



**Commerzbank AG Hong Kong Branch
Financial Disclosure for the year ended 31 December 2019**

COMMERZBANK AG
HONG KONG BRANCH
(Expressed in HKD'000)



I. Income Statement Information

	<u>1. Jan - 31. Dec. 2019</u>	<u>1. Jan - 31. Dec. 2018</u>
Interest income	350,902	286,431
Interest expense	(252,773)	(148,800)
Other operating income		
- Net Gains / (Losses) arising from trading in foreign currencies	135,263	181,851
- Net Gains / (Losses) on securities held for trading purposes	-	-
- Net Gains / (Losses) from trading in interest rate derivatives	(131,126)	(171,150)
- Net fees and commission income	59,559	111,893
- <i>gross fees and commission income</i>	69,314	144,842
- <i>gross fees and commission expenses</i>	(9,755)	(32,949)
- Income from non-trading investments	(94)	783
- Gains from available-for-sale investment securities at fair value through profit or loss	-	-
- Profit/(loss) on sale of fixed assets	133	-
- Others	74,037	275,511
Operating expenses		
- Rental expenses	(19,277)	(17,154)
- Staff expenses	(148,712)	(176,546)
- Other operating expenses	(171,197)	(254,050)
Impairment releases / (losses and provisions) for impaired loans and receivables	(7,941)	(1,011)
Impairment losses on assets	-	-
Losses from the disposal of property, plant and equipment and investment properties	-	-
Profit / (Loss) before taxation	(111,226)	87,758
Tax expense	-	(3,471)
Profit / (Loss) after taxation	(111,226)	84,287

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II. Balance Sheet Information

	ASSETS		LIABILITIES	
	<u>31-Dec-19</u>	<u>30-Jun-19</u>	<u>31-Dec-19</u>	<u>30-Jun-19</u>
(i) Cash and balances with banks (except those included in item (iii))	173,834	55,502	350,000	1,930,825
(ii) Amount due from Exchange Fund	46,682	9,934	-	900,000
(iii) Placements with banks which have a residual contractual maturity of more than one month but not more than 12 months (except those included in item (iii))	-	-	1,799,595	1,371,487
			<i>- Demand deposits and current accounts</i>	<i>1,042,303</i>
			<i>- Savings deposits</i>	<i>-</i>
			<i>- Time, call and notice deposits</i>	<i>757,292</i>
(iv) Amount due from overseas offices of the institution	12,256,907	8,424,302	19,828,724	12,751,168
(v) Trade bills	-	-	-	-
(vi) Certificates of deposit held	-	-	-	-
(vii) Securities held for trading purposes	-	-	707,965	884,607
(viii) Loans and receivables	9,226,511	8,357,810	22,838	16,174
(ix) Investment securities	999,160	998,680		
(x) Other investments	-	-		
(xi) Property, plant and equipment and investment properties	6,028	8,033		
(xii) Total assets	<u>22,709,122</u>	<u>17,854,261</u>	<u>22,709,122</u>	<u>17,854,261</u>
			Total liabilities	<u>17,854,261</u>

III. Additional Balance Sheet Information

	<u>31-Dec-19</u>	<u>30-Jun-19</u>
(i) Loans and receivables		
- loans and advances to customers	8,278,201	7,370,812
- loans and advances to banks	185,707	145,932
- other accounts	762,603	841,066
- <i>accrued interest</i>	56,484	67,708
- <i>others</i>	706,119	773,358
- provisions for impaired loans and receivables to customers which constitute the institution's		
- collective impairment allowances	17,436	12,847
- individual impairment allowances	-	-
- provisions for impaired loans and receivables to bank which constitute the institution's		
- collective impairment allowances	658	269
- individual impairment allowances	-	-
-provisions made by the head office against the exposures of the Branch		
- collective impairment allowances	-	-
- individual impairment allowances	-	-
(ii) Amount of loans and advances to customers on which individual impairment allowances made in respect of such loans and advances		
a. amount of impaired loans and advances to customers which are individually determined to be impaired	-	-
b. amount of individual impairment allowances made for such loans and advances	-	-
c. value of collateral which has been taken into account in respect of such loans and advances to which the individual impairment allowances relate	-	-
d. percentage of such loans and advances to the total amount of loans and advances to customers	0.00%	0.00%

During the period, there were no loans and advances to banks which are individually determined to be impaired.

(iii) Analysis of impaired loans and advances to customers by countries of location:

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III. Additional Balance Sheet Information

(iv) Analysis of gross amount of loans and advances to customers:

- Loans and advances for use in Hong Kong

	<u>31-Dec-19</u>	<u>31-Dec-19</u>	<u>30-Jun-19</u>	<u>30-Jun-19</u>
	Outstanding Balance	Balance Covered by Collateral	Outstanding Balance	Balance Covered by Collateral
Industrial, commercial and financial				
- Property development	-	-	-	-
- Property investment	-	-	-	-
- Financial concerns	2,110,210	-	1,178,415	-
- Stockbrokers	-	-	-	-
- Wholesale and retail trade	364,536	-	304,165	-
- Manufacturing	2,321,696	-	2,440,044	-
- Transport and transport equipment	4,913	-	5,157	-
- Recreational activities	-	-	-	-
- Information technology	-	-	-	-
- Electricity and gas	-	-	-	-
- Civil engineering works	24,000	-	24,000	-
- Others	2,083	-	266,601	-

Individuals

- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes
- Loans for the purchase of other residential properties
- Credit card advances
- Others

- Trade finance

32,934

- Loans and advances for use outside Hong Kong

3,417,829

660,619

3,152,430

717,730

8,278,201

660,619

7,370,812

717,730

III. Additional Balance Sheet Information

31-Dec-19 30-Jun-19

(v) Geographical analysis of gross loans and advances to customers

The following geographical analysis of gross loans and advances to customers is classified in accordance with the location of the counterparties.

Asia & Pacific:		
China	594,896	506,518
Hong Kong	4,860,372	4,218,379
New Zealand	217,175	236,980
North America:		
United States	222,297	249,108
Europe:		
Sweden	279,914	284,371
Netherlands	583,984	585,672
Germany	-	3
Cayman Islands	1,011,015	773,134
British Virgin Islands	508,548	516,647
Gross amount of loans and advances to customers	<u>8,278,201</u>	<u>7,370,812</u>

(vi) Overdue and impaired loans and advances to customers and banks by countries where constitutes not less than 10% of the gross amount of loans and advances

(vii) Overdue and rescheduled assets

(a) gross amount of loans and advances to customers and banks which have been overdue for:

- more than 3 months but not more than 6 months
- more than 6 months but not more than one year
- more than one year

(b) amount of rescheduled loans and advances to customers and banks excluding those which have been overdue for more than 3 months and disclosed pursuant to item (vii)(a) above

(c) amount of repossessed assets held

(viii) Other assets such as trade bills and debt securities which have been overdue for

- more than 3 months but not more than 6 months
- more than 6 months but not more than one year
- more than one year

IV. Currency Risk

Foreign currency exposures other than reporting currency constitutes not less than 10% of the total net position in all foreign currencies

	<u>31-Dec-19</u>				<u>30-Jun-19</u>			
	CNY	USD	EUR	Total	CNY	USD	EUR	Total
Spot assets	186	7,725	12,468	20,379	879	4,024	11,128	16,031
Spot liabilities	(95)	(7,703)	(13,806)	(21,604)	(120)	(8,047)	(7,180)	(15,347)
Forward purchases	4,039	20,097	10,971	35,107	3,924	25,357	9,434	38,715
Forward sales	(4,106)	(20,119)	(9,594)	(33,819)	(4,669)	(21,323)	(13,354)	(39,346)
Net option position	-	-	-	-	-	-	-	-
Net long (or net short) position	24	0	39	63	14	11	28	53
Net structural position	-	-	-	-	-	-	-	-

V. International Claims

International claims by major countries or geographical segments to which not less than 10% of the total International claims are attributable after taking into account any recognised risk transfer

	Banks	Official sectors	Non-bank financial institutions	Non-bank private sector	Total
<u>As at 31 December 2019</u>					
Developed countries	12,380	-	224	1,234	13,838
of which					
- Germany	12,377	-	-	113	12,490
Offshore Centres	168	-	-	5,746	5,914
of which					
- Hong Kong	168	-	-	4,220	4,388
Developing Asia and Pacific	129	-	222	374	725
of which					
- China	-	-	222	374	596
<u>As at 30 June 2019</u>					
Developed countries	8,481	-	251	1,278	10,010
of which					
- Germany	8,471	-	-	169	8,640
Offshore Centres	44	-	-	5,125	5,169
of which					
- Hong Kong	44	-	-	3,828	3,872
Developing Asia and Pacific	129	-	233	275	637
of which					
- China	-	-	233	275	508

VI. Non-Bank Mainland Exposures

	On-balance Sheet Exposure	Off-balance Sheet Exposure	Total Exposure	Individual Impairment Allowances
<u>As at 31 Dec 2019</u>				
Central government, central government-owned entities and their subsidiaries and JVs	3,050	16	3,066	-
Local governments, local government-owned entities and their subsidiaries and JVs	-	-	-	-
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	2,651	393	3,044	-
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	-	-	-	-
Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	1,651	61	1,712	-
Total	7,352	470	7,822	-
Total assets after provision	22,686			
On-balance sheet exposures as percentage of total assets	32.41%			
<u>As at 30 Jun 2019</u>				
Central government, central government-owned entities and their subsidiaries and JVs	2,589	75	2,664	-
Local governments, local government-owned entities and their subsidiaries and JVs	-	-	-	-
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	2,334	887	3,221	-
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	-	-	-	-
Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	1,581	-	1,581	-
Total	6,504	962	7,466	-
Total assets after provision	17,838			
On-balance sheet exposures as percentage of total assets	36.46%			

	<u>31-Dec-19</u>	<u>30-Jun-19</u>
- Direct credit substitutes	505,599	473,808
- Transaction-related contingencies	257,659	341,658
- Trade-related contingencies	134,847	172,646
- Note issuance and revolving underwriting facilities	-	-
- Other commitments	4,669,294	4,922,103
- Others	-	-

VII. Off-balance Sheet Exposures (other than derivative transactions)

VIII. Derivative Transactions

Derivatives notional amounts:

- Exchange rate-related derivative contracts	39,990,094	47,188,509
- Interest rate derivative contracts	14,354,723	14,477,102
- Others	-	-

Derivatives assets:

- Exchange rate-related derivative contracts	518,554	525,144
- Interest rate derivative contracts	116,078	131,960

Derivatives liabilities:

- Exchange rate-related derivative contracts	547,739	551,604
- Interest rate derivative contracts	139,775	134,725

The above derivatives assets and liabilities, being the positive or negative marked-to-market value of the respective derivatives contracts, represent gross replacement costs. There is no bilateral netting arrangements for these derivative contracts.

IX. Liquidity maintenance ratio

Average liquidity maintenance ratio	<u>Oct - Dec 2019</u>	<u>Oct - Dec 2018</u>
	57.14%	55.95%

The above ratios are calculated based on the arithmetic mean of the average values of each calendar month for each quarter

X. Disclosure on Remuneration

Under paragraph 3.1.1.2 of SPM CG-5 "Guideline on a Sound Remuneration System", Commerzbank AG Hong Kong Branch as an overseas-incorporated Authorised Institution is not required to make separate disclosures on its own remuneration system. The Group's Annual Report will provide relevant disclosure, where appropriate.

XI. Disclosure on Liquidity Risk Management

Introduction

Commerzbank Group maintains a Liquidity Risk Governance Framework. It sets the group-wide overarching guidelines for liquidity risk management and covers all significant facets of a sound risk management in terms of risk identification, assessment, measurement, steering, mitigation, monitoring and reporting.

Governance of Liquidity Risk Management

Liquidity risk is the risk that Commerzbank Group will be unable to meet its payment obligations on a day-to-day basis or 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 tolerance represents the maximum amount and type of risk that Commerzbank is willing to incur within its business model in order to achieve its business objectives and business activities as well as to avoid existential threats. Commerzbank's liquidity risk tolerance is operationalized first of all by the design of stress scenario, the length of the reserve period and a set of liquidity risk limits.

Group Treasury is responsible for liquidity management, which comprises both operational and strategic elements. Group Risk function is responsible for risk management, which includes identification, analysis, monitoring, reporting of liquidity risk and setting of respective limits and escalation processes. The internal bank liquidity risk model is the bases for liquidity management and reporting to the Group's Board of Managing Directors (BoMD). Key decisions on liquidity risk management and monitoring are made by the central Asset & Liability Committee (ALCO). The Global ALCO is supported operationally by the Regional and local ALCOs which purpose is the planning and steering of all asset and liability management activities for the branch. Hong-Kong branch Liquidity Risk Management framework is fully integrated within the Group Risk framework

The Group's (BoMD) is ultimately responsible for the management of liquidity and respective risks throughout the Group and the determination of the Group's liquidity risk strategy.

For Hong Kong Branch, Group Finance is responsible for the calculation of the daily Liquidity Maintenance Ratio (LMR) and submit to Group Treasury for review and monitoring to ensure that the LMR adequacy is maintained. In addition, Group Market Risk performs daily liquidity gap reporting and monitoring against the agreed limits, as well as liquidity stress test reporting.

XI. Disclosure on Liquidity Risk Management

Funding strategy

Commerzbank Group 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.

Head Office in Frankfurt represents the chief funding provider for the Group, including Hong Kong Branch. Intra-branch funding transactions are carried out at arm's length and treated in lines with other third party transactions.

Commerzbank had unrestricted access to the money and capital markets throughout the reporting period of 2019, 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.

Liquidity risk mitigation

Commerzbank Group holds a Liquidity Reserve to mitigate against liquidity risk. The Bank has chosen to hold a reserve of LCR-eligible liquid assets which ensure the generation of liquidity within a short time at a predictable value. The maintenance of the Liquidity Reserve is under the responsibility of Group Treasury.

Stress testing

Three stress scenarios namely a bank-specific, a market-specific and a combination of both are performed on a regular basis to identify potential vulnerabilities on the Group's liquidity position under stressed market condition. The bank-specific stress computes the effect of a rating downgrade of two notches on the bank's available net liquidity. The market-specific stress computes the effect of a general market disruption on the bank's available net liquidity. This market-specific stress scenario is derived from the experience of the subprime crisis starting in summer 2007 and of the following financial crisis.

Contingency Funding Plan

Commerzbank Group maintains a Liquidity Contingency Plan that specifies an approach for analyzing and responding to actual and potential liquidity events. The Plan outlines an appropriate governance structure for the management and monitoring of liquidity events, processes for effective internal and external communication, and identifies potential counter measures to be considered at various stages of events.

Commerzbank Group 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. Market Risk Department is responsible for the monitoring and reporting of quantitative criteria and Treasury Department is responsible for analyzing qualitative measures triggering liquidity contingencies e.g. information about difficulties or restrictions in interbank funding market due to market disruption. Should there be any early signs of significant impact on the Bank's liquidity, Treasury Department will provide the information to Market Risk and ALCO. The ALCO decides which contingency measures are to be taken based on the suggestion made by the Treasury.

Locally, Hong-Kong branch has defined a local Liquidity contingency plan in addition to the Global plan to ensure the Group's contingency procedure is extended in a consistent manner. Hong-Kong branch contingency plan is reviewed and approved by ALCO at least on a yearly basis.

XI. Disclosure on Liquidity Risk Management

On-and off-balance sheet liquidity gaps

The Commerzbank Hong Kong Branch's analysis of on-and off-balance sheet items by remaining maturity and the resultant liquidity gap as at 31 December 2019 is shown as follows:

	Next day	Up to 1 month	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated	Total amount
On-balance sheet liabilities								
Deposits from non-bank customers	1,042,302	710,893	41,754	5,112	-	-	-	1,800,061
Amount payable arising from derivative contracts	-	15,437,310	12,207,862	7,882,318	4,440,748	1,261,367	-	41,229,605
Due to banks	1,817	6,536,992	1,746,756	10,167,612	1,749,188	-	-	20,202,365
Other liabilities and capital and reserves	-	-	-	-	-	-	87,879	87,879
Total On-balance sheet liabilities	1,044,119	22,685,195	13,996,372	18,055,042	6,189,936	1,261,367	87,879	2,578,924
Total Off-balance sheet obligations	1,816,219	75,711	62,741	198,532	265,924	-	159,797	2,578,924
On-balance sheet assets								
Amount receivable arising from derivative contracts	-	15,533,573	12,181,980	7,898,626	4,323,813	1,230,686	-	41,168,678
Due from M/A for a/c of Exchange Fund	46,682	-	-	-	-	-	-	46,682
Due from banks	215,480	6,774,280	3,155,199	2,311,410	-	-	-	12,456,369
Debt securities, prescribed instruments and structured financial instruments held (net of short positions)	999,160	-	-	-	-	-	-	999,160
Acceptances and bills of exchange held	-	22,934	37,871	124,010	1,145	-	-	185,960
Loans and advances to non-bank customers	36,690	317,278	525,830	1,624,146	5,605,465	163,814	22,071	8,295,294
Other assets	-	-	-	-	-	-	67,322	67,322
Total On-balance sheet assets	1,298,012	22,648,065	15,900,880	11,958,192	9,950,423	1,394,500	89,393	79,326
Total Off-balance sheet claims	-	25,375	35,605	18,346	-	-	-	-
Contractual Maturity Mismatch	-1,562,326	-87,466	1,877,372	-6,277,036	3,474,563	133,133	-	-
Cumulative Contractual Maturity Mismatch	-1,562,326	-1,649,792	227,580	-6,049,456	-2,574,893	-2,441,760	-	-

XII. Consolidated Bank Information

(i) Capital and Capital adequacy

Amount of Shareholders' funds (Equity)

Total Capital Ratio*

	<u>31-Dec-19¹</u>	<u>30-Jun-19²</u>
Amount of Shareholders' funds (Equity)	30,667	29,417
Total Capital Ratio*	16.80%	16.00%

(ii) Other Financial Information

Total assets

Total liabilities

Total Loans and advances

Total Deposits

Total assets	463,636	518,030
Total liabilities	432,969	488,613
Total Loans and advances	288,997	312,999
Total Deposits	328,691	370,072

Pre-tax Profit / (Loss)

	<u>1-Jan - 31-Dec.2019</u>	<u>1-Jan - 31-Dec.2018</u>
Pre-tax Profit / (Loss)	1,129	1,245

¹ Audited figures for 2019 Source: 2019 Annual Report

² Non audited figures for 2019 Source: 2019 Interim Report

* The consolidated capital adequacy ratio is calculated in accordance with Basel Capital Accord

XIII. Statement of Compliance

This 2019 Annual Financial Disclosure Statement which contains all disclosures required by the Banking (Disclosure) Rules and Supervisory Policy Manual: - Guideline on the Application of the Banking (Disclosure) Rules issued by the HKMA.

The information contained in the disclosure statement is not false or misleading in any respect, and that the operations of the Bank are clearly explained.



*Dr. Volkhardt Kruse
Chief Executive*