



**Commerzbank AG Hong Kong Branch
Financial Disclosure for the year ended 31 December 2018**

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



	<u>1..Jan - 31.Dec.2018</u>	<u>1..Jan - 31.Dec.2017</u>
I. <u>Income Statement Information</u>		
Interest income	286,431	202,625
Interest expense	(148,800)	(123,370)
Other operating income	181,851	(29,127)
- Net Gains / (Losses) arising from trading in foreign currencies	-	-
- Net Gains / (Losses) on securities held for trading purposes	(171,150)	71,277
- Net Gains / (Losses) from trading in interest rate derivatives	111,893	58,926
- Net fees and commission income	144,842	114,468
- <i>gross fees and commission income</i>	(32,949)	(55,542)
- <i>gross fees and commission expenses</i>	783	(687)
- Income from non-trading investments	-	-
- Gains from available-for-sale investment securities at fair value through profit or loss	-	-
- Profit/(loss) on sale of fixed assets	-	-
- Others	275,511	391,939
Operating expenses		
- Rental expenses	(17,154)	(17,658)
- Staff expenses	(176,546)	(159,560)
- Other operating expenses	(254,050)	(220,556)
Impairment releases / (losses and provisions) for impaired loans and receivables	(1,011)	(2,284)
Impairment losses on assets	-	-
Losses from the disposal of property, plant and equipment and investment properties	-	-
Profit / (Loss) before taxation	87,758	171,525
Tax expense	(3,471)	-
Profit / (Loss) after taxation	84,287	171,525

II. Balance Sheet Information

	ASSETS		LIABILITIES	
	<u>31-Dec-18</u>	<u>30-Jun-18</u>	<u>31-Dec-18</u>	<u>30-Jun-18</u>
(i) Cash and balances with banks (except those included in item (iii))	51,956	42,353	-	3,200,000
(ii) Amount due from Exchange Fund	18,694	2,699	-	-
(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))	-	-	2,204,303	2,088,494
			<i>- Demand deposits and current accounts</i>	<i>1,381,541</i>
			<i>- Savings deposits</i>	<i>-</i>
			<i>- Time, call and notice deposits</i>	<i>706,953</i>
(iv) Amount due from overseas offices of the institution	11,605,886	15,413,675	17,315,865	17,126,447
(v) Trade bills	-	-	-	-
(vi) Certificates of deposit held	-	-	-	-
(vii) Securities held for trading purposes	-	-	1,339,953	1,695,586
(viii) Loans and receivables	8,689,732	8,160,251	15,144	18,423
(ix) Investment securities	499,660	499,550		
(x) Other investments	-	-		
(xi) Property, plant and equipment and investment properties	9,337	10,422		
(xii) Total assets	<u>20,875,265</u>	<u>24,128,950</u>	<u>20,875,265</u>	<u>24,128,950</u>
(ix) Total liabilities			<u>20,875,265</u>	<u>24,128,950</u>

III. Additional Balance Sheet Information

31-Dec-18 30-Jun-18

(i) Loans and receivables		
- loans and advances to customers	7,107,632	6,395,535
- loans and advances to banks	326,242	133,173
- other accounts	1,255,858	1,631,543
- <i>accrued interest</i>	100,779	71,350
- <i>others</i>	1,155,079	1,560,193
- provisions for impaired loans and receivables to customers which constitute the institution's		
- collective impairment allowances	8,298	8,743
- individual impairment allowances	-	-
- provisions for impaired loans and receivables to bank which constitute the institution's		
- collective impairment allowances	777	216
- 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:

-

III. Additional Balance Sheet Information

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

- Loans and advances for use in Hong Kong

Industrial, commercial and financial

- Property development	-	-	-	-
- Property investment	-	-	-	-
- Financial concerns	1,794,724	-	551,609	-
- Stockbrokers	-	-	-	-
- Wholesale and retail trade	272,584	-	565,713	-
- Manufacturing	2,765,987	-	3,349,680	-
- Transport and transport equipment	5,266	-	5,301	-
- Recreational activities	-	-	-	-
- Information technology	15,664	-	15,692	-
- Electricity and gas	-	-	-	-
- Civil engineering works	24,000	-	24,000	-
- Others	269,025	-	139,204	-

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

- Loans and advances for use outside Hong Kong

	<u>31-Dec-18</u>	<u>31-Dec-18</u>	<u>30-Jun-18</u>	<u>30-Jun-18</u>
	Outstanding Balance	Balance Covered by Collateral	Outstanding Balance	Balance Covered by Collateral
	1,960,382	772,749	1,712,988	829,556
	<u>7,107,632</u>	<u>772,749</u>	<u>6,395,535</u>	<u>829,556</u>

III. Additional Balance Sheet Information

31-Dec-18

30-Jun-18

(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	555,298	252,017
Hong Kong	5,147,250	4,684,834
New Zealand	255,544	277,301
North America:		
United States	275,181	300,238
Europe:		
Sweden	286,960	292,698
Netherlands	587,391	588,446
Germany	8	1
Gross amount of loans and advances to customers	<u>7,107,632</u>	<u>6,395,535</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-18</u>				<u>30-Jun-18</u>			
	CNY	USD	EUR	Total	CNY	USD	EUR	Total
Spot assets	1,499	5,077	12,646	19,222	2,119	3,779	15,584	21,482
Spot liabilities	(84)	(3,528)	(15,518)	(19,130)	(1,569)	(1,101)	(16,206)	(18,876)
Forward purchases	4,863	21,237	9,075	35,175	9,502	34,157	12,341	56,000
Forward sales	(6,298)	(22,771)	(6,145)	(35,214)	(10,062)	(36,933)	(11,605)	(58,600)
Net option position	-	-	-	-	-	-	-	-
Net long (or net short) position	(20)	15	58	53	(10)	(98)	114	6
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 financial sector	Total
<u>As at 31 December 2018</u>					
Developed countries	11,690	-	278	1,182	13,150
of which					
- Germany	11,680	-	-	51	11,731
Offshore Centres	39	-	-	4,986	5,025
of which					
- Hong Kong	39	-	-	4,986	5,025
Developing Asia and Pacific	273	-	243	314	830
of which					
- China	7	-	243	314	564
<u>As at 30 June 2018</u>					
Developed countries	15,467	-	303	1,234	17,004
of which					
- Germany	15,466	-	-	73	15,539
Offshore Centres	37	-	-	4,295	4,332
of which					
- Hong Kong	37	-	-	4,295	4,332
Developing Asia and Pacific	117	-	253	15	385
of which					
- China	7	-	253	15	275

VI. Non-Bank Mainland Exposures

As at 31 Dec 2018

Central government, central government-owned entities and their subsidiaries and JVs
 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
 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

Total

Total assets after provision
 On-balance sheet exposures as percentage of total assets

As at 30 Jun 2018

Central government, central government-owned entities and their subsidiaries and JVs
 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
 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

Total

Total assets after provision
 On-balance sheet exposures as percentage of total assets

	On-balance Sheet Exposure	Off-balance Sheet Exposure	Total Exposure	Individual Impairment Allowances
	2,629	76	2,705	-
	-	-	-	-
	2,071	460	2,531	-
	-	-	-	-
	1,644	-	1,644	-
	6,344	536	6,880	-
	20,860			
	30.41%			
	3,170	91	3,261	-
	-	-	-	-
	-	-	-	-
	2	-	2	-
	2,141	725	2,866	-
	5,313	816	6,129	-
	24,111			
	22.04%			

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

	<u>31-Dec-18</u>	<u>30-Jun-18</u>
- Direct credit substitutes	565,016	767,601
- Transaction-related contingencies	295,552	184,873
- Trade-related contingencies	236,497	286,192
- Note issuance and revolving underwriting facilities	-	-
- Other commitments	3,464,431	3,881,904
- Others	-	-

VIII. Derivative Transactions

Derivatives notional amounts:

- Exchange rate-related derivative contracts	44,600,983	71,855,626
- Interest rate derivative contracts	6,837,259	8,379,651
- Others	-	-

Derivatives assets:

- Exchange rate-related derivative contracts	1,004,174	1,363,343
- Interest rate derivative contracts	31,232	16,689

Derivatives liabilities:

- Exchange rate-related derivative contracts	1,013,835	1,215,790
- Interest rate derivative contracts	13,443	12,158

The above derivatives assets and liabilities, being the positive or negative marked-to-market value of the respective derivatives contracts, represent gross replacement costs.

As at 31 Dec 2018 and 30 June 2018, the Bank has no bilateral netting arrangements.

IX. Liquidity maintenance ratio

	<u>Oct - Dec 2018</u>	<u>Jan - Dec 2017</u>
Average liquidity maintenance ratio	55.95%	54.14%

LMR for the quarter ended 31 December 2018 is 3 months simple average of each calendar month's average value for the reporting period.

LMR for the year ended 2017 is 12 months simple average of each calendar month's average value according to pre-amended Bankding (Disclosure) Rules for the year.

X. Disclosure on Remuneration

Under paragraph 3.1.2 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 2018, 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 2018 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	1,447,845	719,714	32,197	5,505	-	-	-	2,205,261
Amount payable arising from derivative contracts	-	13,480,952	17,039,547	8,506,039	5,637,380	1,485,030	-	46,148,948
Due to banks	2,520	5,601,770	8,962,738	-	2,756,346	-	-	17,323,374
Other liabilities and capital and reserves	-	-	-	-	-	-	100,295	100,295
Total On-balance sheet liabilities	1,450,365	19,802,436	26,034,482	8,511,544	8,393,726	1,485,030	100,295	
Total Off-balance sheet obligations	1,639,887	37,128	42,055	381,813	275,506	-	106,835	2,483,224
On-balance sheet assets								
Amount receivable arising from derivative contracts	-	13,466,962	17,059,963	8,412,576	5,583,986	1,498,724	-	46,022,211
Due from MA for a/c of Exchange Fund	18,694	-	-	-	-	-	-	18,694
Due from banks	92,722	7,029,309	4,336,386	234,731	39,478	-	-	11,732,626
Debt securities, prescribed instruments and structured financial instruments held (net of short positions)	499,660	-	-	-	-	-	-	499,660
Acceptances and bills of exchange held	-	58,006	118,942	147,352	-	-	2,764	327,064
Loans and advances to non-bank customers	48,831	363,573	1,125,671	1,160,001	4,196,311	224,297	-	7,118,684
Other assets	-	-	-	-	-	-	34,733	34,733
Total On-balance sheet assets	659,907	20,917,850	22,640,962	9,954,660	9,819,775	1,723,021	37,497	
Total Off-balance sheet claims	-	22,936	37,379	51,020	-	-	-	111,335
Contractual Maturity Mismatch	-2,430,345	1,101,222	-3,398,196	1,112,323	1,150,543	237,991	-	-2,226,462
Cumulative Contractual Maturity Mismatch	-2,430,345	-1,329,123	-4,727,319	-3,614,996	-2,464,453	-	-	-2,226,462

XII. Consolidated Bank Information

(i) Capital and Capital adequacy

Amount of Shareholders' funds (Equity)

31-Dec-18¹ 30-Jun-18²

29,411 29,138

Total Capital Ratio*

16.30% 16.10%

(ii) Other Financial Information

Total assets

462,369 487,537

Total liabilities

432,958 458,399

Total claims on banks and customers

305,796 306,980

Total liabilities to customers

301,144 309,623

1.Jan - 31.Dec.2018 1.Jan - 31.Dec.2017

Pre-tax Profit / (Loss)

1,245 341

1 Audited figures for 2018 Source: 2018 Annual Report

2 Non audited figures for 2018 Source: 2018 Interim Report

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

XIII. Statement of Compliance

This 2018 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.


Fanny Ng
Alternate Chief Executive