367	IRR (%), price (%), investment fund volatility	1%	9%
Credit derivatives	Discounted cash flow model	3,600	2,958	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		**9,600**	**3,504**			

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:

	30.9.2018		
	Positive effects on income statement	Negative effects on income statement	Changed parameters
Loans	**81**	**–81**	
Repos	9	–9	Repo curve
Ship financing	13	–13	Credit Spread
Other loans	59	–59	Credit Spread
Debt securities	**38**	**–38**	
Interest-rate-related transactions	38	–38	Price
of which ABS	5	–5	IRR, recovery rate, credit spread
Equity instruments	**1**	**–1**	
Equity-related transactions	1	–1	Price
Derivatives	**23**	**–22**	
Equity-related transactions	12	–11	IRR, price based, investment fund volatility
Credit derivatives	10	–10	credit spread, recovery rate, price
Interest-rate-related transactions	1	–1	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 pro rata 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 1.1.2017	**–**	**4**	**4**
Allocations not recognised in income statement	–	37	37
Reversals recognised in income statement	–	–8	–8
Balance as at 31.12.2017	**–**	**34**	**34**
Allocations not recognised in income statement	–	22	22
Reversals recognised in income statement	–	–7	–7
Balance as at 30.6.2018	**–**	**49**	**49**

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 administrative costs or maintenance 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, administrative 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 began applying 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 possible 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 cashflow 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 3may also be appropriate.

The fair value of bonds and notes issued is determined on the basis of available market prices. If no prices are available, the discounted cashflow 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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30.9.2018 €bn	Fair Value	Carrying amount	Difference	Level 1	Level 2	Level 3
Assets	**337.9**	**339.9**	**–2.0**	**–**	**122.5**	**215.3**
Cash on hand and cash on demand	57.9	57.9	–	–	57.9	–
Financial Assets – Amortised Cost	279.7	281.7	–1.9	–	64.4	215.3
Loans and advances	252.1	250.8	1.2	–	37.9	214.1
Debt securities	27.7	30.8	–3.1	–	26.5	1.2
Value adjustment on portfolio fair value hedges	–	0.1	–0.1	–	–	–
Non-current assets held for sale and disposal groups	0.2	0.2	–	–	0.2	–
Loans and advances	0.2	0.2	–	–	0.2	–
Debt securities	0.0	0.0	–	–	0.0	–
Liabilities	**357.9**	**356.2**	**1.7**	**–**	**354.6**	**3.3**
Financial Liabilities – Amortised Cost	357.5	355.5	2.0	–	354.1	3.3
Deposits	311.2	311.3	–0.0	–	311.2	–
Bonds and notes issued	46.2	44.2	2.0	–	42.9	3.3
Value adjustment on portfolio fair value hedges	–	0.3	–0.3	–	–	–
Liabilities of disposal groups	0.4	0.4	–	–	0.4	–
Deposits	0.4	0.4	–	–	0.4	–
Bonds and notes issued	–	–	–	–	–	–

31.12.2017 €bn	Fair Value	Carrying amount	Difference	Level 1	Level 2	Level 3
Assets	**319.8**	**321.6**	**–1.8**	**–**	**109.5**	**210.3**
Cash on hand and cash on demand	55.7	55.7	–	–	55.7	–
Financial Assets – Loans and Receivables	264.0	265.7	–1.7	–	53.8	210.3
Loans and advances[1]	241.9	241.7	0.2	–	32.5	209.4
Debt securities	22.1	24.0	–1.9	–	21.2	0.9
Value adjustment on portfolio fair value hedges	–	0.2	–0.2	–	–	–
Non-current assets held for sale and disposal groups	0.0	0.0	–	–	–	0.0
Loans and advances	0.0	0.0	–	–	–	0.0
Debt securities	–	–	–	–	–	–
Liabilities	**344.6**	**341.8**	**2.8**	**0.2**	**339.2**	**5.2**
Financial Liabilities – Amortised Cost[1]	344.6	341.3	3.3	0.2	339.2	5.2
Deposits	298.3	297.9	0.4	–	298.3	–
Bonds and notes issued	46.3	43.4	2.9	0.2	40.9	5.2
Value adjustment on portfolio fair value hedges	–	0.5	–0.5	–	–	–

[1] Prior-year figures adjusted due to restatements (see note 3).

(34) Information on netting of financial instruments

The table below shows the reconciliation of amounts before and after netting, as well as the amounts of existing netting rights which do not satisfy the netting criteria, separately for all recognised financial assets and liabilities which

- are already netted in accordance with IAS 32.42 (financial instruments I) and
- 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 (Multicurrency – 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 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	**30.9.2018**		**31.12.2017**	
	Reverse repos	**Positive fair values of derivative financial instruments**	**Reverse repos**	**Positive fair values of derivative financial instruments**
Gross amount of financial instruments	60,564	87,437	33,195	101,586
Book values not eligible for netting	14,235	2,966	5,784	4,514
a) Gross amount of financial instruments I and II	46,329	84,471	27,411	97,072
b) Amount netted in the balance sheet for financial instruments I [1]	18,084	46,373	13,912	52,339
c) Net amount of financial instruments I and II = a) – b)	28,245	38,098	13,499	44,733
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]	3,291	25,137	379	29,662
Fair value of financial collateral relating to financial instruments I and II not already accounted for in b) [3]				
Non-cash collateral [4]	24,599	772	12,227	43
Cash collateral	150	7,334	3	8,990
e) Net amount of financial instruments I and II = c) – d)	205	4,855	890	6,038
f) Fair value of financial collateral of central counterparties relating to financial instruments	201	–	890	–
g) Net amount of financial instruments I and II = e) – f)	4	4,855	–	6,038

[1] Of which for positive fair values €2,390m (previous year: €2,553m) 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	30.9.2018		31.12.2017	
	Repos	Negative fair values of derivative financial instruments	Repos	Negative fair values of derivative financial instruments
Gross amount of financial instruments	59,301	89,315	26,091	101,810
Book values not eligible for netting	6,508	1,171	5,248	675
a) Gross amount of financial instruments I and II	52,794	88,144	20,843	101,135
b) Amount netted in the balance sheet for financial instruments I[1]	18,084	44,706	13,912	51,103
c) Net amount of financial instruments I and II = a) – b)	34,710	43,438	6,931	50,032
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]	3,291	25,137	379	29,662
Fair value of financial collateral relating to financial instruments I and II not already accounted for in b)[3]				
Non-cash collateral[4]	20,039	687	6,320	934
Cash collateral	6,759	11,562	1	13,358
e) Net amount of financial instruments I and II = c) – d)	4,621	6,051	231	6,078
f) Fair value of financial collateral of central counterparties relating to financial instruments I	4,558	–	231	–
g) Net amount of financial instruments I and II = e) – f)	63	6,051	–	6,078

[1] Of which for negative fair values €4,057m (previous year: €3,789m) 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).

(35) Derivatives

The total effect of netting amounted to €48,765m (previous year: €54,892m). On the assets side €46,373m of this was attributable to positive fair values (previous year: €52,339m) and €2,390m to variation margins received (previous year: €2,553m). Netting on the liabilities side involved negative fair values of €44,706m (previous year: €51,103m) and liabilities for variation margins payable of €4,057m (previous year: €3,789m).

(36) Maturities of liabilities

In the maturity breakdown, we show the residual terms of non-derivative financial obligations that are subject to contractual maturities. The values are presented based on undiscounted cash flows. As a result, a reconciliation with the values in the balance sheet in principle is not possible. Derivative obligations – held for trading are reported in the shortest maturity range. Negative fair values of derivative hedging instruments are reported on the basis of their fair values in the relevant maturity range. The residual term is defined as the period between the balance sheet date and the contractual maturity date of the financial instruments. We present information on the management of liquidity risks in the interim management report.

30.9.2018	Residual terms			
€m	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years
Financial Assets – Amortised Cost	251,086	30,903	40,244	44,529
Financial Assets – Fair Value Option	42,399	1,940	2,544	1,909
Financial Assets – Held for Trading	3,975	2,561	1,647	149
Derivatives – Held for Trading	43,230	–	–	–
Negative fair values of derivative hedging instruments	1	4	140	1,235
Financial guarantees	2,201	–	–	–
Irrevocable lending commitments	80,700	–	–	–
Total	**423,590**	**35,407**	**44,575**	**47,821**

31.12.2017[1]	Residual terms			
€m	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years
Financial Liabilities – Amortised Cost	229,964	30,597	49,576	44,450
Financial Liabilities – Fair Value Option	12,494	716	569	1,385
Financial Liabilities – Held for Trading	4,077	2,388	1,435	132
Derivatives – Held for Trading	48,452	–	–	–
Negative fair values of derivative hedging instruments	5	2	164	2,085
Financial guarantees	2,024	–	–	–
Irrevocable lending commitments	79,965	–	–	–
Total	**376,980**	**33,703**	**51,745**	**48,052**

[1] Prior-year figures adjusted due to restatements (see note 3).

Notes to the balance sheet (non-financial instruments)

(37) Intangible assets

€m	30.9.2018	31.12.2017	Change in %
Goodwill	1,507	1,507	.
Other intangible assets	1,749	1,806	–3.1
Customer relationships	188	219	–13.9
In-house developed software	1,139	1,121	1.5
Purchased software and other intangible assets	423	466	–9.3
Total	**3,256**	**3,312**	**–1.7**

(38) Fixed assets

€m	30.9.2018	31.12.2017	Change in %
Land and buildings	329	422	–22.0
Office furniture and equipment	450	490	–8.0
Leased equipment	740	688	7.6
Total	**1,520**	**1,600**	**–5.0**

(39) Non current assets held for sale and assets of disposal groups

€m	30.9.2018	31.12.2017	Change in %
Financial Assets – Amortised Cost	216	n/a	
Loans and advances	205	n/a	
Debt instruments	11	n/a	
Financial Assets – Loans and Receivables	n/a	7	
Loans and advances	n/a	7	
Financial Assets – Available for Sale	n/a	54	
Equity instruments	n/a	54	
Financial Assets – Fair Value Option	–	18	.
Debt instruments	–	18	.
Financial Assets – Mandatorily Fair Value P&L	18	n/a	
Debt instruments	18	n/a	
Fixed assets	78	–	.
Other assets	34	–	.
Total	**347**	**78**	**.**

In all cases of non-current assets held for sale and assets of disposal groups, sales agreements have either already been concluded or will be concluded shortly. The contracts are expected to be fulfilled in the course of 2018.

In the Private and Small Business Customers segment, a decision was made in the fourth quarter of 2017 to place shares in closed investment funds. This transaction was closed in the first quarter of 2018 and the shares were derecognised.

In the Business Segment Corporate Clients, loans assigned to the amortised cost category (formerly loans and receivables) were classified as held for sale in the third quarter of 2017 and reclassified accordingly. This transaction was closed in the first quarter of 2018 and the loans were derecognised.

In the first quarter of 2018, a loan portfolio assigned to the category mandatorily fair value P&L in the Asset & Capital Recovery segment was newly categorised as held for sale and reclassified accordingly. This transaction was closed in the second quarter of 2018 and the loans were derecognised.

In the Private and Small Business Customers segment, the sale of ebase GmbH (European Bank for Financial Services GmbH), a wholly owned subsidiary of comdirect bank Aktiengesellschaft, Quickborn, based in Aschheim near Munich, was agreed in the second quarter of 2018. The purchaser is FNZ Group, a financial technology company based in London, United Kingdom. ebase GmbH offers multi-client-capable brokerage and banking solutions for asset accumulation and investments. Its client base includes financial distributors, insurance companies, banks and asset managers. The closing of the transaction is subject to the approval of the supervisory authorities.

Additionally, properties held as fixed assets were classified in the course of the financial year as non-current assets held for sale, measured at amortised cost.

(40) Liabilities from disposal groups held for sale

€m	30.9.2018	31.12.2017	Change in %
Financial Liabilities – Amortised Cost	430	–	.
Other liability items	18	–	.
Total	**448**	**–**	**.**

The liabilities from disposal groups held for sale are in connection with the sale of ebase GmbH (see Note 39).

(41) Other assets

€m	30.9.2018	31.12.2017	Change in %
Precious metals	17	23	–24.5
Accrued and deferred items	254	218	16.9
Defined benefit assets recognised	392	390	0.3
Other assets	1,241	1,331	–6.8
Total	**1,904**	**1,961**	**–2.9**

(42) Other liabilities

€m	30.9.2018	31.12.2017	Change in %
Liabilities attributable to film funds	311	1,004	–69.1
Liabilities attributable to non-controlling interests	67	100	–33.1
Accrued and deferred items	298	274	9.0
Other liabilities	1,483	1,646	–9.9
Total	**2,159**	**3,024**	**–28.6**

(43) Provisions

€m	30.9.2018	31.12.2017	Change in %
Provisions for pensions and similar commitments	874	890	–1.8
Other provisions	2,212	2,401	–7.9
Total	**3,086**	**3,291**	**–6.2**

The provisions for pensions and similar commitments relate primarily to direct pension commitments in Germany (see page 220 ff. of the Annual Report 2017). The actuarial assumptions underlying these obligations at 30 September 2018 were: a discount rate of 2,0% (previous year: 1,9%) and, similar to the previous year, an adjustment to pensions of 1,6%.

The application of the updated Heubeck mortality tables 2018G led to a one-off measurement effect for the pension plan in Germany in the financial year due to changes in demographic assumptions, which caused the pension obligation to increase. For the first time, the mortality tables take the connection between the level of income and life expectancy into account. As income rises, life expectancy also tends to rise. This relationship is reflected by a flat socio-economic factor applied across the board in the mortality tables. This resulted in a negative measurement effect of €84m in the financial year, which was recognised in other comprehensive income.

Other provisions consisted primarily of restructuring provisions and provisions for personnel-related matters. The provisions created for restructuring purposes amounted to €688m (previous year: €850m). We expect these provisions to be utilised in the period from 2018 to 2020.

Legal disputes

With respect to legal proceedings and potential recourse claims for which provisions of €280m (previous year: €301m) 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. 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. Commerzbank anticipates the recovery of the corresponding charges by its customers.
- 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.
- An investor is claiming compensation from Commerzbank and other defendants due to an alleged incorrect prospectus in connection with the flotation of a company on the stock market. In addition, the company’s insolvency administrator has raised recourse claims against the Bank arising from its joint liability and for other legal reasons. The action was rejected by the court of first instance. The claimants are appealing against this decision. The proceedings were concluded while under appeal before the Hamburg Higher Regional Court in May 2018 by means of a settlement.
- 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. The case is ongoing.
- A subsidiary of Commerzbank was sued by a customer in May 2014 for compensation due to alleged fraudulent misselling of derivative transactions. The subsidiary has defended itself against the claim.
- A class action lawsuit was granted in May 2017 against a Commerzbank subsidiary, and a notice of initiation of the class action proceedings was published. The subject matter of the lawsuit is the alleged ineffectiveness of index clauses in loan agreements denominated in foreign currency. 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.

- A customer has sued Commerzbank for alleged false advice in connection with an interest derivative. Commerzbank has defended itself against the claim. In July 2018 the parties reached a settlement in a mediation procedure. The court must now adopt this settlement. The Bank anticipates the litigation will be fully resolved by the end of the year.
- 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.
- 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

(44) 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	30.9.2018	31.12.2017	Change in %
Contingent liabilities	38,409	36,179	6.2
Banks	7,404	6,669	11.0
Corporate clients	27,446	26,570	3.3
Private customers	594	291	.
Other financial corporations	2,857	2,531	12.9
General governments	109	117	–7.1
Lending commitments	80,625	79,896	0.9
Banks	1,251	1,382	–9.5
Corporate clients	59,332	59,543	–0.4
Private customers	10,392	10,618	–2.1
Other financial corporations	9,462	8,130	16.4
General governments	187	222	–16.0
Total	**119,034**	**116,074**	**2.5**

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 September 2018, the contingent liabilities for legal and tax risks amounted to €1,038m (previous year: €558m) 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 Bank believes the claims are unfounded.
- During the bankruptcy proceedings of a former customer, Commerzbank has been sued together with the customer's managing directors and other persons and companies on the basis of joint and several liability for alleged fraudulent bankruptcy. The action was rejected in the court of first instance insofar as it affected Commerzbank. The court ruled that although the bankruptcy could be regarded as fraudulent

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in accounting terms, there was no fraud in relation to the financing transactions. The claimants have lodged an appeal on point of law against the judgement of the appellate court of May 2016. The appeal was rejected in September 2018 in favour of the Bank.

- Commerzbank held 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 the Commerzbank Group and others for repayment of the proceeds it received from the sale of its stake. Two of these suits were rejected on appeal. Whether the appeal will be upheld on review has not yet been decided. A third suit has in the meantime been dismissed, in favour of the banking consortium. This decision is being appealed.
- 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. Commerzbank will defend itself against the action. Irrespective of the action described above, one group company of the Hungarian borrower sued the Bank for damages in November 2017. Commerzbank considers the action to be unfounded and will defend itself accordingly.
- A customer sued Commerzbank for recovery of monies in April 2016. The claimant is demanding 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.
- Supervisory authorities and other relevant authorities in a number of countries have been investigating market manipulation and irregularities in connection with exchange rate fixing and the foreign exchange market in general for some 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 securities lending transactions, Commerzbank is exposed to compensation claims from third parties for crediting entitlements that have been denied. In this respect a lawsuit had been initially filed in one case. In the meantime, it has been withdrawn. 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, including interest on arrears.

For the other cum-cum-relevant transactions, Commerzbank has concluded that no inappropriate legal structuring is present 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

(45) 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. A modification to the business model of the Corporate Clients segment in the first quarter of 2018 led to minor changes in business responsibilities; tasks related to sales assistance were transferred to the support functions. Owing to changes in customer relationship management associated with the Commerzbank 4.0 strategy, customer transfers between the Corporate Clients and the Private and Small-Business Customers segments occurred in the third quarter of 2018. The prior-year figures have been restated accordingly. Further information on the segments is provided in the management report section of this interim report. In 2018, the Commerzbank Group implemented the new requirements of IFRS 9 (see note 5). The effects of this implementation are also reflected in the Group's segment reporting. The operating segments' capital requirement for risk-weighted assets based on the fully phased-in application of Basel 3 regulations is 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 Business Segment Asset & Capital Recovery. The prior-year figures have been restated accordingly.

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 in 2018 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 and loss, net income from hedge accounting, other net gain or loss from financial instruments, current net income from companies accounted for using the equity method and other net income less operating expenses. The operating profit does not include impairments of goodwill and other intangible assets or restructuring expenses. The Group has reported its prior-year figures based on the IAS 39measurement categories, which the figures reported as at 31 December 2017 also used. 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. For 2018, it calculated from the ratio of operating expenses to income before the risk result. For 2017, it is calculated from the ratio of operating expenses to income before loan loss provisions.

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 rate 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. At Group level, Common Equity Tier 1 (CET 1) capital is shown, which is used to calculate the operating return on equity. The calculation for both the segments and the Group is based on a fully phased-in application of Basel 3 regulations. The reconciliation of average capital employed in the segments to the Group's CET 1 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, other operating expenses as well as 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 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.

1.1-30.9.2018 €m	**Private and Small Business Customers**	**Corporate Clients**	**Asset & Capital Recovery**	**Others and Consolidation**	**Group**
Net interest income	1,910	1,229	48	217	3,405
Dividend income	11	11	1	7	30
Risk result	– 184	– 124	15	– 1	– 295
Net commission income	1,462	886	1	– 20	2,329
Net income from financial assets and liabilities at fair value through profit or loss	134	704	113	– 160	791
Net income from hedge accounting	– 2	–	–	28	26
Other realised profit or loss from financial instruments	40	– 4	– 47	5	– 6
Current net income from companies accounted for using the equity method	–	10	–	–	9
Other net income	88	–	19	38	144
Income before risk result	*3,642*	*2,836*	*135*	*115*	*6,727*
Income after risk result	*3,457*	*2,712*	*150*	*114*	*6,432*
Operating expenses	2,893	2,189	60	271	5,412
Operating profit or loss	**564**	**523**	**90**	**– 157**	**1,020**
Restructuring expenses	–	–	–	–	–
Pre-tax profit or loss	**564**	**523**	**90**	**– 157**	**1,020**
Assets	**136,646**	**189,910**	**18,365**	**148,301**	**493,222**
Liabilities	**164,969**	**193,110**	**16,558**	**118,585**	**493,222**
Carrying amount of companies accounted for using the equity method	**30**	**150**	**1**	**–**	**181**
Average capital employed[1]	**4,701**	**10,966**	**2,263**	**4,817**	**22,747**
Operating return on equity (%)[2]	**16.0**	**6.4**	**5.3**	**–**	**6.0**
Cost/income ratio in operating business (%)	**79.5**	**77.2**	**44.3**	**–**	**80.5**

[1] Average CET 1 capital with full application of Basel 3. Reconciliation carried out in Others & Consolidation.
[2] Annualised.

1.1-30.9.2017[1] €m	Private and Small Business Customers	Corporate Clients	Asset & Capital Recovery	Others and Consolidation	Group
Net interest income	1,725	1,305	108	– 47	3,091
Dividend income	14	22	–	35	72
Loan loss provisions	– 130	– 123	– 277	–	– 530
Other realised profit or loss and net remeasurement gain or loss	– 4	– 20	– 27	5	– 46
Net commission income	1,482	943	1	– 23	2,404
Net income from financial assets and liabilities at fair value through profit or loss	112	712	69	22	914
Net income from hedge accounting	– 2	– 6	– 28	– 61	– 97
Other realised profit or loss from financial instruments	104	22	–	49	174
Current net income from companies accounted for using the equity method	2	19	–	–	21
Other net income	203	16	23	179	422
Income before loan loss provisions	*3,636*	*3,015*	*146*	*158*	*6,955*
Income after loan loss provisions	*3,506*	*2,891*	*– 130*	*159*	*6,425*
Operating expenses	2,794	2,148	79	275	5,297
Operating profit or loss	**712**	**743**	**– 210**	**– 117**	**1,128**
Restructuring expenses	–	–	–	807	807
Pre-tax profit or loss	**712**	**743**	**– 210**	**– 924**	**321**
Assets	**125,528**	**189,753**	**23,583**	**151,061**	**489,925**
Liabilities	**149,196**	**215,009**	**19,264**	**106,456**	**489,925**
Carrying amount of companies accounted for using the equity method	**11**	**171**	**1**	**–**	**182**
Average capital employed[2]	**4,451**	**11,596**	**3,063**	**4,341**	**23,451**
Operating return on equity (%)[3]	**21.3**	**8.5**	**– 9.1**	**–**	**6.4**
Cost/income ratio in operating business (%)	**76.8**	**71.3**	**54.2**	**–**	**76.2**

[1] Prior-year figures adjusted due to restatements (see note 3).
[2] Average CET 1 capital with full application of Basel 3. Reconciliation carried out in Others & Consolidation.
[3] Annualised.

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Details for Others and Consolidation:

€m	1.1.-30.9.2018		
	Others	Consolidation	Others and Consolidation
Net interest income	185	32	217
Dividend income	4	3	7
Risk result	– 1	–	– 1
Net commission income	– 17	– 3	– 20
Net income from financial assets and liabilities at fair value through profit or loss	– 169	9	– 160
Net income from hedge accounting	28	–	28
Other realised profit or loss from financial instruments	6	– 1	5
Current net income from companies accounted for using the equity method	–	–	–
Other net income	50	– 13	38
Operating expenses	287	– 16	271
Operating profit or loss	**– 199**	**42**	**– 157**
Assets	**147,841**	**460**	**148,301**
Liabilities	**118,306**	**279**	**118,585**

€m	1.1.-30.9.2017[1]		
	Others	Consolidation	Others and Consolidation
Net interest income	– 63	17	– 47
Dividend income	35	–	35
Loan loss provisions	–	–	–
Other realised profit or loss and net remeasurement gain or loss	– 9	13	5
Net commission income	– 20	– 3	– 23
Net income from financial assets and liabilities at fair value through profit or loss	15	7	22
Net income from hedge accounting	– 61	–	– 61
Other realised profit or loss from financial instruments	50	– 1	49
Current net income from companies accounted for using the equity method	–	–	–
Other net income	195	– 16	179
Operating expenses	301	– 26	275
Operating profit or loss	**– 159**	**42**	**– 117**
Assets	**150,722**	**339**	**151,061**
Liabilities	**106,140**	**316**	**106,456**

[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” and 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 loan loss provisions and credit-risk-weighted assets (phase-in). 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.-30.9.2018 €m	**Germany**	**Europe without Germany**	**Americas**	**Asia**	**Others**	**Total**
Operating profit or loss before risk result	4,611	1,843	74	199	–	6,727
Risk assets without credit risks (phase-in)	87,410	47,322	4,469	5,033	–	144,234

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

1.1.-30.9.2017 €m	**Germany**	**Europe without Germany**	**Americas**	**Asia**	**Others**	**Total**
Operating profit or loss before loan loss provisions	4,969	1,724	94	168	–	6,955
Risk assets without credit risks (phase-in)	85,690	45,738	4,176	3,415	–	139,019

[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

(46) Regulatory capital requirements

The overview below of the composition of the Commerzbank Group's capital shows the figures on both a phase-in (currently used) and a fully phased-in basis. The reconciliation of equity reported in the balance sheet with regulatory capital is already integrated in these figures.

Position €m	30.9.2018 Phase-in	31.12.2017 Phase-in	30.9.2018 Fully phased-in	31.12.2017 Fully phased-in
Equity as shown in balance sheet	**29,556**	**30,041**	**29,556**	**30,041**
Effect from debit valuation adjustments	– 163	– 86	– 163	– 108
Correction to revaluation reserve	–	114	–	–
Correction to cash flow hedge reserve	26	54	26	54
Correction to phase-in (IAS 19)	–	260	–	–
Correction to non-controlling interests (minorities)	– 430	– 421	– 430	– 495
Goodwill	– 1,507	– 1,507	– 1,507	– 1,507
Intangible assets	– 1,326	– 1,381	– 1,326	– 1,381
Surplus in plan assets	– 318	– 257	– 318	– 322
Deferred tax assets from loss carryforwards	– 713	– 566	– 713	– 707
Shortfall due to expected loss	– 153	– 608	– 153	– 676
Prudential valuation	– 464	– 264	– 464	– 264
Direct, indirect and synthetic positions of the Bank's own instruments in Core Tier 1	– 17	– 49	– 17	– 60
First loss positions from securitisations	– 196	– 213	– 196	– 213
Advance payment risks	– 26	–	– 26	–
Allocation of components from additional Equity Tier 1	–	647	–	–
Deferred tax assets from temporary differences which exceed the 10% threshold	– 447	– 110	– 447	– 278
Dividend accrued	– 188	–	– 188	–
Others and rounding	– 97	– 47	– 97	– 45
Common Equity Tier 1[1]	**23,537**	**25,607**	**23,537**	**24,039**
Additional Equity Tier 1[2]	**903**	**378**	**–**	**–**
Tier 1 capital	**24,440**	**25,985**	**23,537**	**24,039**
Tier 2 capital	**5,522**	**5,404**	**5,711**	**5,808**
Equity	**29,962**	**31,389**	**29,248**	**29,847**
Risk-weighted assets	178,360	171,369	178,360	171,019
of which credit risk	144,234	137,486	144,234	137,136
of which market risk[3]	12,441	12,842	12,441	12,842
of which operational risk	21,685	21,041	21,685	21,041
Common Equity Tier 1 ratio (%)	13.2%	14.9%	13.2%	14.1%
Equity Tier 1 ratio (%)	13.7%	15.2%	13.2%	14.1%
Total capital ratio (%)	16.8%	18.3%	16.4%	17.5%

[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; until 31 December 2017 after offsetting of the corresponding deductions.
[3] Includes credit valuation adjustment risk.

The table reconciles reported equity to Common Equity Tier 1 (CET 1) and the other components of core capital and regulatory capital. The primary changes in CET 1 compared with 31 December 2017 were due to two factors: the introduction of IFRS 9, which made a difference around €–1.8bn, and the conclusion of the Basel 3 transitional provisions, which accounted for a change in the amount of €–1.4bn. The decline in the capital ratios on the comparable values at year-end resulted primarily from the decrease in regulatory equity, driven by the aforementioned effects and strengthened by the increase in risk-weighted assets.

(47) 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 is 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.

Leverage ratio according to revised CRR (delegated act)	30.9.2018[1]	31.12.2017	Change in %
Leverage exposure "Phase-in" (€m)	519,406	471,317	10.2
Leverage exposure "Fully phase-in" (€m)	519,406	470,491	10.4
Leverage ratio "Phase-in" (%)	4.7	5.5	
Leverage ratio "Fully phase-in" (%)	4.5	5.1	

[1] Differences between fully phased-in and phase-in LR solely due to Tier 1 capital; Transitional agreements for the Leverage Ratio Exposure expired end of 2017.

(48) 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 EU 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. It has been reported to the supervisory authorities in this form since 30 September 2016. The CRR stipulates that the LCR has to be at least 80% for 2017 and at least 100% from 1 January 2018 onwards. Commerzbank has included the LCR in the internal liquidity risk model as a binding secondary condition, and the development of the LCR is regularly monitored.

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 current reporting year 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.

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		Total unweighted value (average)			
€m		31.12.2017	31.3.2018	30.6.2018	30.9.2018
	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:	101,885	104,422	107,120	110,251
3	Stable deposits	68,617	71,861	74,749	76,609
4	Less stable deposits	33,262	32,557	32,369	33,641
5	Unsecured wholesale funding	107,061	107,041	105,550	105,164
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	33,722	34,619	35,520	35,397
7	Non-operational deposits (all counterparties)	72,000	71,172	68,686	68,279
8	Unsecured debt	1,340	1,251	1,343	1,489
9	Secured wholesale funding				
10	Additional requirements	85,597	85,719	85,143	85,296
11	Outflows related to derivative exposures and other collateral requirements	10,404	10,140	9,740	9,349
12	Outflows related to loss of funding on debt products	182	142	257	210
13	Credit and liquidity facilities	75,011	75,437	75,146	75,737
14	Other contractual funding obligations	1,612	1,594	1,720	2,489
15	Other contingent funding obligations	98,857	102,231	105,722	108,923
16	**TOTAL CASH OUTFLOWS**				
CASH INFLOWS					
17	Secured lending (e.g. reverse repos)	69,603	67,758	65,900	64,627
18	Inflows from fully performing exposures	27,431	27,712	27,556	27,553
19	Other cash inflows	3,232	2,934	2,778	3,542
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**	**100,267**	**98,403**	**96,234**	**95,722**
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**	**89,904**	**90,321**	**89,822**	**89,590**
21	**LIQUIDITY BUFFER**				
22	**TOTAL NET CASH OUTFLOWS**				
23	**LIQUIDITY COVERAGE RATIO**				

		Total weighted value (average)			
€m		31.12.2017	31.3.2018	30.6.2018	30.9.2018
	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)	95,086	93,791	89,955	87,797
Cash-Outflows					
2	Retail deposits and deposits from small business customers, of which:	7,043	7,119	7,238	7,466
3	Stable deposits	3,431	3,593	3,737	3,830
4	Less stable deposits	3,606	3,523	3,499	3,635
5	Unsecured wholesale funding	54,187	53,647	52,302	52,252
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	8,405	8,631	8,855	8,826
7	Non-operational deposits (all counterparties)	44,442	43,766	42,104	41,938
8	Unsecured debt	1,340	1,251	1,343	1,489
9	Secured wholesale funding	5,384	5,188	4,733	4,877
10	Additional requirements	24,915	24,592	24,089	23,730
11	Outflows related to derivative exposures and other collateral requirements	9,733	9,410	8,953	8,569
12	Outflows related to loss of funding on debt products	182	142	257	210
13	Credit and liquidity facilities	15,000	15,040	14,880	14,951
14	Other contractual funding obligations	834	950	1,031	1,668
15	Other contingent funding obligations	688	682	677	674
16	**Total Cash Outflows**	**93,051**	**92,179**	**90,070**	**90,667**
Cash-Inflows					
17	Secured lending (e.g. reverse repos)	4,126	3,702	3,493	3,974
18	Inflows from fully performing exposures	19,901	20,160	20,043	20,100
19	Other cash inflows	3,093	2,789	2,650	3,424
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**	**27,120**	**26,651**	**26,186**	**27,498**
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**	**27,120**	**26,651**	**26,186**	**27,498**
21	**Liquidity Buffer**	**95,086**	**93,791**	**89,955**	**87,797**
22	**Total Net Cash Outflows**	**65,931**	**65,528**	**63,884**	**63,169**
23	**Liquidity Coverage Ratio**	**144.61%**	**143.42%**	**140.99%**	**139.13%**

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 80% for 2017 and 100% for 2018. The composition of the highly liquid assets available to cover the liquidity outflows in the reporting period is set out:

Highly liquid assets in accordance with EU/2015/61 (average of the last 12 month-end values) | €m	**31.12.2017**	**31.3.2018**	**30.6.2018**	**30.9.2018**
Total:	95,086	93,791	89,955	87,797
thereof Level 1	86,980	86,720	83,025	80,834
thereof Level 2A	6,695	5,893	6,042	6,103
thereof Level 2B	1,411	1,178	888	860

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.

(49) Related party transactions

As part of its normal business, Commerzbank Aktiengesellschaf 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. Consequently, the German federal government and entities controlled by it constitute related parties as defined by IAS 24.

Transactions with non-consolidated subsidiaries

The assets relating to non-consolidated subsidiaries in the amount of €268m (previous year: €289m) as at 30 September 2018 comprised mainly loans and receivables. Related liabilities in the amount of €287m (previous year: €201m) largely comprised deposits.

The income of €26m (previous year's period: €34m) comprised interest income. The expenses in the amount of €1m (previous year's period: €57m) were mostly operating expenses.

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

Transactions with associated companies

The assets relating to associated companies in the amount of €23m (previous year: €12m) as at 30 September 2018 comprised mainly loans and receivables. Related liabilities in the amount of €49m (previous year: €42m) largely comprised deposits.

The income of €27m (previous year's period: €107m) 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: €54m).

Transactions with other related entities/persons

The assets pertaining to other related entities/persons as at 30 September 2018 in the amount of €57m (previous year: €121m) included primarily loans and receivables as well as securitised debt instruments. The liabilities in the amount of €205m (previous year: €230m) largely comprised deposits. The deposits were mostly attributable to external providers of occupational pensions.

As at 30 September 2018, the income was €2m (previous year's period: €66m).

In the course of its ordinary banking activities, the Bank granted guarantees and collateral totalling €0m (previous year: €1m).

Transactions with key management personnel

As at 30 September 2018, there were no significant assets or liabilities relating to key management personnel.

The expenses represent personnel expenses in the amount of €12m (previous year's period: €14m) 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 September 2018 in the amount of €36,767m (previous year: €28,558m) comprised primarily balances with Deutsche Bundesbank totalling €32,156m (previous year: €25,592m). Of the liabilities related to entities controlled by the German federal government in the amount of €14,353m (previous year: €13,383m), €14,271m (previous year: €12,550m) were deposits. As at 30 September 2018, the Bank had granted guarantees and collateral totalling €102m to entities controlled by the German federal government (previous year: €309m).

Boards of Commerzbank Aktiengesellschaft

Supervisory Board

Dr. Stefan Schmittmann
Chairman
(since 8.5.2018)

Klaus-Peter Müller
Chairman
(until 8.5.2018)

Uwe Tschäge[1]
Deputy Chairman

Hans-Hermann Altenschmidt[1]
(until 8.5.2018)

Heike Anscheit[1]

Alexander Boursanoff[1]
(since 8.5.2018)

Gunnar de Buhr[1]

Stefan Burghardt[1]

Sabine U. Dietrich

Monika Fink[1]
(since 8.5.2018)

Karl-Heinz Flöther
(until 8.5.2018)

Dr. Tobias Guldimann

Dr. Rainer Hillebrand
(since 8.5.2018)

Christian Höhn[1]
(since 8.5.2018)

Stefan Jennes[1]
(until 8.5.2018)

Kerstin Jerchel[1]
(since 8.5.2018)

Dr. Markus Kerber

Alexandra Krieger[1]

Oliver Leiberich[1]
(until 8.5.2018)

Dr. Stefan Lippe
(until 8.5.2018)

Beate Mensch[1]
(until 8.5.2018)

Anja Mikus

Dr. Victoria Ossadnik
(since 8.5.2018)

Dr. Helmut Perlet
(until 8.5.2018)

Mark Roach[1]
(until 8.5.2018)

Robin J. Stalker
(since 8.5.2018)

Nicholas Teller

Dr. Gertrude Tumpel-Gugerell

Stefan Wittmann[1]
(since 8.5.2018)

Klaus-Peter Müller
Honorary Chairman
(since 8.5.2018)

[1] Elected by the Bank´s employees.

Board of Managing Directors

Martin Zielke
Chairman

Frank Annuscheit

Dr. Marcus Chromik

Stephan Engels

Michael Mandel

Dr. Bettina Orlopp

Michael Reuther

Frankfurt/Main, 5. November 2018
The Board of Managing Directors

Martin Zielke

Frank Annuscheit

Marcus Chromik

Stephan Engels

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, comprising the statement of comprehensive income, the balance sheet, the statement of changes in equity, the 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 September 2018, which are part of the interim financial report pursuant to Sec. 115 (7) in conjunction with (2) No. 1 and No. 2 and (3) and (4) WpHG ["Wert–papierhandelsgesetz": German Securities Trading Act]. 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 group management report in accordance with the requirements of the WpHG applicable to interim group management reports is the responsibility of the Company's management. 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 the interim group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschafts¬prüfer [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 provisions of the WpHG applicable to interim group management reports. A review is limited primarily to making inquiries of company personnel and applying analytical procedures and thus does not provide the assurance that we would obtain from an audit of financial statements. In accordance with our engagement, we have not performed an audit and, accordingly, we do not express an audit opinion.

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. November 2018

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, Eschborn

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, Ostrava (office), 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, Mumbai, New York (FI Desk), Panama City, São Paulo (FI Desk), Seoul, Shanghai (FI Desk), Singapore (FI Desk), Taipei, Tashkent, Tbilisi, 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 Financial calendar	
14 February 2019	Annual Results Press Conference
End-March 2019	Annual Report 2018
8 May 2019	Interim Report as at 31 March 2019
22 May 2019	Annual General Meeting
7 August 2019	Interim Report as at 30 June 2019
7 November 2019	Interim Report as at 30 September 2019

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