COMMERZBANK FINANCE LIMITED

REPORT AND FINANCIAL STATEMENTS

Year ended 31 December 2019

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COMPANIES HOUSE

Company No. 551334

COMMERZBANK FINANCE LIMITED

STRATEGIC REPORT

The directors present their Strategic Report on the Company for the year ended 31 December 2019.

REVIEW OF THE BUSINESS

The Company's principal activities are the provision of administrative services to the London Branch of its ultimate parent undertaking, Commerzbank AG, (where the Company recharges the expenses incurred to Commerzbank AG London Branch under the terms of a Service Level Agreement), and the continued provision of certain activities, in particular unregulated corporate lending activities.

The Company continues to hold the Investment Book portfolio of asset backed securities ('ABS') and corporate bonds, with funding provided by Commerzbank AG London Branch. Up until the end of 2018 this activity was carried out by the Credit Portfolio Management business within Corporate Clients although from the beginning of 2019 this activity has been transferred to Treasury.

During 2019 Treasury further reduced the Corporate bond holdings and corresponding derivative hedges from approximately £244m to £18m as market opportunities arose. Conversely there was an increase to the holdings of AAA rated ABS from approximately £3.367bn to £4.138bn to take advantage of the risk weighted assets released by the Corporate bond sales. with a resulting increase to the accrued interest income.

Separate to the Investment Book portfolio above, commencing in April 2019, following the successful restructures of legacy intermediation trades held by Commerzbank AG London Branch, the Company acquired bonds to the value of just over £2bn and novated certain derivatives to hedge these positions which has enabled additional profits to be reported.

The Company continues to hold fixed assets and the lease for 30 Gresham Street, as well as remaining as the employer under the legacy pension schemes, although as described in more detail in note 21, the Dresdner Bank AG London Branch Pension Plan was bought out during 2018 and the Dresdner Kleinwort Pension Plan secured a full insurer buy-in during Q1 2019. The directors expect these activities to continue for the foreseeable future.

The results of the Company for the year are set out in detail on pages 9 and 10. The total comprehensive loss for the year was £148,628,000 (2018: loss of £21,935,000).

The level of ongoing net interest income increased as a result of an increase in the amount of bonds held, resulting in an increase in the profit before tax, with the prior year results having exceptionally included a charge of £8.9m (see note 8) with respect to the equalisation of Guaranteed Minimum Pension (GMPs) following the Lloyds Bank court judgement which confirmed that inequalities in GMPs had to be removed in all UK pension plans. Within Other Comprehensive Income, the Company recorded an actuarial loss of £265.4m, which included an asset loss of approximately £224m as a result of a full insurer buy-in of the Dresdner Kleinwort Pension Plan, with the loss partly offset by the release of applicable deferred tax liabilities and an increase in the fair value of its Investment Book assets as a result of changes in economic market conditions.

On 28 August 2019, the directors declared an interim dividend of £100,000,000 from excess distributable reserves available which was paid on the same date.

FUTURE TRENDS AND DEVELOPMENTS

The directors expect that the level of net interest income arising on the Investment Book and Public Finance Initiative ('PFI') portfolios will increase during 2020 as a result of both the increase in the size of the assets held during the latter part of 2019 as well as further increases during 2020.

As at the date of the signing of these financial statements, the portfolio of Investment Book assets has increased to just over £5.5bn. The Corporate bond portfolio has increased as the resulting dislocation in credit markets from the COVID-19 pandemic created some investment opportunities. Similar opportunities exist in the ABS markets where it is expected that there will be an increase in the AAA ABS portfolio size of approximately 10%.

The PFI portfolio has also increased to just over £3.3bn as at the date of the signing of these financial statements following further acquisitions of bonds and novation of derivatives to hedge those positions, following the completion of further restructures of legacy intermediation trades held by Commerzbank AG London Branch during Q1 2020.

In addition the directors will continue to consider other relevant business opportunities as they arise, in order to help grow the business and generate additional profits for the Company.

The financial risks of the Company and how they are managed are set out below. Despite the COVID-19 pandemic the pre-tax profits generated by the Company during 2020 are ahead of budget, and although there was a significant decrease in the fair market values of the Investment Book portfolio at the end of Q1 2020 as a result of volatile CLO markets at that time, the negative impacts on those markets has largely reversed so that at the date of the signing of these financial statements the fair value losses arising in 2020 are now around £40m, which is below the pre-tax profit so far generated.

Furthermore, the directors have considered the implications on the Company's future activities and performance of the UK's decision to leave the European Union and have concluded at this time that no material changes are expected.

SECTION 172 OF THE COMPANIES ACT 2006

Section 172 of the Companies Act 2006 requires the directors to promote the success of the Company for the benefit of its members as a whole and, in doing so, to have regard to the interests of stakeholders, including shareholders, clients, employees, suppliers and the wider society in which the Company operates.

The directors strive to take decisions for the long term, with the aim of understanding and respecting the views and needs of the Company's clients, employees and suppliers along with the environment we operate in and the shareholder to whom we are accountable. As a wholly owned subsidiary of Commerzbank AG London Branch with limited interaction with external counterparties, the directors ensure that they adhere to the applicable policies of Commerzbank London as a whole when making applicable decisions. This is evidenced through a number of actions including but not limited to the following:

- Commerzbank London has an established policy of communicating with all employees regularly. The Group's purpose, strategy and priorities are communicated at regular town halls and throughout the year in all employee email messages and bulletins. In its communications Commerzbank London actively promotes its commitment to: good governance; risk management; compliance; good conduct; client needs and shareholder requirements; social responsibility; equal opportunities; and diversity and inclusion.

- The Human Resources department of Commerzbank London conducts employee engagement surveys and review the output of the surveys, gather feedback and develop targeted action plans. In addition half yearly and annual performance appraisals are mandatory. Furthermore the department oversees both Health and Safety and Wellbeing programmes aimed at encouraging the positive development of all employees.

COMMERZBANK FINANCE LIMITED

STRATEGIC REPORT (continued)

KEY PERFORMANCE INDICATORS

As the Company is managed as part of a global corporate bank, there are few key performance indicators that are specific to the Company. The primary key performance indicators used by the directors include regular reviews of the performance of the Company as compared to annually set budgets, review of the hedge effectiveness of the applicable derivatives, the fair market value changes arising with respect to the Investment Book portfolio and the performance of the Company's final salary pension schemes (where the directors work closely with the pension trustees).

PRINCIPAL RISKS AND UNCERTAINTIES AND FINANCIAL RISK MANAGEMENT

From the perspective of the Company, aside from the risks described in notes 22 and 23, the principal risks and uncertainties are integrated with the risks of the Commerzbank AG group and are not managed or disclosed separately. These risks are set out in the financial statements of Commerzbank AG. The directors believe that none of the risks described in those notes have been adversely impacted by the COVID-19 pandemic.

Approved by the Board of Directors
Signed by order of the Board

J C Wall
Secretary
Commerzbank Finance Limited
Company Registered No. 551334

29 September 2020

COMMERZBANK FINANCE LIMITED

DIRECTORS' REPORT

The directors submit their annual report and the audited financial statements for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

As described in more detail on page 1, the Company's principal activities are the provision of administrative services to the London Branch of its ultimate parent undertaking, Commerzbank AG and the continued provision of certain activities, in particular unregulated corporate lending activities.

RESULTS AND DIVIDENDS

The results of the Company for the year are set out in detail on pages 9 and 10. The directors declared an interim dividend of £100,000,000 (2018: £nil) on 28 August 2019 but do not recommend the payment of a final dividend (2018: £nil). The profit for the financial year was £43,261,000 (2018: £29,458,000). The total comprehensive loss for the year of £148,628,000 (2018: loss of £21,935,000) will be deducted from reserves.

DIRECTORS

The directors of the Company who held office during the year were as follows:

N G Aiken	
J P Benson	
G S Johal	(appointed 28 February 2019)
I R Smith	
P A Twaite	(appointed on 28 February 2019 as an alternate director to G S Johal)
A D Levy	(alternate director to I R Smith)

V S Radhakishun resigned as a director and P J O'Sullivan resigned as an alternate director to V S Radhakishun on 28 February 2019.

The directors benefited from qualifying third party indemnity provisions in place during the financial year and up to the date of signing the financial statements.

FUTURE DEVELOPMENTS

Information on future developments is included in the Strategic Report on page 2.

GOING CONCERN

As described in note 2 of these financial statements, taking into account the operational and financial support provided by Commerzbank AG, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and have prepared the financial statements on a going concern basis. The assessment of going concern has not changed as a result of considering the impacts of the COVID-19 pandemic. As described in Note 27, the directors have concluded that COVID-19 is a non-adjusting post balance sheet event.

PRINCIPAL RISKS AND UNCERTAINTIES AND FINANCIAL RISK MANAGEMENT

From the perspective of the Company, aside from the risks described in notes 22 and 23, the principal risks and uncertainties are integrated with the risks of the Commerzbank AG group and are not managed or disclosed separately. These risks are set out in the financial statements of Commerzbank AG. The directors believe that none of the risks described in those notes have been adversely impacted by the COVID-19 pandemic.

INDEPENDENT AUDITORS

Ernst & Young LLP were appointed by the members, in accordance with Section 485 of the Companies Act 2006, to act as auditors of the Company's financial statements. Ernst & Young LLP will be re-appointed in accordance with Section 487 of the Companies Act 2006.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101), and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

ENGAGEMENT WITH SUPPLIERS, CUSTOMERS AND OTHERS IN A BUSINESS RELATIONSHIP WITH THE COMPANY

As described in more detail within the financial statements, the Company's main activities represent the holding of bonds in Corporates, ABS and PFI assets. The funding and hedging of those positions is carried out via transactions with undertakings within the Commerzbank Group so that the Company does not have any specific policies with respect to suppliers and customers. Detailed involvement with suppliers and customers is carried out by Commerzbank AG London Branch where the Company relies on the terms of a Service Level Agreement and therefore the policies of the Commerzbank AG Group as a whole.

Approved by the Board of Directors
Signed by order of the Board

J C Wall
Secretary
Commerzbank Finance Limited
Company Registered No. 551334

29 September 2020

COMMERZBANK FINANCE LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF COMMERZBANK FINANCE LIMITED

Opinion

We have audited the financial statements of Commerzbank Finance Limited for the year ended 31 December 2019, which comprise the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity and the related notes 1 to 27, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 'Reduced Disclosure Framework' ('United Kingdom Generally Accepted Accounting Practice').

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the auditors' responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to notes 2 and 27 of the financial statements, which describes the economic disruption the company is facing as a result of the COVID-19 pandemic, which is impacting financial markets and investments. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COMMERZBANK FINANCE LIMITED (continued)

Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our auditors' report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report based in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF COMMERZBANK FINANCE LIMITED (continued)

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report is made solely to the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

David Gonnelli (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP
London

29 September 2020

COMMERZBANK FINANCE LIMITED

INCOME STATEMENT

For the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Interest income from financial assets measured at fair value through OCI		63,045	57,509
Interest income from bonds held at amortised cost		11,672	1,474
Interest income calculated using the effective interest rate method		74,717	58,983
Interest income from lease receivables		276	431
Interest income from deposits with group undertakings		613	457
Interest income from property sub lease		3,688	-
Interest payable on property lease liabilities		(2,325)	-
Funding interest payable to group undertakings		(27,120)	(26,112)
Net interest income from post-retirement benefits	21	8,506	7,651
Net interest income		58,355	41,410
Gain / (loss) on disposal of financial assets measured at fair value through OCI		5,562	(12,627)
Net income from hedge accounting	6	8,369	-
Other (loss) / gain from financial instruments		(14,582)	7,927
Fees payable		(104)	(62)
Net other operating income	7	5,731	2,992
Net operating income		63,331	39,640
Administrative expenses	8	(8,153)	(10,757)
Depreciation	12	(6,352)	(556)
(Impairment charge) / release of impairment against loans and receivables	17	(3,386)	18
Release of impairments on financial assets measured at fair value through OCI		281	334
Release of provisions for liabilities		-	527
Impairment against carrying value of investments	13	(247)	-
OPERATING PROFIT AND PROFIT BEFORE TAXATION		45,474	29,206
Tax (charge) / credit on profit	11	(2,213)	252
PROFIT FOR THE FINANCIAL YEAR		43,261	29,458

All amounts stated above were derived from continuing activities.

The accounting policies and notes on pages 13 to 46 form part of these financial statements.

COMMERZBANK FINANCE LIMITED

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Profit for the financial year		43,261	29,458
Other comprehensive income / (loss): Items that will not be reclassified to profit or loss			
Actuarial losses on pension schemes	21	(265,402)	(14,465)
Movement on deferred tax relating to pension schemes	11&14	45,118	2,459
Other comprehensive income / (loss): Items that may be subsequently reclassified to profit or loss			
Unrealised fair value changes in financial assets measured at fair value through OCI	15	40,054	(60,759)
Recycle of unrealised fair value (gains) / losses on disposal and the change in amounts booked as an impairment charge		(5,843)	12,293
Movement on deferred tax relating to financial assets measured at fair value through OCI	11&14	(5,816)	9,079
Other comprehensive income / (expense) for the financial year, net of tax		28,395	(39,387)
TOTAL COMPREHENSIVE LOSS FOR THE FINANCIAL YEAR		(148,628)	(21,935)

The accounting policies and notes on pages 13 to 46 form part of these financial statements.

COMMERZBANK FINANCE LIMITED

STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	Note	2019 £'000	2018 £'000
NON CURRENT ASSETS			
Tangible assets	12	53,896	1,233
Investments	13	2,814	3,061
Deferred income tax assets	14	55,286	18,040
Financial assets at fair value through OCI	4 & 15	4,155,600	3,611,358
Loans and financial investments at amortised cost	16	2,113,476	54,303
		6,381,072	3,687,995
CURRENT ASSETS			
Financial assets at fair value through profit or loss	4	24,273	5,823
Loans and financial investments at amortised cost	16	2,019,529	119,233
Cash at bank and in hand		68	4
		2,043,870	125,060
CREDITORS: amounts falling due within one year	4 & 18	(8,219,284)	(3,713,040)
NET CURRENT LIABILITIES		(6,175,414)	(3,587,980)
TOTAL ASSETS LESS CURRENT LIABILITIES		205,658	100,015
CREDITORS: amounts falling after more than one year	19	(95,874)	-
NET ASSETS EXCLUDING PENSION ASSET		109,784	100,015
Pension asset	21	45,387	303,784
NET ASSETS		155,171	403,799
CAPITAL AND RESERVES			
Called up share capital	20	4,500	4,500
Profit and loss account		154,235	431,258
Fair value reserve account		(3,564)	(31,959)
TOTAL EQUITY		155,171	403,799

The accounting policies and notes on pages 13 to 46 form an integral part of these financial statements.

These financial statements on pages 9 to 46 were approved by the Board of Directors and signed on its behalf by:

A D Levy
Director

29 September 2020

COMMERZBANK FINANCE LIMITED

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2019

	Note	Called up share capital £'000	Profit and loss account £'000	Fair value reserve account £'000	Total equity £'000
Balance as at 1 January 2018		**4,500**	**413,806**	**7,428**	**425,734**
Profit for the financial year		-	29,458	-	29,458
Other comprehensive income / (loss) for the financial year:					
Unrealised (losses) on financial assets measured at fair value through OCI	15	-	-	(60,759)	(60,759)
Recycle of unrealised losses on disposal net of the change in amounts booked as an impairment charge		-	-	12,293	12,293
Movement on deferred tax relating to financial assets measured at fair value through OCI	11 & 14	-	-	9,079	9,079
Actuarial (loss) on pension schemes	21	-	(14,465)	-	(14,465)
Movement on deferred tax relating to pension schemes	11 & 14	-	2,459	-	2,459
Total comprehensive income / (loss) for the financial year		-	17,452	(39,387)	(21,935)
Balance as at 1 January 2019		**4,500**	**431,258**	**(31,959)**	**403,799**
Profit for the financial year		-	43,261	-	43,261
Other comprehensive income / (loss) for the financial year:					
Unrealised gains on financial assets measured at fair value through OCI	15	-	-	40,054	40,054
Recycle of unrealised (gains) on disposal net of the change in amounts booked as an impairment charge		-	-	(5,843)	(5,843)
Movement on deferred tax relating to financial assets measured at fair value through OCI	11 & 14	-	-	(5,816)	(5,816)
Actuarial (loss) on pension schemes	21	-	(265,402)	-	(265,402)
Movement on deferred tax relating to pension schemes	11 & 14	-	45,118	-	45,118
Total comprehensive income / (loss) for the financial year		-	(177,023)	28,395	(148,628)
Interim dividend paid		-	(100,000)	-	(100,000)
Balance as at 31 December 2019		**4,500**	**154,235**	**(3,564)**	**155,171**

The accounting policies and notes on pages 13 to 46 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2019

1. GENERAL INFORMATION

The Company provides administrative services to the London Branch of its ultimate parent undertaking, Commerzbank AG, (where the Company recharges the expenses incurred to Commerzbank AG London Branch under the terms of a Service Level Agreement), and provides certain investment banking activities, in particular unregulated corporate lending activities.

The Company is a private company limited by shares and is domiciled and incorporated in the UK. The Company's Registered Office is situated at 30 Gresham Street, London, EC2V 7PG.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Statement of compliance
The financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101), which was effective from 1 January 2015. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of hold to collect and sell investments and derivative financial instruments, and in accordance with the requirements of the Companies Act 2006 as applicable to companies using FRS 101.

The Company meets the definition of a qualifying entity under FRS 100 Application of Financial Reporting Requirements issued by the Financial Reporting Council.

Basis of preparation
The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires the directors to exercise their judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- The requirements of IAS 7, 'Statement of cash flows'; and
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

Going concern
The financial statements have been prepared on the going concern basis, notwithstanding net current liabilities of £6,175,414,000 (2018: £3,587,980,000). The directors believe the adoption of the going concern basis to be appropriate for the following reason:

The directors have taken into account the continued operational and financial support of Commerzbank AG, the immediate parent undertaking, with respect to the existence of an ongoing funding line to meet the Company's business requirements, as well as the service level agreements in place with respect to the recharge of expenses. On 3 September 2019 an all in funding line of €12.152bn was approved by the Commerzbank AG Board for a further 12 months. This funding line was increased to €14,552bn in October 2019 (with a further buffer of €1.1bn) to cover the requirements with respect to the PFI bonds and, subsequent to the year end, on 18 August 2020, an all in funding line of €15.54bn was approved by the Commerzbank AG Board for a further 12 month period.

The directors have no reason to believe that this funding line will either be revoked in the short term or will not be renewed when the funding lines are next reviewed during Q3 2021. The directors have considered the financial stability of Commerzbank AG, including consideration of the COVID-19 pandemic, and believe that it is reasonable to place reliance on that entity for continued support.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Going concern (continued)
Based on the above, and having taken these risks and uncertainties into account, the directors of the Company believe that it remains appropriate to prepare the financial statements on the going concern basis. As a result, the financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern.

Changes in accounting policy and disclosures
a) New and amended standards adopted – the following new IFRS or IFRS IC interpretations that were effective for the first time for the financial year beginning on or after 1 January 2019 that have had an impact on the Company are as follows:

IFRS 16 – Leases is effective for the financial year beginning 1 January 2019 and replaces IAS 17. With the implementation of IFRS 16, the Company recognised as at 1 January 2019 additional right-of-use and sub lease and lease liabilities on its balance sheet totalling £114,250,000, representing the present value of the future lease payments. This has resulted in additional interest and depreciation charges, net of sub lease finance lease interest income, being charged to the Company's income statement with those amounts then recharged in full to Commerzbank AG London Branch under the service level agreements in place.

The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Company elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 January 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Therefore, the comparative information for 2018 is reported under IAS 17, where all operating lease rentals arising on properties held by the Company were charged directly to the income statement of Commerzbank AG London Branch and is therefore not comparable to the information presented for 2019.

IFRIC Interpretation 23 - Uncertainty over Income Tax Treatment - The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit, tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Company determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty. The Company applies significant judgement in identifying uncertainties over income tax treatments. The directors believe that the Interpretation did not have an impact on the financial statements of the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting policy and disclosures (continued)

Amendments to IFRS 9: Prepayment Features with Negative Compensation - Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the 'SPPI' criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

Early termination can result from a contractual term or from an event outside the control of the parties to the contract, such as a change in law or regulation leading to the early termination of the contract. Where the prepayment is made at current fair value or at an amount that includes the fair value of the cost to terminate associated hedging instruments, the Company assesses the specific contractual cash flows for the relevant debt instruments in order to determine whether they meet the SPPI criterion. These amendments had no impact on the financial statements of the Company.

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS
Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

As indicated in the accounting policies, the Company elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39. IAS 39 requires that for cash flow hedges, a forecast transaction must be highly probable. IAS 39 also requires that a hedging relationship only qualifies for hedge accounting if the hedging relationship is highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk. The assessment of hedge effectiveness is made prospectively and retrospectively.

As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective.

b) The following new standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2019 and not early adopted, are expected to have an impact on the Company in the future:

An Exposure Draft to IFRIC 14, an interpretation of IAS 19 – Pensions, was issued in June 2015 but is still being discussed with its implementation date uncertain. The interpretation relates to the ability of the Company to recognise a pension surplus. Given that the trustees of the Dresdner Kleinwort Pension Plan have entered into a full insurer buy-in, with no contributions expected to be paid, the implementation of this interpretation is not expected to have a material impact on the financial position of the Company.

Consolidation
In accordance with Section 400 of the Companies Act 2006, group financial statements have not been prepared as the Company is a wholly owned subsidiary of Commerzbank AG, which prepares consolidated financial statements which are publicly available.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies
Monetary assets and liabilities in foreign currencies are translated into Sterling at mid-market closing rates of exchange ruling at the balance sheet date. All foreign exchange differences are taken to the income statement in the year in which they arise. All revenue and expense items are translated at the rate applicable to the period when they are recognised.

Interest income and expense
Net interest income comprises interest income and interest expense calculated using both the effective interest method and other methods. These are disclosed separately on the face of the income statement for both interest income and interest expense to provide symmetrical and comparable information.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

Other interest income/expense includes interest on derivatives in economic hedge relationships and all financial assets/liabilities measured at FVPL, other than those held for trading, using the contractual interest rate. Interest income/expense on all trading financial assets/liabilities is recognised as a part of the fair value change in 'Net trading income'.

Other operating income
Other operating income primarily represents management charges recoverable from Commerzbank AG London Branch, including mark up where appropriate, recognised on an accruals basis.

Post-retirement benefits
The Company maintains pension schemes in the UK for deferred pensioner and pensioner members and accounts for pensions in accordance with FRS 101 and the disclosures given are those required by that standard.

The Company records any pension deficits as a liability in the statement of financial position. Pension surpluses are only recognised as an asset to the extent that the surplus is expected to result in a refund from the schemes. Actuarial gains or losses are reflected within the statement of other comprehensive income with all other costs relating to those schemes charged to the income statement.

Tangible fixed assets and depreciation
Fixed assets are depreciated on a straight-line basis over their estimated useful lives. Computer hardware and software is depreciated over a period of 3 to 5 years. Fixtures and fittings are depreciated over periods ranging from 2 to 19 years. Fixed assets are stated at cost less accumulated depreciation and impairment losses.

Dividend on ordinary shares
Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's shareholders. Interim dividends are deducted from equity when they are declared and are no longer at the discretion of the Company. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

Share capital
Share capital meeting the definition of an equity instrument under IAS 32 is disclosed within shareholders' funds. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Investments in subsidiary undertakings
Investments in subsidiary undertakings are stated at cost less provision for impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation
The tax expense for the year comprises current tax and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in other comprehensive income or directly in shareholders' funds, respectively. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. In circumstances where the Company has either taxable profits or losses and group relief is surrendered from or to other group companies, the group relief is surrendered for nil consideration.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Leases (policy applicable before 1 January 2019)
The determination of whether an arrangement was a lease, or contained a lease, was based on the substance of the arrangement and required an assessment of whether the fulfilment of the arrangement was dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset.

Company as a Lessee
Leases that did not transfer to the Company substantially all the risks and benefits incidental to ownership of the leased items were considered to be operating leases. As Commerzbank AG London Branch acted as the service company for all London entities, any such operating lease payments were recognised as an expense in the income statement of Commerzbank AG London Branch on a straight-line basis over the lease term.

Company as a Lessor
Leases where the Company did not transfer substantially all the risk and benefits of ownership of the asset were classified as operating leases. Similarly to the payments above, the rental income was recognised on a straight line basis over the lease term in the income statement of Commerzbank AG London Branch.

Leases (policy applicable as of 1 January 2019)
The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a Lessee
The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets
The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (policy applicable as of 1 January 2019) (continued)

Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), and variable lease payments that depend on an index or a rate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

Company as a Lessor

Finance lease contracts are those which transfer substantially all the risks and rewards of ownership of an asset to a customer. The Company has determined that such an arrangement is a finance lease based on an evaluation of the terms and conditions of the arrangements, such as the lease term constituting a major part of the economic life of the property and the present value of the minimum lease payments amounting to substantially all of the fair value of the property.

Finance lease receivables are measured at the net investment in the lease, comprising the minimum lease payments and any unguaranteed residual value discounted at the interest rate implicit in the lease. Finance lease income is recognised at a constant periodic rate of return before tax on the net investment. Unguaranteed residual values are subject to regular review; if there is a reduction in their value, income allocation is revised and any reduction in respect of amounts accrued is recognised immediately.

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Financial instruments – initial recognition

Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e. the date that the Company becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts.

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Other receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Company accounts for the Day 1 profit or loss, as described below.

Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Company recognises the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement categories of financial assets and liabilities
The Company classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost
- Fair Value measured through other comprehensive income (FVOCI)
- Fair Value measured through profit and loss (FVPL)

The Company classifies and measures its derivative and trading portfolio at FVPL. The Company may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied.

Business model assessment
The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors. The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The Solely Payments of Principal and Interest (SPPI) test
As a second step of its classification process the Company assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Financial assets and liabilities - derecognition
A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired or when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Company either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Company assesses the extent to which it has retained the risks and rewards of ownership of the transferred asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities – derecognition (continued)
The asset remains on the balance sheet if substantially all the risks and rewards have been retained. It is derecognised if substantially all of the risks and rewards have been transferred. If substantially all the risks and rewards have been neither retained nor transferred, the Company assesses whether or not it has retained control of the asset. If the Company has retained control of the asset, it continues to recognise the asset to the extent of its continuing involvement; if the Company has not retained control of the asset, it is derecognised.

A financial liability is removed from the balance sheet when the obligation is discharged, cancelled, or expires. On the redemption or settlement, the Company derecognises the debt instrument and records a gain or loss being the difference between the carrying amount of the debt and the cost of redemption or settlement. The same treatment applies where the debt is exchanged for a new debt issue that has terms substantially different from those of the existing debt.

Financial assets at fair value through profit or loss
The only such assets held by the Company are derivatives which are carried at fair value as current assets. Valuation adjustments are made with gains and losses taken directly to the income statement.

Loans and financial investments at amortised cost
The Company only measures loans and receivables and other financial investments at amortised cost if both of the following conditions are met:

• the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and

• the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Financial assets at fair value through OCI
The Company applies the category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

• The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and

• The contractual terms of the financial asset meet the SPPI test

These instruments largely comprise assets that had previously been classified as financial investments available for sale under IAS 39.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. The ECL calculation for debt instruments at FVOCI is explained below. Where the Company holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

Financial liabilities at fair value through profit or loss
Interest rate derivatives with a negative value have been categorised as trading financial liabilities within creditors. Such liabilities are initially recognised at fair value including direct and incremental transaction costs. They are subsequently held at fair value with any gains or losses recorded within the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairments of financial assets
The impairment requirements apply to all financial assets. In accordance with IFRS 9 the Company has applied an expected credit loss (ECL) model, with any impairment charge resulting recognised in the statement of comprehensive income. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

• The Probability of Default (PD) is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

• The Exposure at Default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

• The Loss Given Default (LGD) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The ECL model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. Under Stage 1, where there has not been a significant increase in credit risk since initial recognition, an amount equal to 12 months ECL will be recorded. Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the assets are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded. Under Stage 3, where there is objective evidence of impairment at the reporting date these assets will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded.

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money.

Impairments of non-financial assets
The Company assesses at each reporting date whether there is an indication that an asset may be impaired. The impairment loss is determined by comparing the carrying amount with the recoverable amount of the asset. The recoverable amount is the higher of the assets or the cash-generating unit's fair value less costs to sell and value in use. Where the carrying amount exceeds the recoverable amount, the asset is deemed impaired and is written down to its recoverable amount.

Offsetting of financial instruments
Financial assets and financial liabilities are presented on a gross basis unless the Company has a current legally enforceable right to set off the financial asset and financial liability and the Company intends to settle the financial asset and financial liability n a net basis

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions
Provision is made when the directors consider, at the accounting reference date, the Company to have a legal or constructive obligation to make future payment. Provisions are released when evidence exists, prior to the signing of the financial statements, that the obligation to make future payment is no longer more likely than not. Provision is made at the directors' best estimate of the amount payable.

Hedge accounting
During the year the Company acquired a portfolio of inflation-linked bonds issued by utility companies under the UK private finance initiative ('PFI'), for which risk management focuses on changes in fair value resulting from fluctuations in UK interest rates and implicit inflation expectations of the UK Retail Price Index ('UK RPI'). Risk management is based on the use of a portfolio of simple fixed-for-float interest rate swaps and simple zero coupon inflation swaps, settled in each case generally through the London Clearing House. The primary sensitivity of zero coupon inflation swaps relates to fluctuations in UK RPI swap rates, and they are used to hedge changes in the value of the inflation linked bonds resulting from fluctuations in inflation expectations. Each inflation swap has only one cash flow at maturity. As inflation expectations move up or down, the expected cash flows at maturity will rise or fall to offset changes in the value of the inflation-linked bonds. The interest rate swaps are used to hedge the sensitivity of the inflation-linked bonds to interest rate risk, with payment dates generally matching those of the inflation-linked bonds during the term.

IFRS 9 contains changes for hedge accounting. These new rules aim to improve the harmonisation between the accounting treatment of hedging relationships and (economic) risk management. However, with the issue of IFRS 9 the IASB has not yet completed the revision of this regulatory area. IFRS 9 therefore offers the option to continue to apply the previous provisions of IAS 39 on hedge accounting. The Company has weighed the pros and cons of both approaches. In the Company's view, the revision of the hedge accounting rules has not yet progressed sufficiently in IFRS 9. Due to their provisional character, and considering the costs of a changeover, the revised rules do not offer any substantial advantage over the existing regulations of IAS 39. The Company is therefore exercising its option to continue to apply the hedge accounting rules of IAS 39 described below. IAS 39 contains extensive hedge accounting regulations which apply if it can be shown that the hedging instruments – especially derivatives – are employed to hedge risks in the underlying non-trading transactions. Only one type of hedge accounting is applied by the Company as described below

Fair value hedge accounting
IAS 39 prescribes the use of hedge accounting to avoid a distorted impact on earnings for derivatives which serve to hedge the fair value of assets against one or more defined risks. The Company is subject to interest rate and inflation risk on the PFI assets acquired during the year. Interest rate and inflation swaps are used to hedge these risks. The derivative financial instruments used for hedging purposes are recognised at fair value as fair values of derivative hedging instruments. Any changes in the fair value of the hedged asset resulting from an opposite move in the hedged risk are also recognised in the balance sheet. Offsetting changes on remeasurement associated with the hedging instruments and the hedged underlying transactions are recognised in the income statement as net income from hedge accounting. Any portion of the changes in fair value that are not attributable to the hedged risk is accounted for in accordance with the rules of the valuation category to which the hedged asset belongs. For these interest rate and inflation risks the fair value hedge accounting is applied as a micro fair value hedge.

In micro fair value hedge accounting an underlying transaction is linked with one or more hedging transactions in a hedging relationship. The carrying amounts of the hedged transactions are adjusted through profit or loss in the event of changes in fair value attributable to the hedged risk.

The application of hedge accounting rules is tied to a number of conditions. These relate above all to the documentation of the hedging relationship and also to its effectiveness.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Hedge accounting (continued)
The hedge must be documented at inception. Documentation must include in particular the identification of the hedging instrument, the related hedged item or transaction, the nature of the risk being hedged and how effectiveness of the hedge is assessed. Besides the documentation, IAS 39 also requires evidence of an effective hedge for the entire period of the hedging relationship in order to apply hedge accounting rules. Effectiveness in this context means the relationship between the change in fair value or cash flow of the hedged item and the offsetting change in fair value or cash flow of the hedging instrument. If these changes offset each other almost fully, a high degree of effectiveness exists.

Proof of effectiveness requires, firstly, that a high degree of effectiveness can be expected from a hedge in the future (prospective effectiveness). Secondly, when a hedge exists, it must be demonstrated that it was highly effective during the period under review (retrospective effectiveness). Both the retrospective and prospective effectiveness must be within a range of 0.8 to 1.25. The Company uses the statistical method of regression analysis to assess effectiveness in micro fair value hedge accounting. The changes in fair value of the hedged transaction and the hedging instrument are determined by means of historical simulations for the prospective effectiveness test, while the actual changes in fair value are used for the retrospective effectiveness test.

The Company has early adopted 'Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7'. The amendments provide temporary reliefs which enable the Company's hedge accounting to continue during the period of uncertainty, before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year are addressed below:

Effective Interest Rate (EIR) method
The Company's EIR method, recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of loans and deposits and recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgement regarding the expected behaviour and life-cycle of the instruments, as well as expected changes to base rates and other fee income/expense that are integral parts of the instrument.

Leased assets
Judgement is required in the classification of a lease at inception and after any material amendment to assess whether substantially all the significant risks and rewards of ownership accrue to the lessor or the lessee.

Post-retirement benefits
The Company has an obligation to pay pension benefits to deferred pensioner and pensioner members. The present value of the obligation depends on a number of factors, including life expectancy, asset valuations and the discount rate on corporate bonds. The directors estimate these factors in determining the net pension obligation in the statement of financial position. The assumptions reflect historical experience and current trends. See note 21 for the disclosures of the final salary pension schemes.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Fair value of financial assets measured at fair value through OCI
The fair value calculation approved by the directors with respect to financial assets measured at fair value through OCI where there is not a readily available market price, represents a discounted cash flow model approach either internally using an appropriate market based credit spread as the material model input or purchased externally using either market derived spread or price data. See notes 22 and 24 for further details as regards market risk and fair value estimation.

Fair value of financial instruments
The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility.

Impairments
The measurement of the ECL allowance for financial assets is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). A number of significant judgements are required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk:
- Choosing appropriate models and assumptions for the measurement of ECL:
- Establishing the number and relative weightings of forward looking scenarios; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Deferred tax assets
Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Following the transfer and acquisition of the Investment Book and PFI portfolio assets that commenced in 2015, the current projection suggests that there will be sufficient future taxable profits available that enables tax attributes with respect to carried forward losses and excess capital allowances to be recognised.

Hedge accounting
The Company has designated micro hedge relationships as fair value hedges. The Company's hedge accounting policies include an element of judgement and estimation. Estimates of future interest rates and the general economic environment will influence the availability and timing of suitable hedged items, with an impact on the effectiveness of the hedge relationships. Details of the Company's hedge accounting policies are described in Note 2 with the hedging relationships described in note 5.

4. FINANCIAL INSTRUMENTS

The Company has the following assets measured at fair value through profit or loss:

	2019 £'000	2018 £'000
Interest rate derivatives held with group undertakings	24,273	5,823

The Company has the following assets measured at fair value through OCI:

	2019 £'000	2018 £'000
Financial assets measured at fair value through OCI	4,155,600	3,611,358

The Company has the following liabilities measured at fair value through profit or loss:

	2019 £'000	2018 £'000
Interest rate and inflation derivatives held with group undertakings	1,926,705	10,720

All of the derivatives above were designated as fair value through profit and loss on initial recognition.

Interest rate derivatives were transferred from a fellow group undertaking during 2016 at the same time as the transfer of lease receivables (see note 16), providing an economic hedge between the fixed rate applicable to some of those lease receivables as compared to the floating rate funding. Since 2017, further interest rate derivatives were entered into in order to hedge the underlying interest rate risk of the corporate bonds held within the Investment Book portfolio.

During 2019 the Company entered into interest rate and inflation derivatives in order to hedge the underlying risks of the PFI bonds acquired by the Company as part of a wider Group restructuring. Details of the hedging relations with respect to these transactions are described in note 5 below.

5. HEDGING RELATIONSHIPS

Positive and negative fair values of derivative hedging instruments

The fair values of micro fair value hedge accounting derivatives used to hedge underlying transactions against interest rate and inflation risks as at 31 December 2019 are shown below. There are no comparative figures disclosed as these positions were only entered into during 2019:

	Positive fair values £'000	Negative fair values £'000	Nominal value £'000
Interest rate derivatives	22,931	94,272	876,958
Inflation swaps	-	1,830,313	930,202
	22,931	1,924,585	1,807,160

5. HEDGING RELATIONSHIPS (continued)

The nominal values of the hedge instruments as at 31 December 2019 are shown below:

	£'000
Up to 3 months:	
Interest rate derivatives	-
Inflation swaps	3,581
3 months up to one year:	
Interest rate derivatives	-
Inflation swaps	10,376
1 year up to 5 years:	
Interest rate derivatives	-
Inflation swaps	35,294
Over 5 years:	
Interest rate derivatives	876,958
Inflation swaps	880,951
	1,807,160

The carrying amounts attributable to hedged items as at 31 December 2019:

	Micro fair value hedge £'000	Value changes in the year £'000
Bonds held at amortised cost	1,818,293	(36,211)

6. NET INCOME FROM HEDGE ACCOUNTING

	2019 £'000	2018 £'000
All with respect to micro fair value hedges:		
Changes in fair values attributable to hedging instruments	44,580	-
Changes in fair values attributable to hedged items	(36,211)	-
	8,369	-

7. NET OTHER OPERATING INCOME

	2019 £'000	2018 £'000
Management charges recoverable from group undertakings	6,011	1,559
Liquidation distribution and other recoveries	-	547
Other operating (expense) / income	(280)	886
	5,731	2,992

Of the management charges recoverable from group undertakings, £Nil (2018: £1,533,000) relates to the contributions paid to the Company's pension schemes which have been taken to the pension balances held in the statement of financial position. The significant increase in the management recharges from group undertakings for the year reflects the recharges made with respect to the depreciation, irrecoverable VAT and net interest income arising following the first year adoption of IFRS 16.

8. ADMINISTRATIVE EXPENSES

	2019 £'000	2018 £'000
Recharge from Commerzbank AG London Branch	5,615	1,850
Bank charges	-	7
Pension plan administrative expenses	1,500	-
Pension plan past service costs	-	8,900
Irrecoverable VAT relating to lease liability	1,038	-
	8,153	10,757

The breakdown of the recharge from Commerzbank London Branch comprises:

	2019 £'000	2018 £'000
Salaries including variable compensation	586	784
Social security costs	76	131
Other pension costs	29	48
Other administrative expenses	4,476	719
Mark up	448	168
	5,615	1,850

All administrative expenses, including auditors' remuneration for services to the Company, were borne by Commerzbank AG London Branch. The Company had 3 employees during the year (2018: none). The Company has been recharged a proportion of the costs incurred by Commerzbank AG London Branch under a Service Level Agreement with respect to assets previously managed by the Credit Portfolio Management business and now managed by Treasury.

The pension administrative expenses disclosed above represents costs directly incurred by the Dresdner Kleinwort Pension Plan where in prior years those costs were incurred directly by Commerzbank AG London Branch. The irrecoverable VAT charges arise on the on quarterly property lease payments now charged directly to the Company following the adoption of IFRS 16. The pension plan past service cost arising in 2018 represented the provision required for the Dresdner Kleinwort Pension Plan with respect to the equalisation of Guaranteed Minimum Pensions (GMPs) following the Lloyds Bank court judgement which confirmed that inequalities in GMPs must be removed in all UK pension plans.

The audit fee applicable in respect of this Company's financial statements was £68,390 (2018: £51,454), with no other amounts paid with respect to other services provided to the Company by the Company's auditors.

9. DIRECTORS' EMOLUMENTS

	2019 £	2018 £
Aggregate emoluments	84,857	85,622
Company pension contributions to money purchase schemes	3,711	3,713
	88,568	89,335

Retirement benefits are accruing to 6 directors under money purchase schemes (2018: 5).

Emoluments in respect of the highest paid director were as follows:	2019 £	2018 £
Aggregate emoluments	28,073	22,980
Company pension contributions to money purchase scheme	2,552	2,306
	30,625	25,286

10. DIRECTORS' LOANS AND OTHER TRANSACTIONS

At 31 December 2019, there was 1 director (2018: 2) with an outstanding short term interest free loan relating to a season ticket loan totalling £4,200 (2018: £5,466). In addition no amount was outstanding in respect of any other transactions or arrangements of the kinds described in Part II of Schedule 6 (so far as applicable) to the Companies Act 2006 between the directors of the Company and persons connected with them and either the Company or any of its subsidiaries.

No director had any share options in either the Company or Commerzbank AG during the year (2018: Nil) and no director became entitled to receive shares under the long term incentive scheme (2018: Nil).

11. TAX (CHARGE) / CREDIT ON PROFIT

	2019 £'000	2018 £'000
Tax credit included in profit and loss:		
Current tax – relating to current year	(135)	(88)
Current tax – relating to prior year	(22)	(173)
Deferred tax:		
- Origination and reversal of temporary difference	(807)	1,319
- Effect of rate change	(1,101)	(806)
- Relating to prior years	(148)	-
	(2,213)	252

Tax credit included in other comprehensive income:	2019 £'000	2018 £'000
Deferred tax:		
- change to deferred tax with respect to the change in the pension assets taken to other comprehensive income	45,118	2,459
- change to deferred tax for unrealised fair value gains / losses	(5,816)	8,240
- change to deferred tax for financial instrument transitional adjustments	-	839
	39,302	11,538

The tax charge included in profit and loss for the year differs from the standard rate of corporation tax in the UK for the year ended 31 December 2019 of 19% (2018: 19%). The differences are explained below:	2019 £'000	2018 £'000
Profit before taxation	45,474	29,206
Profit before taxation multiplied by the standard rate of corporation tax in the UK of 19% (2018: 19%)	(8,640)	(5,549)
Effects of:		
Non-deductible expenses	(47)	86
Movement in unrecognised deferred tax assets	7,679	7,455
Transfer of deferred tax from other comprehensive income	-	(839)
Effect of rate change	(1,101)	(806)
Group relief claimed at no charge	28	78
Adjustments relating to prior years	(170)	(173)
Other non-deductible items	38	-
Tax (charge) / credit included in profit and loss	(2,213)	252

On 11 March 2020 it was announced (and substantively enacted on 17 March 2020, with enactment on 22 July 2020) that under the Provisional Collection of Taxes Act 1968, the UK corporation tax rate would remain at 19% and not reduce to 17% (the previously enacted rate) from 1 April 2020. The deferred tax balances included within the accounts have been calculated with reference to the rate of 17%, as required under IFRS as the substantively enacted rate at the balance sheet date.

12. TANGIBLE ASSETS

	Furniture & fittings £'000	Right of use assets £'000	Total £'000
Cost:			
1 January 2019	85,060	-	85,060
Adjustment on adoption of IFRS 16	-	59,015	59,015
31 December 2019	85,060	59,015	144,075
Accumulated depreciation:			
1 January 2019	83,827	-	83,827
Charge for the year	299	6,053	6,352
31 December 2019	84,126	6,053	90,179
Net book value at:			
31 December 2019	934	52,962	53,896
31 December 2018	1,233	-	1,233

Within furniture & fittings, assets totalling £81,646,000 (2018: £67,227,000) that are fully depreciated are still in use.

The right of use assets included on adoption of IFRS 16, which includes an asset with respect to the dilapidations of the property of £2,601,000, reflects the value of the floors of 30 Gresham Street that are leased (see note 19) less the amounts recorded as a net investment in finance lease (see note 16) with respect to floors that have been sub-leased to a third party.

13. INVESTMENTS

	Shares in Subsidiaries £'000
Cost:	
1 January 2019 and 31 December 2019	3,061
Provision for impairment:	
1 January 2019	-
Charge for the year	247
31 December 2019	247
Net book value at:	
31 December 2019	2,814
31 December 2018	3,061

The directors believe that the carrying value of the investments in subsidiary undertakings is supported by their underlying net assets. The Company's subsidiary undertakings are listed below:

Company	Country of incorporation or registration	Principal activity	% of Ordinary shares held
Commerzbank Capital Investment Company Ltd	England and Wales	Dormant	100
Dresdner Kleinwort Benson Guernsey Services Ltd	Guernsey	Dormant	100
Commerzbank Securities Nominees Ltd	England and Wales	Dormant	100
Rood Nominees Ltd	England and Wales	Nominee	100
Commerzbank Finance BV and its subsidiary undertakings	The Netherlands	Holding Company	100

In addition to the investments shown above, the Company held a 57.2% interest in a Dutch limited partnership, Entertainment Asset Holdings CV, which was disposed of on 15 November 2019 for its carrying value.

14. DEFERRED INCOME TAX ASSETS

	2019 £'000	2018 £'000
The net deferred income tax balance consists of the following:		
Deferred tax assets	63,329	70,366
Deferred tax liabilities	(8,043)	(52,326)
	55,286	18,040

Deferred tax assets:

	Provision £'000	Losses £'000	Excess capital allowances £'000	Relating to unrealised fair value losses £'000	IFRS 9 Transition Adjustment £'000	Relating to pension liability £'000	Total £'000
At 1 January 2018	89	23,860	38,865	-	138	190	63,142
(Charge) / credit to the income statement	(89)	4,871	(3,862)	-	(52)	(260)	608
Credit to other comprehensive income	-	-	-	6,546	-	70	6,616
At 31 December 2018	-	28,731	35,003	6,546	86	-	70,366
Credit / (charge) to the income statement	-	5,553	(6,741)	-	(33)	-	(1,221)
(Charge) to other comprehensive income	-	-	-	(5,816)	-	-	(5,816)
At 31 December 2019	-	34,284	28,262	730	53	-	63,329

Deferred tax liabilities:

	Relating to brought forward unrealised fair value losses £'000	Relating to unrealised fair value gains £'000	Relating to the pension surplus £'000	Total £'000
At 1 January 2018	1,216	1,694	54,243	57,153
(Credit) / charge to the income statement	306	-	(211)	95
(Credit) to other comprehensive income	(839)	(1,694)	(2,389)	(4,922)
At 31 December 2018	683	-	51,643	52,326
(Credit) / charge to the income statement	(356)	-	1,191	835
(Credit) to other comprehensive income	-	-	(45,118)	(45,118)
At 31 December 2019	327	-	7,716	8,043

No deferred tax has been recognised with respect to trading losses of £310,191,000 (2018: £349,828,000) and capital losses of £13,949,000 (2018: £13,966,000) due to the uncertainty surrounding the availability of sufficient future taxable profits and future capital gains against which these losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

On 11 March 2020 it was announced (and substantively enacted on 17 March 2020, with enactment on 22 July 2020) that under the Provisional Collection of Taxes Act 1968, the UK corporation tax rate would remain at 19% and not reduce to 17% (the previously enacted rate) from 1 April 2020: The deferred tax balances included within the accounts have been calculated with reference to the rate of 17%, as required under IFRS as the substantively enacted rate at the balance sheet date. However, following the enactment of the rate of 19%, it is anticipated that the reversal of temporary differences will occur at this rate and that the maximum impact on the quantum of the deferred tax asset recognised will be £6,150,000.

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI

	2019 £'000	2018 £'000
At 1 January	3,611,358	3,120,363
Foreign exchange (losses) / gains	(205,961)	86,307
Additions	1,411,806	1,426,753
Disposals	(689,509)	(957,293)
Amortisations	(12,148)	(4,013)
Unrealised gains / (losses) taken to equity	40,054	(60,759)
At 31 December	4,155,600	3,611,358

The financial assets at fair value through OCI are considered to be non-current as the asset backed securities and corporate bonds have a maturity in excess of 12 months. As at 31 December 2019 the amount of expected credit losses applicable to the assets above was £66,000 (2018: £361,000).

The financial assets at fair value through OCI have the following maturity profiles:

	2019 £'000	2018 £'000
Maturity between 1 and 5 years	91,218	52,247
Maturity after more than 5 years	4,064,382	3,559,111
Total	4,155,600	3,611,358

The financial assets at fair value through OCI include the following:

	2019 £'000	2018 £'000
Listed securities:		
Asset backed securities	3,809,528	3,105,675
Corporate bonds	17,771	206,171
Unlisted securities:		
Asset backed securities	328,301	261,414
Corporate bonds	-	38,098
Total	4,155,600	3,611,358

The financial assets at fair value through OCI are denominated in the following currencies:

	2019 £'000	2018 £'000
UK Pound	-	10,199
Euro	3,243,152	2,605,243
US Dollar	912,448	995,916
Total	4,155,600	3,611,358

16. LOANS AND FINANCIAL INVESTMENTS AT AMORTISED COST

NON CURRENT	2019 £'000	2018 £'000
Bonds held at amortised cost and subject to hedge accounting	2,022,507	-
Bond held at amortised cost	39,611	40,178
Net investment in finance lease	51,358	-
Lease receivables	-	14,125
	2,113,476	54,303

CURRENT	2019 £'000	2018 £'000
Current and deposit account balances held with an intermediate parent undertaking	1,968,980	104,940
Other amounts owed by an intermediate parent undertaking	37,221	143
Amounts owed by fellow subsidiary undertakings	6,118	6,316
Bond held at amortised cost	566	566
Net investment in finance lease	4,823	-
Lease receivables	9,963	13,693
Other debtors	1,510	38
	2,029,181	125,696
Impairment provisions (see note 17)	(9,652)	(6,463)
	2,019,529	119,233

In accordance with IFRS 16, from 1 January 2019 the Company has recognised a net investment in finance lease with respect to the sub-lease of certain floors of 30 Gresham Street where a lease liability has been recorded as shown in note 19. This has been determined because the expiration terms of the sub lease coincide with those of the head lease. Details of the gross minimum lease payments are shown below:

	2019 £'000
No later than 1 year	8,271
Later than 1 year and no later than 5 years	34,614
More than 5 years	30,287
	73,172
Future finance income on finance lease receivables	(16,991)
Net investment in finance leases	56,181

The net investment in finance leases is as follows:	
No later than 1 year	4,823
Later than 1 year and no later than 5 years	24,380
More than 5 years	26,978
Net investment in finance leases	56,181

The current account and other balances held with group undertakings are non-interest bearing. The deposit account balances earned a variable rate of interest. The directors therefore believe that the fair values of these assets are represented by their book values.

Of the total amount of lease receivables held as at 31 December 2019, approximately £6.2m (2018: £19.3m) are fixed rate receivables with the remainder being variable rate. As these receivables were transferred to the Company at fair value during the second half of 2016 and there has been no material change in interest rates, the directors believe that there is no material difference between the fair value and the carrying value of these receivables at the balance sheet date.

16. LOANS AND FINANCIAL INVESTMENTS AT AMORTISED COST (continued)

The bond held at amortised cost and not subject to hedge accounting earns a fixed rate of interest but with the rate amended on a quarterly basis to reflect the reduction of principal due to amortisation. As the bond was acquired during 2017 and there has been no material change in interest rates, the directors believe that there is no material difference between the fair value and the carrying value of this asset at the balance sheet date.

17. PROVISIONS FOR IMPAIRMENT

	2019 £'000	2018 £'000
Balance as at 1 January	6,463	6,058
Adjustment on adoption of IFRS 9	-	93
Stage 1 charge / (credit) to the profit and loss account	3,386	(18)
Foreign exchange movements	(197)	330
Balance at 31 December	9,652	6,463

The balance as at 31 December 2019 represents a stage 3 impairment of £6,108,000 against an amount owed by a fellow subsidiary undertaking and £3,544,000 of stage 1 impairments, including £3,338,000 against bonds held at amortised cost that are hedge accounted, £85,000 against the bond held at amortised costs and £121,000 against the net investment in finance lease. (2018: a stage 3 impairment of £6,306,000 against an amount owed by a fellow subsidiary undertaking and £157,000 of stage 1 impairments, including £58,000 against lease receivables and £97,000 against the bond held at amortised cost).

18. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2019 £'000	2018 £'000
Current and loan account balances owed to group undertakings	6,197,219	3,698,480
Settlement balances owed to group undertakings	74,721	2
Other amounts owed to Commerzbank AG London Branch	7,256	3,419
Corporation tax payable	205	89
VAT liability	1,225	-
Trading reserves	701	-
Lease liabilities	10,880	-
Derivatives held with group undertakings (see note 4)	1,926,705	10,720
Customer deposits	1	1
Other creditors	371	329
	8,219,284	3,713,040

The current and loan account balances owed to group undertakings are unsecured, repayable on demand and bear interest at market rates. As the funding interest is charged at a variable rate, the directors believe that the fair value of these liabilities is represented by their book values.

19. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2019 £'000	2018 £'000
Lease liabilities	95,874	-

IFRS 16 – Leases is effective for the financial year beginning 1 January 2019 and replaces IAS 17. In accordance with IFRS 16, from 1 January 2019 the Company is required to recognise liabilities to make lease payments.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as at 31 December 2018 as follows:

	£'000
Operating lease commitments as at 31 December 2018	129,653
Weighted average incremental borrowing rate as at 1 January 2019	2.147%
Discounted operating lease commitments as at 1 January 2019	117,403

The discounted operating lease commitments recognised on 1 January 2019 includes an amount of £6,396,000 with respect to the expected payment at the end of the lease for dilapidations.

Set out below are the carrying amounts of lease liabilities and the movements during the year:

	2019 £'000
As at 1 January 2019	117,403
Accretion of interest	2,325
Payments	(12,974)
As at 31 December 2019	106,754

Details of the gross minimum lease payments are shown below:

	2019 £'000
No later than 1 year	12,974
Later than 1 year and no later than 5 years	51,898
More than 5 years	51,807
	116,679
Future interest charges on lease payables	(9,925)
Lease liabilities	106,754

The lease liabilities are as follows:	
No later than 1 year	10,880
Later than 1 year and no later than 5 years	45,931
More than 5 years	49,943
Lease liability	106,754

The future lease payments, representing the lease of 30 Gresham Street, were subject to a rent review applicable from 25 September 2018, which was signed and agreed on 17 July 2020. Under the terms of that agreement the lease payments of £12,974,000 per annum due until 25 September 2028 were increased to £13,337,000 per annum. The resulting increase to the lease liability of £8,443,000, taking into account prevailing interest rates, will be reflected from the date of that agreement with a matching increase to the applicable right of use assets.

20. CALLED UP SHARE CAPITAL

	2019 £'000	2018 £'000
Allotted, called up and fully paid:		
4,500,000 ordinary shares of £1 each	4,500	4,500

21. POST RETIREMENT BENEFITS

The Company has maintained funded pension schemes in the UK for deferred pensioner and pensioner members: the Dresdner Kleinwort Pension Plan (DK Plan) and the Dresdner Bank AG London Branch Pension Plan (Branch Plan).

On 15 December 2015 the trustees of the Branch Plan entered into a full insurer buy in and the Company made a special contribution of £5m in order that the trustees could meet their obligations under the terms of the buy in. The Company made a final contribution to the Branch Plan of just over £1.5m in September 2018 so that the trustees could meet their final obligations in order to secure the buy-out and wind up of the scheme, at which point the accounting liability for that scheme ceased.

The DK Plan has two sections. A "final salary" section that provides benefits for members based on their service and final pensionable pay at leaving and a "money purchase" section that provides benefits for members based on the value of each member's retirement account. Benefits payable from both sections of the DK Plan are subject to a minimum level and so the DK Plan is classed as a "hybrid" scheme.

In December 2018, the DK Plan trustees, with the support of the Company, entered into an exclusivity contract with a third party insurer to secure a full buy-in of the DK Plan. The buy-in was signed in two tranches – on 17 January 2019 and 7 March 2019. The accounting treatment resulted in a re-measurement asset loss of approximately £224m which has been recognised as part of other comprehensive income. This loss arose because the insurance premium was higher than the accounting measure of the benefits being secured.

Having agreed the terms of the buy in, the Company and DK Plan trustees agreed that the Company would only be required to make a contribution (up to a maximum of £33.5m) if a deficit arose during the completion of the buy-in process. The contribution therefore paid to the DK Plan in 2019 was £Nil and based on the agreed terms of the full insurer buy-in, the contribution for 2020 is also expected to be £Nil.

The trustee board of the DK Plan is required by law to act in the best interests of members and are responsible for setting certain policies (e.g. investment and contribution policies) of the scheme. The scheme is operated in London on behalf of group undertakings and is a Registered Scheme under the provisions of Schedule 36 of the Finance Act 2004. The DK Plan is a closed scheme with no further benefits being accrued.

Formal valuations of the DK Plan are performed every three years by qualified independent actuaries and the latest formal actuarial valuation was completed as at 1 January 2017. The results for the DK Plan have been updated to 31 December 2019 by an independent actuary.

At the latest formal valuation date on 1 January 2017, the market value of the assets of the DK Plan was £1,421m (£1,124m in respect of the final salary section and £297m in respect of the money purchase section). Based on the assumptions used for funding purposes, the value of assets attributable to members was sufficient at that date, on a going concern basis, to cover 98% of the value of benefits that had accrued to members (including the assessed value of the "Reference Scheme Test" underpin in the money purchase section). The actuarial method used for this assessment was the Projected Unit method and the main assumptions used were:

- an investment return of 1.86% pa initially, dropping linearly to 1.75% pa over the next 7 years;
- pension revaluation in deferment of 2.77% pa; and
- pension increases in payment of 3.3% pa.

21. POST RETIREMENT BENEFITS (continued)

The amounts recognised in the balance sheet as at 31 December 2019 for the DK Plan were determined as follows:

	£'000
Fair value of plan assets	808,217
Present value of defined benefit obligation	(762,830)
Asset in the balance sheet	45,387

The amounts recognised in the balance sheet as at 31 December 2018 for the DK Plan were determined as follows:

	£'000
Fair value of plan assets	1,081,694
Present value of defined benefit obligation	(777,910)
Asset in the balance sheet	303,784

The following table sets out the key FRS 101 assumptions used for the DK Plan as at 31 December 2019:

Discount rate	2.1% p.a.
Retail price index	2.9% p.a.
Consumer price index	2.1% p.a.
Pension in deferment increases	2.1% p.a.
Pension in payment increases	2.8% p.a.
Life expectancy of male aged 60 in 2019	27.4 years
Life expectancy of male aged 60 in 2039	28.8 years

The following table sets out the key FRS 101 assumptions used for the DK Plan as at 31 December 2018:

Discount rate	2.8% p.a.
Retail price index	3.2% p.a.
Consumer price index	2.2% p.a.
Pension in deferment increases	2.2% p.a.
Pension in payment increases	3.1% p.a.
Life expectancy of male aged 60 in 2018	29.0 years
Life expectancy of male aged 60 in 2038	30.8 years

At 31 December 2019 the weighted average duration of the defined benefit obligation of the DK Plan was 15.9 years (2018: 16.2 years).

Following the full insurer buy in of the DK Plan this scheme has an insurance policy that matches the vast majority of the liabilities. This scheme also has residual assets which are held in separate trustee administered funds and are managed subject to an appropriate level of risk, taking into account they are expected to cover the cost of equalising Guaranteed Minimum Pensions and any extra liabilities identified. This has led to the current asset split shown below.

21. POST RETIREMENT BENEFITS (continued)

The allocation of assets in the DK Plan as at 31 December 2019 was (all assets had a quoted market price in an active market):

	£m	%
Gilts	58.2	7.2%
Cash and Repos	3.3	0.4%
Insurance policies	746.7	92.4%
Total	808.2	100%

The allocation of assets in the DK Plan as at 31 December 2018 was (all assets had a quoted market price in an active market):

	£m	%
Corporate bonds	370.7	34.3%
Gilts	823.9	76.2%
Derivative financial instruments	(6.5)	(0.1%)
Cash and Repos	(106.4)	(10.4%)
Total	1,081.7	100%

The actual return on scheme assets over 2019 for the DK Plan was a loss of £194.2m (2018: loss of £34.8m). None of the DK Plan assets are invested directly in the Company's own financial instruments or any property occupied by, or assets used by, the Company.

The DK Plan previously exposed the Company to a number of risks including changes in pensions' legislation and actuarial risk, such as longevity risk, inflation risk, interest rate risk and investment risk. However since buy-in took place the majority of these risks are now mitigated by the insurance policies in place.

In respect of the DK Plan the following table shows the movement in the defined benefit asset during the year ended 31 December 2019:

	Defined benefit obligation	Fair value of plan assets	Net defined benefit asset
	£'000	£'000	£'000
At 1 January 2019	(777,910)	1,081,694	303,784
Included in profit and loss:			
Administrative expenses	-	(1,500)	(1,500)
Interest (cost) / income	(21,434)	29,940	8,506
	(799,344)	1,110,134	310,790
Included in OCI – Re-measurements:			
Actuarial (loss) arising from financial assumptions	(69,136)	-	(69,136)
Actuarial gain arising from demographic assumptions	37,164	-	37,164
Actuarial (loss) arising from experience adjustments	(9,310)	-	(9,310)
Return on plan assets excluding interest income on assets	-	(224,121)	(224,121)
	(840,626)	886,013	45,387
Benefits paid	77,796	(77,796)	-
At 31 December 2019	(762,830)	808,217	45,387

21. POST RETIREMENT BENEFITS (continued)

A UK High Court judgment was issued on 26 October 2018 relating to Guaranteed Minimum Pensions ('GMP'). Although the ruling relates to the Lloyds Banking Group pension schemes, it is expected to create a precedent for other UK defined benefit pension schemes. The ruling requires the equalisation of member benefits earned between 1990 and 1997 to address gender inequality in instances where GMP benefits are currently unequal. The Company made a provision for the estimated financial impact of this ruling on the DK Plan by recognising a past service cost of £8.9m in the year ended 31 December 2018. Throughout 2019 the trustees of the DK Plan carried out further work to address this inequality, resulting in an update of the provision for the financial impact to £15m. This change has been put through OCI re-measurements.

In respect of the DK Plan the following table shows the movement in the defined benefit asset during the year ended 31 December 2018:

	Defined benefit obligation	Fair value of plan assets	Net defined benefit asset
	£'000	£'000	£'000
At 1 January 2018	(860,018)	1,179,096	319,078
Included in profit and loss:			
Past service cost	(8,900)	-	(8,900)
Interest (cost) / income	(20,363)	28,021	7,658
	(889,281)	1,207,117	317,836
Included in OCI – Re-measurements:			
Actuarial gain arising from financial assumptions	50,057	-	50,057
Actuarial (loss) arising from experience adjustments	(1,300)	-	(1,300)
Return on plan assets excluding interest income on assets	-	(62,809)	(62,809)
	(840,524)	1,144,308	303,784
Benefits paid	62,614	(62,614)	-
At 31 December 2018	(777,910)	1,081,694	303,784

In respect of the Branch Plan the following table shows the movement in the defined benefit liability during the year ended 31 December 2018:

	Defined benefit obligation	Fair value of plan assets	Net defined benefit liability
	£'000	£'000	£'000
At 1 January 2018	(30,469)	29,355	(1,114)
Included in profit and loss:			
Interest (cost) / income	(475)	468	(7)
	(30,944)	29,823	(1,121)
Included in OCI – Re-measurements:			
Actuarial gain arising from financial assumptions	1,878	-	1,878
Actuarial (loss) arising from experience adjustments	(602)	-	(602)
Return on plan assets excluding interest income on assets	-	(1,688)	(1,688)
	(29,668)	28,135	(1,533)
Contributions paid by the Company	-	1,533	1,533
Benefits paid	780	(780)	-
Settlement following scheme buy-out	28,888	(28,888)	-
At 31 December 2018	-	-	-

21. POST RETIREMENT BENEFITS (continued)

The directors note that all FRS 101 pension accounting entries are less volatile now due to the buy-in policies, which means the assets are valued to be in line with the defined benefit obligation which is linked to yields on AA rated corporate bonds. Arriving at the assumptions requires the directors to exercise significant judgement.

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation (and therefore the asset value) in respect of the DK Plan by the estimated amounts shown below had they happened. In practice assumptions do not change in isolation and events leading to assumption changes often affect scheme asset values too.

31 December 2019	Defined benefit obligation	
£m	Increase	Decrease
Discount rate (0.5% movement)	(55.8)	62.8
Pension in deferment increases (0.25% movement)	3.3	(3.3)
Pension in payment increases (0.25% movement)	21.5	(20.5)
Life expectancy (one year movement)	31.3	(31.0)

Since the 31 December 2019 accounting date, financial market conditions and asset values have been extremely volatile as a result of COVID-19 outbreak. This has also introduced increased uncertainty in future longevity expectation. The impact of this volatility is considerably reduced for the DK Plan following its buy-in transaction which passed almost all risks to the insurer. However, there does remain some risk within the balance sheet, albeit small, due to the residual assets of the DK Plan being invested in government bonds.

22. FINANCIAL RISK MANAGEMENT

There are a number of risks to which the Company is exposed that are an inherent part of its activities. As at 31 December 2019, the Board places reliance on the Global Risk Management function of Commerzbank AG and receives regular reports on specific risks affecting the Company. The directors have however reviewed the approach applied and consider this to be appropriate for the Company. These risks are described in more detail below. The directors believe that none of the risks described have been adversely impacted by the COVID-19 pandemic:

Market risk

Price/Interest rate risks
Market risk is the potential of suffering losses due to changes in market prices or parameters influencing market prices. It includes changes concerning illiquidity of sub-markets resulting in the inability of buying/selling positions of a special size, within a special period of time or at fair value conditions.

Since April 2015 the Company has been exposed to price risks impacting the fair value of the Investment Book assets linked to movements in Corporate and ABS credit spreads and interest rates of the respective currencies.

22. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Price/Interest rate risks (continued)
At 31 December 2019, if the credit spreads on the financial assets measured at fair value through OCI had been 10 basis points higher / lower, with all other variables held constant, then the fair value of those assets would have been c£12.2m lower / higher (2018: c£16.0m lower / higher). If the interest rates on the financial assets measured at fair value through OCI had been 10 basis points higher / lower, with all other variables held constant, then the fair value of those assets would have been c£0.1m lower / higher (2018: c£0.3m lower / higher), with the calculation taking into account the impact of the interest rate derivatives in place to hedge the applicable hold to collect and sell investments.

The Company remains exposed to market risk through exposure to assets within its final salary pension funds, which may ultimately lead to a pension deficit which the Company may need to fund in future years. As described in note 21 the Company had in prior years consulted with the trustees as regards the investment strategy being applied resulting in an increase to the interest rate and inflation hedging of the liabilities. The market risk has now been almost completely mitigated following the completion of a full insurer buy-in of the DK pension plan during Q1 2019. Should the Company be required to provide any further deficit recovery contributions, these would be matched by income from Commerzbank AG London Branch under the Service Level Agreement.

Responsibility for establishing policy for the management of market risk and setting limits for business areas lies with the Board of Commerzbank AG. It may delegate this responsibility to an appropriate body entitled to act within a Board approved overall framework. The Market Risk function develops risk measurement and monitoring policies in conjunction with the trading and non-trading businesses and monitors limit utilisation on a daily basis. The directors have reviewed the approach applied and consider this to be appropriate for the Company.

Interest rate and inflation risks
The portfolio of PFI bonds acquired by the Company as part of the restructuring of a portfolio of legacy intermediation trades is risk-managed for changes in fair value resulting from changes in GBP interest rates and market-implied UK RPI inflation expectations. At inception, these use vanilla fixed-for-floating GBP interest rate derivatives and a portfolio of vanilla zero-coupon inflation swaps.

The primary sensitivity of zero-coupon inflation swaps is to changes in UK RPI swap rates and, as such, they are used to hedge risk changes in the value of the bonds stemming from changes in inflation expectations. Each trade has only one cash-flow (at maturity). As inflation expectations move up or down, the projected cash-flow at maturity will increase or decrease to offset the change in value inherent within the bonds.

The interest rate derivatives are used to hedge the sensitivity of the bonds to interest rate risk with the payment dates matching those of the bonds throughout their term. The portfolio of hedge trades is anticipated to require only very minimal rebalancing over time.

IBOR reform
Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates, the Global Risk Management function of Commerzbank AG has established a project to manage the transition for any contracts within the Group that could be affected, which will therefore be applied to the applicable contracts held by the Company.

The only contracts held by the Company as at 31 December 2019 that will be affected by IBOR reform are certain interest rate derivatives held. Of the interest rate derivatives used within hedging relationships a derivative with a nominal value of approximately £242m and with a maturity of 14.1 years is referenced to 6m GBP LIBOR. Of the interest rate derivatives that are hedging the corporate bond portfolio, derivatives with a notional value of EUR51m with an average maturity of 4.4 years are referenced to 3m EURIBOR and derivatives with a notional value of US$20m with an average maturity of 4.6 years are referenced to 3m USD LIBOR.

22. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Currency risk

Currency risk is the potential of suffering losses due to currency exposure in respect of assets and liabilities that are not denominated in the functional currency of the Company. Where the Company has acquired investments in a currency other than GBP, the funding received from Commerzbank AG London Branch has been in the same currency as the assets acquired.

The Company also has a potential currency risk with respect to the DK Plan. All of the liabilities are denominated in Sterling, and whilst the majority of the currency exposure of the assets is to Sterling, some currency risk exists because some of the investments are held in overseas markets, either as segregated investments or via pooled investment vehicles. The trustees of the DK Plan consider the overseas currency exposure in the context of the overall investment strategy, and believe that the currency exposure that exists diversifies the strategy and is appropriate.

The directors of the Company have considered the currency funding of its assets and also reviewed the assessment made by the trustees of the DK Plan with respect to its currency risk and have concluded that the Company does not have a material exposure to foreign currency risk.

Liquidity risk

Liquidity risk is the risk that in the short term the ability to meet payment obligations cannot be ensured at all times. In economic terms, this is the risk resulting from the exposure to an increase of liquidity premiums. The liquidity for the Company is managed by the London Treasury desk under the overall global Commerzbank AG liquidity risk framework. This process is monitored by the London Finance department. This process seeks to ensure that the respective funding requirements can be met at all times.

A revised funding line of €12.3bn was put in place with Commerzbank AG London Branch during 2015 in order to support the transfer to the Company of the Investment Book business held within Commerzbank AG London Branch, as well as new Investment Book business to be transacted. A funding line of c€12.152bn was approved on 3 September 2019, was subsequently increased to €15.652bn in order to provide sufficient buffer to cover the transfer of PFI bonds held at amortised cost, and subsequent to the year end, on 18 August 2020, was revised to €15.54bn for a further 12 months. This revised funding line comfortably covers both the applicable assets held as at 31 December 2019 as shown in notes 15 and 16 and acquisitions made after the balance sheet date.

The directors have no reason to believe that this revised funding line will either be revoked in the short term or will not be renewed when the funding lines are next reviewed towards the end of Q3 2021 and as a result do not believe that the Company is materially subject to liquidity risk.

Contractual maturity

The tables below summarise the maturity profile of the Company's financial assets and the undiscounted cash flows of its financial liabilities as at 31 December 2019. All derivatives are shown by maturity, based on their contractual undiscounted payment obligations.

Assets	On Demand £'000	Less than 1 year £'000	1 to 5 years £'000	Over 5 years £'000	Total £'000
Bonds at amortised cost	-	566	39,611	2,022,507	2,062,684
Financial assets at fair value through OCI	-	-	91,218	4,064,382	4,155,600
Inter-company loans	1,956,218	49,983	-	-	2,006,201
Derivatives	-	-	23,490	783	24,273
Net investment in finance leases	-	4,823	24,380	26,978	56,181
Other loans and receivables	7,628	9,963	-	-	17,591
Total	1,963,846	65,335	178,699	6,114,650	8,322,530

22. FINANCIAL RISK MANAGEMENT (continued)

Contractual maturity (continued)

Liabilities	On Demand £'000	Less than 1 year £'000	1 to 5 years £'000	Over 5 years £'000	Total £'000
Inter-company loans	437,739	5,759,380	-	-	6,197,219
Derivatives	-	4,660	1,899,568	22,477	1,926,705
Lease liabilities	-	12,974	51,898	51,807	116,679
Other liabilities	83,050	1,430	-	-	84,480
Total	520,789	5,778,544	1,951,466	74,284	8,325,083

The following tables show the equivalent positions at 31 December 2018:

Assets	On Demand £'000	Less than 1 year £'000	1 to 5 years £'000	Over 5 years £'000	Total £'000
Bonds at amortised cost	-	566	40,178	-	40,744
Financial assets at fair value through OCI	-	-	52,247	3,559,111	3,611,358
Inter-company loans	20,692	84,391	-	-	105,083
Derivatives	-	-	1,010	4,813	5,823
Other loans and receivables	6,354	13,693	14,125	-	34,172
Total	27,046	98,650	107,560	3,563,924	3,797,180

Liabilities	On Demand £'000	Less than 1 year £'000	1 to 5 years £'000	Over 5 years £'000	Total £'000
Inter-company loans		3,698,480	-	-	3,698,480
Derivatives	-	-	2,350	8,370	10,720
Other liabilities	3,751	89	-	-	3,840
Total	3,751	3,698,569	2,350	8,370	3,713,040

Credit risk

Credit risk is the risk that the Company will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Company manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

Credit risk is monitored on behalf of the Company by the credit risk department of Commerzbank AG's independent Credit Risk department within the Risk Controlling Unit. It is their responsibility to review and manage credit risk, including environmental and social risk for all types of counterparties. Credit risk consists of line credit risk managers who are responsible for their business lines and manage specific portfolios and experts who support both the line credit risk manager, as well as the business with tools like credit risk systems, policies, models and reporting.

Commerzbank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Company to assess the potential loss as a result of the risks to which it is exposed and take corrective actions.

22. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Derivative financial instruments
Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded on the statement of financial position. With gross–settled derivatives, the Company is also exposed to a settlement risk, being the risk that the Company honours its obligation, but the counterparty fails to deliver the counter value.

Impairment assessment
The references below show where the Company's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the Summary of significant accounting policies.

Definition of default, impaired and cure
Commerzbank considers a financial instrument defaulted for ECL calculations based on the following:

- Over 90 days past due,
- Unlikely-to-pay,
- Financial rescue/distressed restructuring with concessions,
- Commerzbank has demanded immediate repayment of its claims,
- The counterparty is in insolvency proceedings.

It is Commerzbank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured, depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

The Bank's internal rating and probability of default ('PD') estimation process
Commerzbank's Credit Risk Department operates its own internal rating models. It runs separate models for its key portfolios in which its customers are rated from 1 to 25 using internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. Where practical, they also build on information from Good Rating Agency. These information sources are first used to determine the PDs within Commerzbank's Basel III framework. The internal credit grades are assigned based on these Based III grades. PDs are then adjusted for IFRS 9 ECL calculations to incorporate forward looking information and the IFRS 9 Stage classification of the exposure. This is repeated for each economic scenario as appropriate.

Exposure at default ('EAD')
The EAD represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 loan, the Commerzbank's Credit Risk department assesses the possible default events within 12 months for the calculation of the 12mECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Credit Risk department determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding to the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Commerzbank's models.

22. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Loss given default ('LGD')

The LGD is the forecasted loss given default as a percentage of the EaD, taking into account collateral and the capital recovery potential on the unsecured portion. The Company'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 Company's credit risk as at 31 December 2019 were principally to the financial assets measured at fair value through OCI as shown in note 15, and the bonds held at amortised cost, the lease receivables, and the amounts due from group undertakings as shown in note 16. The credit quality of the financial assets measured at fair value through OCI can be assessed by reference to external S&P credit ratings as follows:

	2019 £'000	2018 £'000
AAA	4,137,829	3,367,089
A	-	8,308
BBB	17,771	235,961
	4,155,600	3,611,358

The credit quality of the bonds held at amortised cost can be assessed by reference to external S&P credit ratings as follows:

	2019 £'000	2018 £'000
AAA	1,682,876	-
A	339,631	-
BBB	40,177	40,744
	2,062,684	40,744

The credit risk categorised as BBB above is associated with four third parties that are part of the same consolidated group that has an internal credit rating that is equivalent to an external S&P credit rating of BBB.

The credit quality of the net investment in finance lease and the lease receivables can be assessed by reference to external S&P credit ratings as follows:

	2019 £'000	2018 £'000
A	6,195	-
BBB	56,181	12,205
BB	-	15,613
B	3,768	-
	66,144	27,818

Additional credit protection is available to the Company with respect to the lease receivables, as cash collateral has been placed by the third parties with Commerzbank AG London Branch with respect to the lease receivables rated as A and B (2018: with respect to the amounts rated as BBB and £7,321,000 of those rated as BB). As at 31 December 2018, the remaining lease receivables of £8,292,000 rated as BB, which has now been terminated, was indirectly supported by the Secretary of State for Transport via a performance guarantee given by the Royal Bank of Scotland Group.

Amounts due from the intermediate parent undertaking, Commerzbank AG totalled £2,006,201,000 (2018: £105,083,000). The external credit rating of Commerzbank AG according to S&P was A during the year although subsequent to the year end this has reduced slightly to BBB+ in response to the projected economic impacts of the COVID 19 pandemic.

22. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)
As a result, the directors do not consider the Company to have a material exposure to credit risk.

All of the S&P credit ratings referred to above are based on a mapping provided by Commerzbank's Credit Risk department from Commerzbank's internal credit ratings.

23. CAPITAL RISK MANAGEMENT

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders.

During the year, the Company's approach to capital management remained unchanged in aiming to maintain a level of share capital and retained earnings (as shown in the statement of changes in equity on page 12) which was in excess of the pension surplus. The Company is not regulated for capital requirements purposes

24. FAIR VALUE ESTIMATION

The different levels of fair value estimation are defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The only assets and liabilities of the Company that are carried at fair value are the financial instruments described in note 4 above. Fair values for the interest rate and inflation rate derivatives held with group undertakings were obtained using valuation techniques that utilise observable inputs, which equates to Level 2. The key assumptions used in valuing those financial instruments are current and future UK interest rates.

The following table presents the Company's financial assets measured at fair value through OCI as at 31 December 2019:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Asset backed securities	-	4,137,829	-	4,137,829
Corporate bonds	12,932	4,839	-	17,771
Total	12,932	4,142,668	-	4,155,600

The following table presents the Company's financial assets measured at fair value through OCI as at 31 December 2018:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Asset backed securities	-	3,177,064	190,025	3,367,089
Corporate bonds	47,288	196,981	-	244,269
Total	47,288	3,374,045	190,025	3,611,358

The approach taken as regards the valuation of these assets where there is not a readily available market price, represents a discounted cash flow model approach either internally using an appropriate market based credit spread as the material model input or purchased externally using either market derived spread or price data. This equates to Level 2.

25. Offsetting Disclosures

The Company has netting agreements in place with Commerzbank AG London Branch to manage the associated credit risks. The arrangement includes borrowing and lending arrangements (deposits, money markets). The netting agreement enables the counterparties to set-off liabilities against available assets received in the ordinary course of business and/or in the event of the counterparty's default. The offsetting right is a legal right to settle, or otherwise eliminate, all or a portion of an amount due by applying an amount receivable from the same counterparty against it, thus, reducing credit exposure. However, the offsetting criteria in IAS 32 are not met in all cases.

As at 31 December 2019 the amount of netting that has been applied to the amount of deposits and loans held on the balance sheet with Commerzbank AG London Branch totalled £365,576,000 (2018: £2,994,096,000).

26. ULTIMATE PARENT UNDERTAKING

The immediate parent undertaking of the Company is Commerzbank AG.

The smallest and the largest group in which the results of the Company are consolidated is that headed by Commerzbank AG, a company incorporated in Germany under German law. Commerzbank AG is also the ultimate parent undertaking and controlling party. Financial statements of Commerzbank AG are available from Commerzbank AG, Investor Relations, Kaiserplatz, D-60261 Frankfurt am Main, Germany.

27. EVENTS AFTER THE REPORTING DATE

On January 30 2020, the World Health Organisation declared the outbreak of coronavirus ("COVID-19") to be a public health emergency of international concern. This coronavirus outbreak has severely restricted the level of economic activity around the world. In response to the outbreak, the governments of many countries took preventative or protective actions, such as imposing restrictions on travel and business operations and advising or requiring individuals to limit or forego their time outside of their homes.

The Commerzbank AG Group has a well-developed business continuity plan which includes a pandemic response, enabling the Group to quickly adapt to these unprecedented circumstances and to continue as a viable business.

The directors continue to monitor the impact that the COVID-19 pandemic has on the Company, the financial markets and the economy in which the Company operates. While there remains significant uncertainty regarding the developments of the pandemic and the future economic recovery, the directors have concluded that COVID-19 is a non-adjusting post balance sheet event and as such no adjustments have been made to the valuation of assets and liabilities as at 31 December 2019.

Despite the COVID-19 pandemic the pre-tax profits generated by the Company during 2020 are ahead of budget, and although there was a significant decrease in the fair market values of the Investment Book portfolio at the end of Q1 2020 as a result of volatile CLO markets at that time, the negative impacts on those markets has largely reversed so that at the date of the signing of these financial statements the fair value losses arising in 2020 are now around £40m, which is below the pre-tax profit so far generated. The Directors continue to monitor these financial trends and at this stage do not consider that there are any material issues for the Company and do not expect a significant change in the Company's business activities.

For further discussion concerning the directors' assessment of the COVID-19 impact on the Company and appropriateness of the going concern assumptions, refer to the basis of preparation described with respect to going concern within note 2 and the consideration of financial risks in note 22.

There have been no other events since 31 December 2019 which have a material effect on the financial situation of the Company as at the day of signing these accounts.